1. Introduction

Social cohesion, that is the harmonisation of working and living conditions, has been a firmly-rooted aim of the European Community since the passing of the Single European Act. Clearly this represents an ambitious target if one bears in mind the stark differences in economic performance of the member states and their various regions. In the poorest regions economic output per head of population amounts to only one-ninth of that in the richest. Economic weaknesses and unfavourable local conditions often go hand in hand, so that geographical remoteness, a poor communications network, inadequate infrastructure and shortages of skills significantly hinder the catching-up process, even if the difference in labour costs offers incentives to move production away from the central regions of the EC.

The worry in this situation is that efforts to boost growth within the Community, as envisaged in the single market programme and monetary union project, will have positive effects only in regions which are already economically-advanced. Apart from some of the southernmost areas of the Community, to which long-term autonomous development opportunities will be given, it is the central areas which have emerged at the forefront of the single market's activities. The political opening-up of eastern Europe will only slightly alter this picture. The focus of economic success may shift eastwards, stretching towards the Prague-Vienna-Budapest axis, following enlargement of the EC to take in the EFTA countries.

The process of German unification has now shown that unequal achievement does not necessarily mean a difference in income. Large transfer payments can facilitate a regional redistribution of disposable income - a process which is clearly different from income-formation. But the German
experience also shows the financial strains which are linked with such a strategy. It has entailed a complex financial balancing-act between East and West, to which, moreover, there was little alternative, given the unique political situation of East Germany in Europe. The experience is therefore unlikely to be repeated elsewhere in the EC; it would far exceed the financial capacities and political will of the member states. It is therefore necessary to continue with the previous approach to improve start-up conditions in the less-developed regions of the Community, and to compensate for certain geographical handicaps through incentive schemes which will counteract its centripetal forces.

2. Measuring the regional effects of EC policies

In order to determine the effects of economic policy intervention, simulations are often carried out on the basis of econometric models. The effects are defined as the difference between a projection of the current situation and the estimated cost of the policies in question.

For regional analyses with a European dimension, however, such an approach is unsatisfactory. Even if the necessary data were available, the model would become too complex in the face of the exponentially-increasing number of variables which would have to be considered. On the other hand, case studies analysing the costs and benefits of individual development programmes in selected regions are not extensive enough. In this chapter, therefore, I offer a measurement of the financial flows from the Community level to the regions.

In what follows, the following assumptions are made. First, per capita income is the yardstick for measuring regional disparities. Second, Community expenditure has a direct or indirect effect on incomes. If lagging regions are helped by grants from public funds - whether for developing infrastructure, stimulating private investment or raising household income - the overall effect is to counteract the regional income gap. But if it is the better-off central areas of the Community that benefit, regional disparities will only be reinforced. The third assumption is that the revenue side of the Community financing system does not exacerbate disparities. The method described is obviously subject to the restriction that it applies only to policy areas affecting the budget. Moreover, direct effects must also be distinguished from indirect ones where support to backward regions through the promotion of infrastructure and industrial investment is concerned. A strengthening of investment no doubt also benefits regions' supply of the necessary goods and services. Spin-offs like this, however, are extremely difficult to pin down.

On no account should the direct effect of Community funds measured here be equated with their actual income effects. The latter will vary according to supportive instruments and measures and will depend not least on the degree of efficiency in the planning, implementation and monitoring of structural