Introduction

The early years of the euro have been dominated by debate on, and analysis of, the conduct of macroeconomic policy and the suitability of the policy system, notably the Stability and Growth Pact (SGP). EMU will, however, ultimately be judged less on processes than on whether it delivers stable and sustainable growth, not just for the euro area or the EU as a whole, but also for its constituent parts. In particular, unless an acceptable degree of economic and social cohesion is assured, the value of EMU will be questioned.

This special issue, as its title implies, explores different dimensions of the links between EMU and cohesion. In so doing, it tries to shed light on the question of how the real economy will be affected by the advent of the euro and by the intensification of economic integration that it implies. Although the impact of EMU on the stability of macroeconomic conditions and, especially, on inflation is progressively becoming better understood, it is much less clear how growth and employment will be affected and whether spatial imbalances in economic performance will be diminished or aggravated.

With the EU about to enlarge to become economically much more heterogeneous, cohesion can be expected to feature more prominently in the political economy of the EU. At the time of writing, most of the countries about to accede have signalled that they would prefer to be part of the euro area soon. Yet it is open to question whether the advantages of the stability that will come from full EMU membership will compensate for the loss of flexibility for economies that still face continuing upheavals from the process of transition from planned to market economies. Community policies in the form of the Structural Funds and, possibly, a continuation of the Cohesion Fund will
offer some support to assist the economic development of the newly acceding Member States, but the mixed record of these funds suggests that expecting them to make a large difference is unrealistic.

This introductory article starts by exploring what the term cohesion means. It then looks at the manner in which EMU can be expected to affect disparities between different countries and regions. Policy issues are then explored and the article concludes with a look at the research agenda pertaining to EMU and cohesion.

I. What is Cohesion?

There is no commonly agreed definition of cohesion, although since its first inclusion in the Single European Act (1986) it has been equated with regional disparities, usually measured in terms of GDP per capita relative to the EU average. Real economic convergence – as opposed to the nominal convergence required for euro area membership – can, therefore, be seen as an essential component of cohesion.

It is important in discussing overall economic performance to distinguish two distinct ways of assessing cohesion. What might be called ‘internal cohesion’ will be advanced if poorer regions within a country grow more quickly such that disparities within a country are reduced, and ‘EU cohesion’ achieved if regions below the EU average converge. It is entirely possible that faster growth for the country as a whole (leading to ‘EU cohesion’) will be accompanied by widening internal disparities, even if higher growth ‘trickles down’; equally, the opposite could apply (see Table 1 which provides examples of the four possible contingencies).1

A further distinction has to be drawn between current living standards and longer-term competitiveness, and it has to be recognized that the intention, if not always the effect, of EU policy is to target the latter. By contrast, the array

Table 1: Macroeconomic Trends and Cohesion – Examples

<table>
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<tr>
<th>EU Cohesion</th>
<th>Pro-cohesive Outcomes</th>
<th>Anti-cohesive Outcomes</th>
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<td>Internal Cohesion</td>
<td>Pro-cohesive outcomes</td>
<td>Anti-cohesive outcomes</td>
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<td>Pro-cohesive outcomes</td>
<td>Some Spanish regions since 1997</td>
<td>Some Italian and German regions since the mid-1990s</td>
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<tr>
<td>Anti-cohesive outcomes</td>
<td>Ireland and Portugal in the 1990s</td>
<td>Some regions in Greece during the 1980s and early 1990s</td>
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1Evidence on the generally favourable picture emerging over recent years at Member State level alongside the occasional widening of internal disparities is available in Tondl (2001) and Commission (2001, 2003a).
of Member State policies which redistribute income, and therefore boost current consumption in regions which receive net inflows, can be regarded as much more concerned with social cohesion. The net fiscal flows behind the ‘automatic stabilizers’, including social protection payments, differences in regional tax bases and grants from central government, all help to direct spending power to some regions and away from others. These flows are not always to the poorest regions, especially when the policy instrument in question has purposes other than altering regional disparities. To quote one obvious example, pensions go to eligible residents irrespective of whether the region is rich or poor, and the rules governing eligibility may result in geographically very uneven distributions.

II. The Impact of EMU on Cohesion

That EMU will change the economic environment, perhaps radically, is generally accepted and there is broad agreement on several of its expected effects. Equally, there are possible outcomes where neither theory nor evidence provides a solid basis for judgement and, as several of the articles in this special issue make clear, no easy way of reconciling the conflicting views. Even if EMU does fulfil the expectation of its supporters that it will facilitate stable growth in the EU, there is no guarantee that the results will be balanced, whether among Member States or regions.

There is no consensus in the literature on how the furthering of economic integration by monetary union will affect disparities. In the Delors Report (Commission, 1989, para. 29) that paved the way for the euro, the fear was expressed that ‘historical experience suggests that in the absence of countervailing policies, the overall impact on peripheral regions could be negative’. This statement echoed concerns expressed in the Padoa-Schioppa Report (1987) and led directly to the acceptance that there should be some sort of compensatory policy to assure cohesion. An alternative view is that EMU will provide a stimulus to the less competitive parts of the EU that will enable them to make a leap forward, the implication being that separate currencies have acted as a barrier to economic development. Possible explanations include inhibitions on factor movements which have prevented optimal allocation of resources, especially investment flows, and market fragmentation that has slowed innovation and the exploitation of economies of scale. The articles in this issue help to answer a number of key questions about the impact of EMU on cohesion. Will the outlook for growth be improved? Will the resulting growth be balanced or uneven? What policies should accompany the single currency to ensure that the best mix is achieved?
Growth

The historical overview by Eichengreen and Leblang (this issue) shows how difficult it is to arrive at unambiguous predictions. They note that exchange rate instability has had a debilitating effect on economic growth in lower income countries and that economic growth is likely to be facilitated by the deepening of financial markets. But they also highlight the danger of inappropriate monetary policy, so prominent in British fears about the euro, and argue that, when the monetary regime operates as an engine of deflation, the effects can be particularly disadvantageous for poorer countries. From their careful analysis, Eichengreen and Leblang come to the conclusion that cohesion, in the sense of lower income countries being able to close the income gap on the rich, is best served by flexibility in exchange rates.

One of the bugbears of such comparative work is that EMU is so different in character from any previous monetary union or fixed exchange rate arrangement that doubts are bound to arise about the validity of any inferences drawn. In this regard, it is important to stress three aspects of EMU that distinguish it from previous experiences. First, the euro is a single currency, not a fixed rate arrangement – as the European Monetary System (EMS) that operated from 1979–98 was – with the corollary that there is a single monetary policy and (barring a meltdown) no option to adjust parities. Second, there is the ‘E’ in EMU which can be interpreted as the single market with all that implies for cross-border flows of goods, services and factors of production. Third, political and policy integration in the EU goes well beyond what is observed in other fixed exchange rate systems. Together, these features of EMU suggest that it may be a sui generis system, even if it falls short of the range and potency of internal adjustment mechanisms that characterize nation-states, as many critics have pointed out (see, e.g., Feldstein, 1997). Consequently, the reservations articulated by Eichengreen and Leblang may be more a criticism of EMS than of the more comprehensive monetary integration introduced by EMU. In thinking about how EMU will affect cohesion, therefore, it is important to tease out how it will affect the relative economic performance of constituent parts, and to explore what is settled and what remains uncertain.

Trade and Investment

There are some aspects of the impact of EMU for which there is a degree of consensus. First, there is a growing body of work that supports the view that EMU will lead to substantially higher trade between EU countries. Even if

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2 Rose (2000, 2001) has been the principal instigator of this work and has summarized the literature (Rose, 2004); see the articles by Eichengreen and Leblang, and Midelfart et al. in this issue for more extensive bibliographical references.
the more extreme estimates are scaled down, there is compelling support for
the view that EMU will help to bridge the gap between the very intensive
exchanges that take place within a nation-state and the much lower volume of
cross-border trade. The increased trade is also likely to be complemented by
a higher level of capital flows, including foreign direct investment (FDI),
although the analysis in this issue by Pain and van Welsum indicates that the
evidence is by no means clear cut. They point to the risk that entry into the
single currency at an inappropriate rate might overshadow any benefits of
increased stability, and also note that the impact of EMU on investment will
depend on country-specific factors and the nature of the investment project.
Nevertheless, both the trade and investment effects should, on balance, be
positive for overall growth in lower income countries, although whether the
benefits will percolate down to all regions is more open to question.

Geography

Much more contested is the question at the heart of new economic geography
(NEG) approaches to the analysis of economic integration, namely, will the
core or the periphery be favoured? The various contributors to NEG (see, e.g.,
Krugman, 1998) have identified a range of centripetal forces that can be ex-
pected to favour increased agglomeration (usually assumed to be in the ‘core’),
offset by other factors that favour a dispersion of activity. Insofar as it is re-
gions in the periphery of the EU that have the lowest per capita GDP, a bal-
ance in favour of centripetal forces would be likely to exacerbate regional
disparities and thus be at odds with cohesion.3

As the article in this issue by Midelfart et al. shows, there is a considerable
greater degree of regional specialization in the US than in the EU. The impli-
cation of this observation is that, as the EU becomes more integrated, it will
start to emulate the specialization patterns seen in the US, the only large
economy comparator. Yet the paradox is that, over the years, the US has be-
come less specialized regionally, raising the question of whether the ‘Krugman’
view that the EU economy is bound to become geographically more special-
ized is correct. To the extent that it is, the implication is that there could be
quite pronounced regional restructuring, with both winners and losers.

In an intriguing piece of speculation, Midelfart et al. also point to the sub-
stantial difference between the urban hierarchies in the US and the EU in
relation to what is known as Zipf’s law, the proposition that cities will con-
form to a size hierarchy. If the law holds, they argue, the EU has too many

3 The crude core–periphery depiction has to be treated with some caution, however. There are numerous
regions that do not conform to the model, even though the general pattern does. Thus, the core – on a
geographical definition – includes problem regions along the Franco-Belgian border, while recent success
stories include peripheral Ireland, Finland and parts of Denmark, Scotland and Portugal.

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large conurbations to be sustainable, so that a relative shrinkage of several should be expected. Without being overly dramatic, this would see a gradual transition from separate national hierarchies to a pan-European one.

The Labour Market

It is close to stating the obvious to say that the more rigid macroeconomic framework under EMU shifts more of the burden of adjustment to economic shocks on to the supply side of the economy, and especially the labour market. For the supply side of the economy to fulfil this function, it has to become more flexible. ‘Flexibility’, however, is not an easy term to define, and it has many different facets that bear on cohesion. These include the ease of hiring and firing, the scope for wage adjustments, labour mobility and the ease with which labour can be redeployed. Migration is a potent adjustment mechanism, but one which has both economic and social ramifications. The social tensions of immigration have been evident in many countries but, from a cohesion perspective, attention has also to be paid to the consequences of a greater resort to flexibility.

A danger that has to be taken into account is that some forms of flexibility can aggravate rather than counter disparities. For instance, if adjustment results in increased labour migration, it will tend to be the skilled and employable who move to areas of high demand. As a result, less competitive regions may be denuded of a factor of production that is critical for development, and the result will be cumulative divergence.

The article in this issue by Sinn and Ochel also highlights the perils of too rapid a shift towards social union. They argue that the provision of common social standards in the two EU countries with ‘dual’ economies, Germany and Italy, has exacerbated the underlying problem of divergent productivity between the two segments of these economies, and has thus slowed change and catch-up. The implication of their analysis is that attempts to advance social cohesion have inhibited adjustment, and that there should be a greater reliance on market forces. They argue strongly against any moves towards social union, especially for the new Member States, and document the potential costs of doing so. Their reasoning highlights one of the fundamental dilemmas of seeking simultaneously to assure cohesion and growth.

The ‘Cohesion’ Countries

In the political economy of the EU, the principal targets of cohesion policies have up to now been the four countries that, from 1993 onwards, have been eligible for the Cohesion Fund, established to ensure that public investment would not unduly be cut back as the least well-off Member States sought to
fulfil the Maastricht criteria for stage 3 of EMU. Since the reform launched in 1988, Greece, Ireland, Portugal and Spain have also received the largest flows (as a proportion of GDP) from the Structural Funds, although it is noteworthy that Italy and post-unification Germany also receive substantial amounts. Indeed, because three of the cohesion countries are small, the gross flows received are considerably lower than those of Germany and Italy, even though they are higher as a proportion of GDP.

The article in this issue by Barry provides a comprehensive overview of the record so far in reducing the divergence of the cohesion countries from the EU average. He shows that the record has been a decidedly mixed one. Convergence prior to the mid-1970s was followed by divergence in the next decade. However, since the late 1980s, the cohesion countries have caught up steadily, though at different rates.

Barry notes that there are diverse explanations for the trajectories of the four cohesion economies over the last 40 years. He points to labour market problems as a drag on economic development in Ireland prior to the mid-1980s and in Spain in the period between the death of Franco and the labour-market reforms of the 1990s. Lax macroeconomic policies have been problematic in several instances, while weak public administration is also identified as a difficulty. Barry is, however, optimistic that the combination of recent microeconomic reforms, driven in part by the developing EU agenda, and the more stable macroeconomic policies that EMU requires will stimulate further convergence.

Featherstone’s case study of Greece provides insights into the catalytic role that EMU has played in the transformation of Greek macroeconomic policy, but also draws attention to the limits of the external stimulus to change. He argues that when the focus switches to structural reforms where there is no ‘prize’ akin to being allowed into EMU for achieving good results, the scope for predicating national reforms on international obligations is much diminished. Thus, in areas such as pensions reform or energy-market liberalization, the Simitis government has encountered protracted resistance on the part of entrenched interests to its efforts to modernize the supply side. The lesson for new members may well be that, having made great efforts to meet the acquis, they must not relent in their efforts towards further microeconomic reforms.

*The New Member States*

When the ten new members join the Union in 2004, cohesion will be high on the agenda in at least two key respects. A first question is how quickly countries acceding to the EU should seek to embrace full monetary union. Three options can be delineated:
entry into stage 3 of EMU as rapidly as possible, i.e. a form of big bang;
an extended period in ERM II to assist acclimatization, but with the
corollary that monetary policy would remain with the Member State;
retaining flexibility in the exchange rate in order to deal with possible
shocks or problems associated with transition to both EU membership
and more comprehensive market economy structures.

The article in this issue by Devereux – which models the second and third
options – shows that, in most respects, the ERM option is the least attractive
for reasons that are well rehearsed in the literature. Being part of ERM cap-
tures only partly the benefits of the fixed exchange rate, notably forgoing the
credibility gains that would arise from regime change, leaving the currency
(and the economy) vulnerable. Retaining exchange-rate flexibility would,
according to Devereux’s simulations, make it easier to ensure efficient adjust-
ment to cyclical and structural shocks. His article concludes by discussing a
number of factors that reduce the desirability of exchange-rate flexibility in
emerging market economies. These can be taken to support the case in favour
of full EMU participation.

Second, the advent of the new members will prompt a rethinking of both
the nature of cohesion policies and which regions should be eligible for them.
How direct Community assistance to lagging regions is reformed will be a
key part of this rethinking, but questions also arise about striking a balance
between cohesion and catch-up, the role of domestic policy in fostering change,
and the appropriate pace of progress towards full adoption of the European
social model, as discussed in this issue by Sinn and Ochel. In this regard, a
specific challenge will be how to respond – if at all – to any widening of
regional disparities within the new members. There is already evidence from
some countries that capital-regions have gained most from the post-commu-
nist transition, and the experience of Portugal, Ireland and Greece suggests
that market forces have favoured agglomeration at the expense of the most
backward regions. Will there be enough ‘trickle-down’ to make such internal
divergence palatable?

III. Policy Issues: The Future of ‘Structural Operations’

Even if some of the worries expressed in the Delors Report prove to be un-
founded, there are likely still to be casualties from closer integration. Policy
responses to regional disparities come from both the EU level and the domes-
tic policies of Member States. The principles underlying EU regional aid are
intended to make the focus of policy the long-term competitiveness of as-
sisted economies, rather than providing a short-term boost to current incomes.
This approach contrasts with that of redistributive Member State policies which try to raise current consumption in regions that are net recipients of fiscal transfers. A critical question, then, is how the current array of EU policies should evolve in an enlarged Union.

After the common agricultural policy, policies to promote economic development – known as ‘structural operations’ – have been the second largest element of the Community budget. They have absorbed roughly one-third of expenditure over the last decade, although, given the small scale of the budget, this budget line peaked at a mere 0.46 per cent of Community GDP. Enlargement is bound to require major changes in the way in which structural operations are conducted and difficult questions arise as to how to deal with the accession of so many regions with low per capita GDP. As a backdrop to the discussion, the following points are worth noting (see Commission, 2001, 2003a, b; Begg, 2003; Boldrin and Canova, 2003; Hallet, 2002):

• There seems little disposition to change one of the key features of the Structural Funds, which is that regions with a GDP per head, measured in PPS (purchasing power standards, which correct for price level differences between countries), below 75 per cent of the EU average are classified as objective 1 (lagging behind) and entitled to the highest level of Community support.

• Because the accession of the ten new members due to enter in 2004 implies an increase of almost 20 per cent in the population of the EU, but barely 4 per cent in GDP measured in current euros, the average GDP per capita of the EU will fall by about 10 percentage points.

• Nearly all the regions of the ten new Member States will be below the revised 75 per cent threshold for objective 1 status calibrated on EU-25, but the majority of the EU-15 regions currently classified as objective 1 will be lifted above it by what has become known as the statistical effect. Yet the absolute prosperity of the latter group will be unchanged.

• At present all the richer Member States continue to receive some allocations from the Structural Funds under objective 2 (which mainly targets regions facing industrial decline and undiversified rural areas) or objective 3 (designed for labour market interventions, mainly to deal with unemployment, anywhere in the Union).

• Following accession, the number of Member States that are net contributors to the Community budget can be expected to increase. Despite the arrival of so many new members who might be expected to support a higher budget, the fact that the budget requires unanimity means that it is highly unlikely that the current ceiling of 1.27 per cent of EU GDP will be increased.
The maximum level of support for any region is to be capped at 4 per cent of its GDP, a figure set to ensure that the capacity of an economy to absorb the resources is not exceeded.

Evidence on the effectiveness of the Structural Funds is patchy and, in some respects, inconclusive. Some authors such as Cappelen et al. (2003) find that the cumulative effect of cohesion policies has been positive whereas others, such as Boldrin and Canova (2001), are quite scathing, while Hallet (2002) pleads for a more subtle assessment.\

Doubts have also been raised about the orientation of policy, especially an excessive focus on infrastructure, leading to the criticism that there are insufficient efforts to institute a comprehensive development framework (Rodríguez-Pose, 2000; Barry, this issue).

Cohesion policy consequently faces a number of dilemmas. First, it will have to provide for a larger objective 1 population while also satisfying the Member States and regions that currently receive support. Second, there are awkward questions about whether all Member States, or just the lagging countries, should be eligible for aid. Third, there are many questions about the focus and administration of structural policies.

The budgetary arithmetic is, perhaps surprisingly, not too intimidating. In the ten Member States that will accede in 2004, there is a small number of regions (mainly capital-regions, such as Prague) where GDP is above the 75 per cent threshold. But even if all of the ten new states are eligible, their collective GDP (measured in current euros) has risen to just over 4 per cent of the EU total, so that if they receive the proposed maximum of 4 per cent of their GDP, the maximum cost to the EU budget of extending ‘structural operations’ would be 0.16 per cent of EU GDP. In practice, the total would be lower because the most prosperous regions (and hence those with the highest nominal GDP) would be excluded, while problems in selecting projects, co-financing them and incurring the expenditure in a timely manner mean that take-up rates rarely reach the ceilings. Thus, even if current policies are extended fully to the new members with no cuts elsewhere, the EU’s finances could cope.\

Although negotiating positions on the next Financial Perspective – the medium-term framework for EU finances – are only just being developed, there have already been some calls for a cut in EU structural operations. An

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4 A problem is that with only relatively small amounts being spent over long periods in most regions that receive support, it is difficult to find an appropriate methodology for assessing the impact of EU support (Pereira and Gaspar, 1999; Hallet, 2002).

5 At present, the EU ‘own resources’ ceiling is 1.27 per cent of GDP, but actual expenditure barely reaches 1 per cent, leaving a considerably larger margin than the 0.16 per cent in our calculation. However, as price levels rise in the new Member States, the bill for a 4 per cent of GDP transfer will rise, even without real convergence (Begg, 2003).
early contribution came in a consultation paper issued by the UK government (2003) which, in essence, advocated an end to objective 2 of the Structural Funds. The implications of this approach are that regional policy in richer Member States should be repatriated and that the gross contributions to the Community budget should be correspondingly lower. The rationale is that Member States have assimilated the (largely uncontested) benefits of the more strategic approach to development embodied in EU policies, but that there are now diminishing returns which no longer justify continuing to have the added administrative burden of Commission oversight. Instead, the consultation paper argues that EU cohesion policy should be confined to the poorest regions (i.e. a recast objective 1).

A similar argument was put forward in the Sapir Report, an attempt to articulate a new economic framework for the EU, published in the summer of 2003 (Commission, 2003b). The report notes that cohesion policy has suffered from a number of shortcomings. On the one hand, there is a tendency for Member States to look to receipts from the Structural Funds as a means of obtaining a juste retour from the EU. Moreover, in a number of cases, agreements on the transfers are motivated more by the impact of these receipts on the country’s net contribution to the EU budget rather than their avowed purpose. On the other hand, the report expresses doubts about how effective EU support is, especially the very small amounts that go to the richer Member States. It concludes that ‘it is not possible to establish conclusively what the relative performance of these regions would have been in the absence of EU cohesion policy and other policies’ (Commission, 2003b, p. 60).

The Sapir Report makes a number of recommendations for the EU’s next budgetary Financial Perspective. It favours a national rather than a regional approach to determining eligibility for support and argues that institution-building and higher investment in physical and human capital should be the primary aims of EU policy. As noted by Barry in this issue, such factors have been at the heart of previous shortcomings in lagging countries. Reform of the EU’s structural operations will, moreover, also have to tackle a range of other concerns such as co-financing, the character of programming, and monitoring of spending and evaluation, none of which is easily resolved.

By 2006, when the current regulations expire, the current EU approach will have been in place for the best part of 20 years. Despite the recent success stories in the ‘cohesion’ countries, the EU approach is facing growing scepticism about whether structural operations achieve anything other than a redistributive transfer of resources that does little to promote sustainable growth or competitiveness. Experience suggests, however, that major reform will be resisted and, indeed, at a Commission meeting held on 1 October 2003, pro-
posals for reform along the lines proposed by the Sapir Report were voted down. Interesting times lie ahead.

IV. Looking Forward: Towards a Research Agenda

The articles in this issue elucidate several dimensions of EMU and cohesion, but also highlight many areas in which there is considerable uncertainty about how matters will evolve (Ardy et al., 2002). The important role of macroeconomic effects in fostering cohesion deserves to be stressed and it is clear that EMU has changed the game, both by affecting policy variables and through its impact on market access. But where there are evident market failures or persistent development gaps, difficult questions remain about how best to promote cohesion.

It can reasonably be argued that the effects of EMU on the macroeconomic environment were likely to be more pronounced for those countries that have had to change most to conform to the EMU model, whereas Germany and the other countries – Austria, Benelux, even France in the franc fort era – that had long conformed to the model would see little change. The outcome has been something of a surprise. As Figure 1 shows, cumulative growth since 1999, taking the Commission’s spring 2003 forecasts at face value for 2003 and 2004, has been highest in Ireland, Greece, Luxembourg and Spain, and lowest in Germany and Italy. There are no simple explanations for these figures (Begg, 2003), but the persistence of these growth disparities is striking: six years is beyond the temporary fillip of short-term factors.

Among the reasons for the disparate performances of the euro area economies since 1999, four deserve particular attention. First, there is the gain in credibility that accrues to countries that had previously faced an interest rate surcharge because of fears about long-term inflation. This would have benefited, primarily, the southern Member States. Second, debt service has become much cheaper as countries have benefited from falling national debt stocks and lower coupon rates. As a result, the shackles on fiscal policy in these countries have been relaxed. Third, by managing to maintain growth above the EU average, the faster growing countries have avoided the fiscal squeeze that has affected Germany and France, generating a virtuous circle effect. A fourth effect stems from the parities at which countries fixed their currencies to the euro. By common consent, Germany has had a rate which has been relatively uncompetitive, whereas other countries – notably Ireland and Spain – may, perhaps, have had a competitive advantage. Moreover, the findings of Hancké and Soskice (2003) that German wage rates have become the benchmark for other countries imply that Germany will find it difficult to
engineer a rapid restoration of competitiveness by relatively lower nominal wage increases.

A critical question, then, is whether this general strong convergence at the national level will continue into the future under the EMU regime. In his article in this volume, Barry ascribes the return to convergence to improved micro- and macroeconomic policy-making at the national level, partly in response to EU initiatives associated with the advent of EMU. A more pessimistic prognosis would follow from the analysis of Cappelen et al. (2003), for example, who argue that the potential for and the speed of convergence both depend on the extent to which lagging regions are able to overcome the technology gap that separates them from the richer regions.

The data presented in the Barry article show that, while all the cohesion countries have achieved some convergence in terms of business expenditures on research and development (R&D), only in Ireland has the achievement been substantial. It is known furthermore that the vast bulk of these expenditures in Ireland are carried out by foreign-owned firms. To the extent to which foreign firms elsewhere in the EU may also be more R&D-oriented (as they tend to locate disproportionately in higher-technology sectors), this throws the focus on to the ability of lagging regions to attract FDI. It is clear however that, differential rates of state aid to core and periphery regions notwithstanding, FDI inflows tend to go disproportionately to richer regions.

As for the regional distribution of R&D expenditures, this has become more unequal, at least over the course of the 1990s. While the distribution of government R&D expenditures moved in the opposite direction, this must be set against a relative stagnation in public as compared to private R&D spending (Eurostat, 2001). The Commission itself reports ‘a positive relation between a region’s innovative performance as measured by its Revealed Re-

A first item on the research agenda, then, is to determine empirically whether EMU strengthens more the centripetal or centrifugal forces in the economic system. A second item concerns the issue of the repatriation of regional policies, as proposed for the richer Member States at least in the consultation paper prepared by the UK government (2003). Local actors, however, fear that actions at the Member State level might not adequately substitute for the EU support that would be lost, either because a different set of priorities would be adopted or because of the increased exposure to disruption resulting from short-run budgetary imperatives. A number of administrative procedures that could be adopted to allay these fears are discussed by Begg (2003). There remains a need to determine empirically the extent to which national and EU priorities on regional aid have differed in the past, and to assess the relative effectiveness of both types of aid.

There is no doubt, however, that some form of EU regional policy will continue to remain in place, even if only because ensuring cohesion remains a treaty obligation. The third item on the research agenda concerns the content of such regional aid, and the interaction and tensions that arise between regional and national development. Structural Funds spending has been far more successful in some cases than in others. The papers in Funck and Pizzati (2003) reflect a growing consensus – as between critics such as Boldrin and Canova (2001) and Ederveen et al. (2002) who are disparaging as to the general efficacy of regional aid, and other contributors to the debate who focus on the instances of success – as to why this has been so. The general lesson is that aid expenditure needs to be integrated into an overall regional and national development strategy – embracing both human capital development and innovation strategies – if success is to be assured. Further work on these issues is required, and any reconsideration of the content and operation of regional policy must be guided by the lessons to be learnt in these areas.

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