Regional Development Disparities in Europe

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Abstract: Regional economic integration provides both, developing countries and the least developed, the ability to enjoy the benefits of a larger „European "market, whether it is their home or their adoptive home. This issue gains a larger dimension in the context of economic crisis and euro zone. The argument for this statement is that regional development disparities may negatively affect economic cohesion from European space. There were identified two obstacles of the efficient use of European resources. The first one is the geographic barrier: the inability to make labor division due to barrier restrictions. The second one is the lack of an entrepreneurial culture. The entrepreneurial culture provides the flexibility of economy - in particular, the structural flexibility to cope with changes in the division of labor. These disparities can be gradual changed, and they are primarily result from autonomous technological innovations made in response to depletion of resources or affected environment. Analyzing regional development disparities there were applied well known research methods: analytical and statistical method. The analysis consists on selecting and describing a set of indicators "measures" for regional competitiveness, able to show the situation of the region in metric terms, but also from economic point of view.

Keywords: territorial disparities; globalization; economic development; entrepreneurship; regions of development

JEL Classification: F6; L26; O1; R11

1. Introduction

According to a relatively dedicated literature, against the background of increases of revenues and local externalities, economic integration leads to the spatial concentration of productive activities, so that in EU this unequal spatial impact of economic integration offered an important motivation for a set of political measures known under the name of Cohesion Policy of EU, with the purpose of counteracting economic and social discrepancies. An extremely popular and influential version from this perspective claims that "globalization flattens out" the world and leads to economic dynamism even in the poorest regions (Friedman, 2005).

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It is obvious that mankind is looking for new pathways of development and wellbeing both in national state frameworks, in existing and future regional structures and at international level.

There is a series of theories which makes reference to the regional aspects of development such as: the theory of development as frictional differentiation, the polarized development theory, the endogenous development theory.

The theory of development as frictional differentiation was formulated by the laureate of the Nobel Prize for economy, Gunar Myrdal. Regional imbalances are based on inherent chronological lags in integration processes, lags which have as consequence the imperfect mobility of production factors, this brings into discussion the problem of homogeneity of economic time, the development lags being interpreted as chronological lags. This perspective is more complete than the theory of development stages, or the theory of dual development, because it seeks to identify temporal reference points in the economic field, the field of institutions and social norms, the field of cultural, religious, ethical values, etc. The elimination of lags appears as a problem of synchronization of different historical times.

Polarized development theory (or the theory of growth poles) has as starting point the works of Francois Perroux, being subsequently developed with a rich literature in the field. The theory starts from the fact that development represents an imbalanced and hierarchized process at the same time and only certain economic units play the role of engine of development. These units have the role of "*poles of economic growth".*

Endogenous development theory is opposed to the growth poles theory, laying emphasis on the so-called development from the basic structural levels. The major components of this theory are selective regional autarchy and the highlighting of strategic regional advantage. The merit of such a theory consists of the mobilization of efforts of highlighting the local potential. This theory has inspired numberless studies of regional development.

2. Constraints of Development

The civilizations which exhausted their basic natural resources and did not take into consideration their finite character became vulnerable as the conditions worsened. Those who tried to exceed these limits collapsed. Instead of changing their behavior or ceasing the devastating actions on the environment, they assimilated the natural resources and riches from other areas, usually by conquering other settlements or by conquering new territories less populated across their discovery.

The current model of progress privileges the exponential growth of production and consumption in almost any field of activity. The idea we learned and with which we grew up is that there can be recorded an endless economic growth without taking into account the limited character of natural resources.

And yet, although it is obvious that an exponential growth implies the consumption of raw materials and activities with significant impact on the environment, it has been adopted by our civilization – either capitalist or socialist. The continuous exponential growth is considered good for an economy, and a high growth rate is considered even more opportune. This trend of continuous encouragement of exponential growth solicits the life support system and has begun to approach the last ecological limit of our planet.

If we consider the whole planet as a system, we can better understand the effects of human activity. The term "system" is made up of interconnected parts, but represents more than the sum of its parts, the "exceeding" takes place when a limit is exceeded, the "stock" is the current level of an element such as population, forestry resources, fossil fuels or capital, the "erosion" takes place when the basic resource which supports a system suffers a decline, "the loop of positive reactions" represents the succession of events which causes the increase of stock of an element and "the loop of negative reaction" is the succession of events which causes the decrease of the stock of an element. The "balance" appears when the increases are equal with decreases, and the "collapse" appears when a stock goes into uncontrollable decline caused by the surpassing of limits or when a loop of positive reaction causes an erosion of its limits.

A computerized model of the world system highlights that if we continue with the same trend of growth, the population and the industry will exceed the limits for a few decades, before the exhaustion of natural resources leads to a decrease of population, of industrial production, of food production, of life expectancy.

The states with robust economy know that human resources represent an important factor for economic success. Yet, the investments in workforce or its depreciation are nowhere centralized. The expenditure with education and health are considered only in the light of social security not as an investment in human capital. It becomes obvious that the GDP will continue to increase even if the ecological crisis and the development crisis worsen and, in conclusion, we will have to look towards other indicators to measure progress.

Therefore, another macroeconomic indicator proposed is Sustainable Economic Welfare Index. This index is based on the statistics regarding personal consumption just like National Gross Product, but calculates adjustments for a number of factors: (1) distribution of revenues – the increase of revenues in a poor family which creates more welfare than in a rich family, (2) net capital increase – takes into account only the principal achieved by man, but excludes the expenditure with education, health, etc. relating to the workforce involved in the production process, (3) foreign capital vs. local capital – the increase of foreign capital loans weakens national economy and is not taken into consideration in the determination of the index, (4) natural resources – we take into account only non-renewable resources (fuels, minerals) but also the degradation or conservation of agricultural lands, of aquatic ecosystems, (5) degradation of environmental factors – includes both the short-term effects of air and water pollution, but also the long-term effects of climate changes and of destruction of ozone layer, (6) self-housekeeping – we aim at quantification of goods and services produced in households.

If we are starting to analyze the origin of imbalances presented above, we will discover which is the direction we have to take. First of all, economic and financial power has to be more divided, not excessively concentrated at world level; otherwise, the financial imbalances which were generated and propagated in USA will grow in amplitude. The institutions which have as purpose the regulation of all transactions at world level have to establish the rules of the game and control financial transactions in order to exclude the speculative method. The international financial system should encourage only the profitable activities which generate goods and services capable of supporting the company in the future.

It is important to use the principle of "mini maximum": we will use minimum of resources (energy and natural resources) to obtain maximum results. Because in the past emphasis was laid more on work productivity, an increase of productivity of resources and energy will determine smaller costs and losses.

The different forms of economic theory and practice have to be developed for the purpose of combining the current economic system with the environmental system and causing changes in the value of the natural and human capital. Therefore, from the political and economic point of view, the Earth would not be just a production factor, but will be considered an ecosystem, representing both a right and a responsibility. Eventually, in the evaluation of progress (in general) and of economic welfare (especially) we will exclude the non-profit activities and we will take into account the value of the human and natural capital. The human capital has to be included in the tax; thus, the companies would invest in it, encouraging the increase of the degree of occupation of the workforce, the improvement of abilities and diversification and forms of property. The principles of ecological economy have to be adopted so that the land, the money and the market are managed to such a manner that can sustain global economy.

3. Factors of Regional Disparities in Europe

The delimitation of regions is not at all an easy task. Regardless of the criterion used – economic, administrative, geographic, social, cultural, historical, ecological, etc., there are no all satisfying methodologies, the compromise is inevitable. The definitions are multiple, and the choice depends to a large extent on the objectives pursued. At the level of a country and in different countries, we can encounter homogenous regions, which have common characteristics, such as close revenues/inhabitant, a common dominant industrial sector, relatively uniform unemployment rates, similar topography or climate, a common natural resource, a certain regional identity, a common historical development. We can also deal with nodal regions, which are usually polarized to a dominant center, but also with regions for planning.

The region is also regarded as an administrative-territorial unit of a country, having on one hand, a geographical determination (a portion from the territory of a country which individualizes by historical, cultural, economic, social features, and on the other hand, an administrative determination, involving a sum of institutional competences, which gives it a certain autonomy in relation to the central authority (wider or more restrained, depending on the options, dominant political orientations of that period).

The term of region does not apply only for the national structural regional space, being also used at international level to define regions created on the basis of connections between the border areas of neighbouring countries or regions made up of groups of countries between which there are intense economic, commercial, cultural connections following their location in a well delimited geographical space.

In order to better understand the regional economy we have to make distinction between the non-differentiated space, which is an abstract, geometrical space and the differentiated space which is characterized by geographical, economic, social, cultural, historical projections, which leads to the concepts of transport networks, industrial concentrations, natural advantages, economies of agglomerations, etc.

We consider that the main factors which determine **regional development disparities in Europe are**:

1. a complex of causal factors under the umbrella term of globalization determined an international configuration of economic activities labeled “global enterprise” which dominates large areas of the world economy;
2. the existence of the global enterprise system constrains the options of development of a large number of developing countries;

3. the difficulties of mobilization of entrepreneurial skills in many countries react with these constraints to produce a difficult environment for economic development;

The pathways for economic development in this system are:

A) Activities of gradual modernization in the existing global enterprises;

B) Development of global enterprises under local control;

All these development options are extremely difficult to implement. In the global economy, the control or organization of these activities remains very firm in metropolitan (advanced) countries.

The generating factors in globalization and global development are generated by:

- demand, the producers can make substitute or competitive products more and more easily. Moreover, the consumers are willing to exchange products, especially when the prices decrease for some classes of products. This causes high volatility and creates pressures on the producers of blocking the consumers.

- supply, fast innovation leads to mass production of standardized offers which create opportunities for scale economies. Therefore, the access to cheap workforce has become much easier. The combined effect of the necessity of flexibility to satisfy the demand of consumers and the descending pressure on prices by competition induces the growth of demand for outsourcing and extra-territoriality. The costs of adoption of flexible production are now much lower than before.

The financial-economic crisis generated the modification of several economic factors, making the business cycles intervene in the modification of markets and create major fluctuations at their level especially at investments level by suppression of credits.

3.1. A Need for New Objectives of Regional Development

The great turbulences induce by global economic crisis on E.U. economies lead up to an obvious question: there is a need to redefine actual objective of regional development? As we now actual regional development objectives are:

- Objective 1: promotion of structural development and adjustment of underdeveloped areas at regional level, respectively the regions with GDP per capita< 75% of EU average.
- Objective 2: economic and social reconversion of regions facing structural problems, in general, this objective will be designed for the areas facing

economic changes, rural areas in decline, underprivileged piscicultural regions and urban areas facing difficulties.

- Objective 3: human resources development at local level in the context of regionalization. These objectives can be achieved by: convergence, regional competitiveness, jobs and territorial cooperation.

The main goal of European Union is the reduction of regional disparities, goal achieved through the cohesion policy. The non-refundable financial allocation funds projects especially designed for the new member states because they present large differences compared to community average, in most sectors: infrastructure, environment, research & development and innovation.

The disparities between the member states strongly widened after the accession to EU of the new member states. Thus, in 2000 in EU 15 the ratio between the GDP of the least developed region and the community average was 66%.

After the accession of the 10 new member states the average dropped to 46,6% of the average EU25, and after the accession of Romania and Bulgaria the lowest value of GDP/inhabitant reaches only 32% compared to the average EU 27.

Table 1. Growth rate of GDP (%) in E.U.

	1990-2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
UE-25	2,1	1,7	1,1	0,9	2,1	1,5	3,0	2,9	0.4	-4.2	1.8
UE-15	2,1	1,6	1,0	0,8	2,0	1,4	2,9	2,7	0.2	-4.3	1.8

Source: www.eurostat.ro

Moving the economic development strategy from speed to quality, sustainability and efficiency are very important to maintain the growth and to "catch up" developed economies.

There are large development differences both between member states and between the regions within member states. These development differences widened with the accession of the ten states in 2004, the accession of Romania and Bulgaria in 2007. Thus, one of the most thriving regions of Europe (London) has a GDP per capita nine times higher than the GDP per capita recorded in the poorest regions of Romania.

Beside the similarities of growth rates between old and new E.U. is still a real need for redefine the regional development policy objectives.

3.2. The Romanian priorities for a real development at regional level.

After a first experience of ERFD using for regional development sustaining, Romania is now into a complex process of redefining administrative and NUTS 2 regions. In our opinion this is obvious sight of redefining the national priorities in regional development process. I think that these new priorities are:

1. Assimilation and application of sustainable development principles as conceptual basis of strategic planning and public policies.

2. Establishment of a specific country profile and the highlighting of real competitive advantage of Romania especially by supporting the formation and consolidation of the national capital in forms compatible with the European regulations.

3. Modernization of state structures mainly by consolidation of institutions and democratic procedures.

4. Highlighting the importance of human capital for the development of Romania in the 21st century by the priority allocation of resources.

5. Initiation of national debates – with the participation of political factors, scientific and academic community, business environment, social partners and civil society.

So far, the problem of territorial cohesion has been approached in the general framework of regional development policy, this being the only European policy which sets up cohesion as explicit goal.

4. Conclusions

The concern of cohesion policy is rather the identification of potential threats to the accession process, such as strong territorial contrasts regarding the level of revenues or productivity, defective transport infrastructure inside or between regions. Thus, the cohesion policy plays an important role in the cohesion process which exceeds the strict framework of redistributive role. This means that convergence (reduction of inequalities) is considered the main way of assurance of economic and social cohesion. Although it sounds real, such an argument does not lead to a correct formulation of the cohesion problem. In order to grasp the nuances which differentiate the cohesion from convergence in the economic and social field, it is necessary to briefly describe the problem of convergence in the regional economic growth.

The evaluation of spatial disparities is influenced by the selection of size (geographical scale)of indicators and of the period of time envisaged; the European regional policy is based on data collected for short series of time, usually below 10 years, which makes profound structural changes, the evolution of spatial matrices which takes place across longer periods of time cannot be surprised in the absence of an analysis on different levels of the elements of the integrative system of European Union. Moreover, the analysis of regional disparities with structural indicators which capture not only the economic dimension, but also social, demographic aspects, regarding the education and environment condition shows the existence of divergent territorial moulds compared to those observed by analyzing strictly the regional product reported to population.

The cycle of changes in the economy top list started in 2000 and will last 30 years according to the abovementioned facts. In this period, the world GDP will increase by an annual average pace of 3.5% and will reach 129 thousand billion dollars in 2030 (dollars at the value of 2009), double compared to the current level.

As we could see, the economies of states increase and decrease from one year to another, the competition between them is tough. The forecasts made by great economists showing that the top of the ten greatest powers of the world can change anytime, by the reversal of positions between the states already existing in the top, and by the introduction of new states, each wanting to hold total influence in a world economy.

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