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Polska w Unii Europejskiej

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REGIONAL DEVELOPMENT IN THE EUROPEAN UNION AND THE PROBLEM OF INTERREGIONAL MIGRATION

Introduction

The traditional or neoclassical approach to growth theory focused on the linkages between the inputs of labour and capital and output in a production model framework¹. Economic growth was then explained either by increases in the quality of the inputs or by the productivity of the inputs. But the neoclassical models could not fully explain variations in growth rates over time for any particular country and across different countries at any one point in time. The residual, or unaccounted growth was attributed to exogenous technological change.

The concept of endogenous growth embraces a diverse body of theoretical and empirical work that emerged in the last decade. This alternative approaches to growth theory differs from neoclassical growth theory in the emphasis that economic growth is an endogenous outcome of an economic system, and not merely the result of forces that impinge from the outside. As Romer² points out, the endogenous growth theory, "does not settle for measuring a growth accounting residual that grows at different countries. It tries instead to uncover the private and public sector choices that cause the rate of growth of the residual to vary across countries." The major contribution of the so-called "new

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¹ R. Solow, (1956), *A Contribution to the Theory of Economic Growth*, Quarterly Journal of Economics, 70, February, 60-94; R. Solow, (1957), *Technical Change and the Aggregate Production Function*, Review of Economics and Statistics, August, 39, 312-320.

² P.M. Romer, (1994), *The Origins of Endogenous Growth*, Journal of Economic Perspectives, 8(1), Winter, 3-22.

growth theory” has been to endogenize technological change in the process of long-run rate of economic growth. Technological change consists of a number of dimensions, such as research and development, stock of scientists and engineers, the extent of human capital, labour skills, and learning capacity of firms and individuals. Rather than being purely exogenous, these dimensions of technological change become endogenous in the new growth theory, in that greater rates of growth afford higher levels of R&D investment, superior training of the workforce, better education etc.³ And the higher levels of these dimensions of technological change lead, in turn, to higher growth rates. Thus, Romer pointed out that there are increasing returns to technological change and endogenous growth⁴.

According to Baumol “so far as capital investment, education, and the like are concerned, one can best proceed by treating them as endogenous variables in a sequential process – in other words, these variables affect productivity growth, but productivity growth, in turn, itself influences the value of these variables, after some lag. To some degree, the same story can be told about the exercise of entrepreneurship, investment in innovation, and the magnitude of activity directed to the transfer of technology”. Thus, Baumol concludes, that “productivity growth, and the resulting enhancement in GDP per capita, are, in turn, among the main stimulants serving to enhance the values of those same variable investment is heavily influenced by output per capita, being systematically higher in countries whose GDP per capita is higher. Similar remarks apply to a country’s expenditure on education, its investment in R&D, and a number of other variables usually cited as stimulants of productivity growth”.

In recent years, various countries across the world have introduced a series of deep reaching reforms to their education and training systems. The prime motivation has been the belief that the development of an economy’s human capital is one of the most, if not the most, effective routes to improve national economic performance. As Reich has commented, “it is not what we own that counts: it is what we do”⁵. In addition, rapid technological advance and the emergence of the information society have instigated a number of fundamental changes to how work is organized. According to Toffler⁶, the role

³ G.M. Grossman, E. Helpman, *Endogenous Innovation in the Theory of Growth*, Journal of Economic Perspectives, 8(1), Winter 1994, 23-44.

⁴ P.M. Romer, *Endogenous Technical Change*, Journal of Political Economy, 1990, 98, S71-S102; P.M. Romer, *Increasing Returns and Long-Run Growth*, Journal of Political Economy, 94(5), October 1986, 1002-37.

⁵ R. Reich, *The Work of Nations*, Knopf, New York 1991.

⁶ A. Toffler, *Power Shift: Knowledge, Wealth and Violence at the Edge of the 21st Century*, Bantam Books, New York 1990.

of knowledge has increasingly moved towards the social center of gravity, while the strategic importance of "knowledge workers" who are able to absorb and apply information in response to heterogeneous demands in society will become progressively more critical. Hence, a workforce that is able to handle more "knowledge-intensive" forms of economic activity is required to enhance future competitiveness.

The forces of globalization and global competition further amplify the imperative to upgrade a country's system of education and training. An economy's ability to attract higher value-added foreign investment, or indeed retain domestic investment, will to a large extent depend on the quality and skills of its workforce.

Evidence provided by Thomas⁷ suggests that recent employment growth has been greatest among those occupational groups, which are more education and training intensive. Today's dynamic industry sectors are typified by their knowledge intensive character, and thus call for higher quotients of human capital investment to maintain momentum. Moreover, with the half of life of the "frontier" knowledge that drives these industries diminishing at an ever faster rate, workers need to be integrated into multiple and continuous learning processes that empower them to respond effectively to consequential technological and economic changes.

The European Council which held a special meeting on 23-24 March 2000 in Lisbon, set new strategic goals for the European Union in order to strengthen employment, economic reforms and social cohesion as part of a knowledge based economy. The Council suggested that there is a need of modernizing the European social model by investing in people and building a dynamic welfare state, which ensures that the emergence of the knowledge economy does not compound the existing social problems of unemployment, social exclusion and poverty. The Council concluded that Europe's education and training systems need to adapt both to the demands of the knowledge society and to the need for an improved level and quality of employment⁸.

A greater emphasis placed on education and training and lifelong learning would make a key contribution by providing a more employable workforce, which is simultaneously capable of adjusting to the shift to more knowledge intensive economic activities.

⁷ E. Thomas, *Developing Continuing Education and Training in European Universities*, Journal of European Industrial Training, 1995, vol. 19, pp. 11-15.

⁸ Lisbon European Council, Presidency Conclusions, 23 and 24 March 2000 (<http://europa.eu.int/comm/off/index.en.htm>).

2. Regional Development in the European Union

Over the past decades, the process of European integration has placed increasing emphasis on the promotion of economic and social cohesion. The Single European Act provided for the Community to “develop and pursue its actions leading to the strengthening of economic and social cohesion”⁹, the Treaty on European Union went further and made the promotion of economic and social cohesion one of the “tasks” of the Union.

The differences in development between regions in the European Union are still substantial. Certain countries or parts of countries lag some way behind in terms of development and their prospects for the future are uncertain and in some cases even unfavorable. Although the advocates of the free trade theories argue that differences in factor costs and therefore differences in development potential will be ultimately abolished, this does not appear to be reality in the medium term at least.

When one examines regional imbalances and defines indicators for strong and weak regions, it is important to put first into context the types of regions, which should be compared. In the European Union there are differences between the regions. However even though many regions face serious economic and structural problems, it would be rare to find region without basic infrastructure and development. It is important to clarify that a comparison of European Union regions will still be a comparison of somewhat equally developed regions. Few, if any at all, will prove to be at the level of a third world country.

The present European Union can be divided into two groups of countries in terms of gross domestic output. There is a clear gap between Spain, Greece and Portugal, where GDP per head, measured in terms of purchasing power

⁹ Art. 130a of the Single European Act defined the Community economic cohesion goal as “reducing disparities between the levels of development of the various regions and the backwardness of the least-favored regions”. The Single European Act also enabled the Union to “develop and pursue its own actions” to achieve this goal. Since 1988, the Union has carried out its own regional policy, assisting those regions in most need of support from a European perspective. The concentration of European Union assistance on such regions was proposed by the European Union Commission as the most effective way to improve regional convergence in the Union. In the multi-level governance system of the European Union, European Union’s regional policy coexists with the regional policies of the Member States, whose primary objectives, however, are to reduce regional disparities at the national level. The European Union is concerned to make the Member States’ regional policies more consistent with its own, so that the structural funds interventions be more effective.

standards to indicate relative levels of wealth, is only 67-82% of the European Union average, and the other member states, where it is similar to or above average¹⁰.

This is despite significant convergence achieved by these three countries over the past decade. As a group, their GDP per head rose from 68% of the E.U. average in 1988 to 79% in 1999. Individually, the gap between Spain and Greece and the E.U. average narrowed by 9-10% points in each case, and for Portugal by 17%. An encouraging sign in this respect is the strong performance of Ireland, which 10 years ago was included in the least prosperous group of countries with GDP per head of only 70% of the E.U. average but now has a level 14% above average¹¹.

Disparities are even wider between regions in the European Union. The 10% of regions with the highest GDP per head consist largely of northern capital cities and the most prosperous southern German and northern Italian regions. Broadening this to the top 25% leads to the inclusion of many UK regions, some Austrian, Belgian and Dutch regions and Madrid and Rome. The bottom 10% of regions consist predominantly of those in Greece and the French DOMs and also include some regions in Portugal, Spain and southern Italy, while the bottom 25% include many other Spanish and Portuguese regions, the remaining part of Southern Italy and Eastern Germany, as well as some peripheral regions in France and UK. The contrast between the top and bottom 10% is stark. The regions at the top have an average GDP per head 60% above the E.U. average, or 45% if regions where commuting is important are excluded, while those at the bottom have a level nearly 40% below. In other words, in the top 10% of regions, GDP per head is around 2.5 times that in the bottom 10%. Similarly, the top 25% of regions have a level twice that of the bottom 25% and account for a third of total E.U. GDP as against a sixth in the case of the latter. However, there was significant convergence over the period 1988 to 1998. In the bottom 10% of regions, GDP per head rose from 55% of E.U. average to 60%, though in the bottom 25%, it only rose from 66% of average to 68%¹².

In addition to regional disparities across the European Union as a whole, there are in many cases large disparities within individual member states. The divided economies of Italy and Germany are obvious examples, but in most countries, one region, or a few of them, have levels of GDP per head far above, or below, the national average. Capital cities, such as London or Paris (Île de France), tend, in particular, to have levels much higher than average, while in

¹⁰ European Commission, *Enlarging Solidarity*, Uniting Europe. Second report on Economic and Social Cohesion, 2003.

¹¹ Ibidem.

¹² Ibidem.

many remote and rural regions, such as Epirus in Greece, Calabria in Italy and Acores in Portugal, GDP per head is well below that elsewhere. This firmly demonstrates the fact that countries cannot be treated as homogenous economies and that it is important to consider regional as well as national features and trends.

Economic indicators are excellent for illustrating regional imbalances, and they cannot be excluded when describing weak and strong regions. But they do not give a very good picture of other issues e.g. structural and social problems, which often are the cause and consequence of inequalities between regions.

The differences in employment, or rather unemployment, between the regions of the European Union show a clear picture of regions, which are facing serious problems, not only economic but also social. It is important to remember that the less-favoured regions not only face the highest unemployment rates, but also the most serious problems, in dealing with unemployment in a socially acceptable way. This is, of course, caused by their financial situation and structural problems. The unemployment rates are connected with aspects such as demographic development, educational structure and investments of the regions.

Unemployment in the European Union is declining at present, reflecting the continuing growth of the economy and labour market reforms, which seem to be associated with an increasing rate of net job creation for a given growth in GDP. The rate has, therefore, fallen from 10,7% in 1997 to 8,3% in 2000. Despite this encouraging trend, unemployment remains unacceptably high in many parts of the E.U., though if economic growth can be sustained at its present rate, over the coming decade it could gradually cease to be the major economic problem facing the European Union, which it has been for the past 20-25 years.

Unemployment varies substantially between regions in the E.U. Despite economic recovery, unemployment rates still over 20% in some parts of southern Europe in 1999. There were also, however, a number of areas in northern Europe undergoing restructuring, where rates were well over 15%.

Regional disparities in unemployment have widened over the 1990s, following the reduction, which occurred in the high employment growth years of the late 1980s. While economic recovery has reduced disparities slightly since 1995, it has so far failed to offset the widening during the earlier period of recession. Accordingly, while unemployment in regions where rates were lowest averaged 3% in 1999, much the same as in the early 1970s, it averaged 23% in those where rates were highest, much higher than 25 years ago¹³.

¹³ CEC (1991), *The regions in the 1990s: fourth periodic report on the social and economic situation and development of the regions of the Community*, Office for official publications of the

The regions with the lowest unemployment in the European Union were much the same in 1999 as 10 years before, as were those where rates were highest. As in case of employment rates, differences between regions are greatest in Italy, where, in 1999, the rate in those with the highest levels (in the south) was almost 25 percentage points higher than in those with the lowest (in the north). On the other hand, in all regions of Austria, the Netherlands and Portugal, unemployment was below the E.U. average.

The discrepancy between the number of jobs and the workforce is the second indicator that can be used to assess regional development. The idea behind this is that in regions with a large discrepancy unemployment will be higher, and that the jobs available are of less attractive. The willingness to migrate will thus be greater in these regions.

3. Mobility of people: causes and effects

The freedom for European Union's citizens to work anywhere within the E.U. implies that people from the less favoured regions have increasing opportunities to work outside their region of origin. The main aim of this part of the paper is to investigate the migration of the skilled and talented people, among which (potential) entrepreneurs, from less favoured regions to the more prosperous regions. Such migration reduces the development potential of their region of origin (see: section 1 of this paper: Introduction) and increase regional disparities inside the European Union (see: section 2 of this paper: Regional Development in the European Union).

In the 1960s there was labour migration and mass flows of quest workers (employees with a low level of education from less developed countries). This flow has lost its importance as a result of the stabilization of economic growth in the Northwestern Europe and economic growth and democratization of political regimes in Southern Europe, and the rise in productivity brought about by technological progress, triggering a substantial decline in the demand for low skilled workers (see table 1). Return-migration by Southern European quest workers was tailing off and there were virtually no large-scale flows of migration between countries in Europe (see table 2). Even the "free movement of labour" within the European Union had virtually no impact on this pattern.

Table 1.

Foreign employees (E.U. nationals) in Germany by vocational qualification (in thousands)

Qualification level	1977	1989	1999
Trainees	92	82	73
Employees with low qualifications	103	62	55
Employees with middle level qualification	94	80	81
Graduate employees	84	105	135

Although intra-European migration between European countries is limited in scale, certain regions are confronted with a substantial negative migration surplus¹⁴. This may have a major impact on regional economic development¹⁵. Certain regions are at risk of falling even further behind, as a result of large parts of its younger and more dynamic population moving to more urbanized regions for study and work. This can trigger a downward spiral, unless one tackles the self-reinforcing effect of declining socio-economic development and depopulation. The scale and composition of the working population is in fact a major determinant of regional economic development.

Apart from the causal link between the composition of the working population, regional development and migration, there is also a link between the size of a region and migration. Within larger regions there are in general more opportunities for interregional moves, which means that migration is less readily recognized as such. Smaller regions by contrast are confronted more rapidly with migration. It should be mentioned in this point that skilled and talented people are more prepared to move than less well-educated people from the same area in order to find a job more appropriate to their skills. In contrast to the demand for low qualified people, the demand for high skilled employees is high in all countries. The causes are the higher skills requirements within companies (the disappearance of low-grade activities to low-wage countries and increasing competitive pressure, forcing companies to innovate continuously and to keep pace with technological developments) and the fact that there are fewer young (generally well-educated) people entering the labour market.

¹⁴ It seems useful to make distinction between interregional and intraregional migration.

¹⁵ S. Bradley, J. Taylor, *Human capital formation and local economic competitiveness*, Lancaster University, Lancaster 1994; G.C. Cameron, R.M. Kirwan, A.M. McGregor, *Highly qualified manpower and less-favoured regions*, Cambridge 1981.

Table 2.

Net migration in E.U. member states (per 1000 population)

Country/region	1980	2000	2001
European Union	1.7	3.1	3.1
Eurozone	2.0	3.1	3.2
Belgium	-0.2	1.3	3.2
Denmark	0.1	1.9	2.3
Germany	3.9	2.0	3.2
Greece	5.2	1.2	3.3
Spain	3.0	8.8	5.8
France	0.8	0.8	1.0
Ireland	-0.2	7.0	7.8
Italy	0.1	3.1	2.9
Luxembourg	3.7	8.3	7.5
Netherlands	3.6	3.6	3.1
Austria	1.2	2.1	2.2
Portugal	4.3	4.9	6.3
Finland	-0.5	0.5	1.2
Sweden	1.2	2.7	3.2
United Kingdom	-0.6	3.3	2.6

Source: Eurostat, Council of Europe, US Bureau of the Census – International Program Center.

There are positive and negative effects of migration for the region of origin. These effects differ between short-term and long-term migration¹⁶. It is characteristics that on the short term there are more positive effects of migration than on long-term. Main positive effects are:

- temporary decrease in unemployment,
- payments made by the emigrants to the home region,
- gain experience or knowledge and
- exchange of social-cultural values.

With long-term migration the negative effects are more to the fore, for example:

- loss of investment in human capital,
- decrease in endogenous development capacity,
- “Ageing population” with as result a less dynamic, more conservative population, breakdown of social structure and quality of life.

¹⁶ See also: H.G. Gosh, A. Scott, *Brain drain: determinants, measurement and welfare effects*. Wilfrid Laurier University Press, Canada 1977; *Emigration from Less-Favoured Regions: The Brain-Drain and Regional Development in the European Union*, European Parliament, Directorate General for Research, E-2.

It is worth to mention also the missed profits for a region as result of the departure of migration. It can be called as opportunity cost. Unfortunately it is difficult to measure the influence of above mention factors.

The positive effects mainly occur with temporary migration (investment in human capital); whilst with long-term migration the negative effects are more to the fore (loss of human capital).

Although migration may be to the benefit of the individual migrant and his/her family – the national or international transfer of knowledge and skills means the transfer of investment in training and education. Consequently, the country of departure not only has to contend with the loss of its investment in human capital but also with the possible returns on that investment. Moreover, since these people are mostly young and keep to adapt to new developments. The region might thus become less dynamic and modern.

Although the idea prevails that long-term migration creates disadvantages for the region of origin, it is difficult to establish how great these disadvantages are. An overview of remittances of emigrants reveals that the contribution by migrants to the GDP may differ widely. Portugal, for example, had a very high contribution, exceeding contributions from the European Structural Funds¹⁷. The question arises, however, whether such “remittances” compensate for the loss of investments in education and the opportunity cost¹⁸.

The migration literature shows that structural as well as personal motives underlie the ultimate decision to migrate. The structural motive is the systematic imbalance in economic potential and demographic pressure in a region. The personal decision to migrate is determinate by social and personal factors. The structural motive is of great importance for the scale of the actual movement. The decision to migrate is affected by “push” and “pull” factors¹⁹. The major “push-factors” are listed bellow:

1. Relatively low wages.
2. Relatively high unemployment.
3. Uncertain labour market prospects.
4. Lack of capital.

¹⁷ ERECO, *European Regional Prospects: analysis and forecasts to the year 1998 for European cities and regions*, Cambridge Econometrics Ltd., Cambridge 1998.

¹⁸ Opportunity costs may mean the ability to benefit from the skills of the emigrants, thus reducing income and income taxes, and economic activity probably not being developed as a result of their departure.

¹⁹ See also: H.G. Gruel, A. Scott, *Brain Drain: determinants, measurement and welfare effects*, Wilfrid Laurier University Press, Canada 1997; H.G. Gosh, A. Scott, *Brain drain: determinants, measurement and welfare effects*. Wilfrid Laurier University Press, Canada 1977; *Emigration from Less-Favoured Regions: The Brain-Drain and Regional Development in the European Union*, European Parliament, Directorate General for Research, E-2.

5. Political system.
6. Adventure, gaining international experience.

Main "pull-factors" are:

1. Higher standard of living
2. Higher wages
3. Better jobs
4. Better labour market prospects
5. Quality of life
6. Demand for young, well-educated people.

Findlay and Garrick²⁰ note, regarding the differences in underlying causes between the well-educated and less well-educated, that skilled people are usually guided by labour market prospects and differences in salary as regards their ultimate choice of destination whilst the less well-educated are affected by family ties and friendship.

4. Recommended measures

First of all it is important to understand that the main objective of regional policy is not to stop temporary migration, since temporary migration by residents may have a positive impact on regional development. It is not possible either by direct means, as the free movement of labour does not tie in with the erection of barriers to keep people within a particular area.

Two are the main conditions to constrain the movement and to increase the power of the regional development: infrastructure as a general basic condition on the one hand and more specific elements or measures on the other hand.

The infrastructure (traffic infrastructure, public utilities, telecommunication) is still a basic requirement for regional development (it is a necessary condition but not sufficient in itself). The initiatives that have to be taken to improve it would appear to be having sufficient impact. Market forces will probably not bring this about directly by themselves. An adequate infrastructure in a broad sense is a basic requirement for companies to set up in the area. If this is inadequate then the location will generally not even be considered as a potential location by an investor.

Among more specific measures it is worth to mention:

1. Information Exchanging information and experiences about measures and projects between deprived regions and their authorities for the purpose of

²⁰ A.M. Findlay, L. Garrick, *A migration channels approach to the study of skilled international migration the case of Scottish emigration in the 1980s*, A.P.R.U. Discussion Paper 89/1, University of Glasgow, Glasgow 1989.

countering the mobility of high-educated people can have a positive effect on all regions. The opportunities for such a network must be created and its importance promoted.

2. Education. Attuning the curriculum to the future regional demand for labour (based on the future composition of employment) must be the starting point. The aim is of course to educate people who will fit within the regional production structure and not to educate people for unemployment. A thorough strengths and weakness analysis is needed in order to identify which activities offer the region some "future". Policy aimed at attracting or developing new business must also be based on this. Developing entrepreneurial skills is also of great importance. Entrepreneurship is by no means seen as a challenge everywhere. In the areas involved a change of attitude towards entrepreneurship is therefore required. The measures are mainly in education, the form and content of education. In addition, it is important to give students regional ties. This can be achieved by such means as encouraging students to engage in periods of practical training with local companies. To keep the highly skilled in the region it is therefore important to offer an adequate supply of high-grade positions with the appropriate salary. The measures here lie in salaries (for instance employment incentives) and in encouraging high-grade employment. Some of the instruments that can be deployed here are: investment incentives and stimulating the exchange of know-how between universities or colleges and industry. It is important that a policy, which is friendly towards entrepreneurs is pursued. This implies for instance rapid procedures and no unnecessary or complex regulations.
3. Quality of life. Measures enhancing the quality of life are an important factor of a more psychological nature in attracting and keeping the more highly skilled. This means that the quality of the actual level of facilities (such as shops, museums or sport facilities), housing and the natural environment as well as the image of the environment have to be improved.
4. Organization. Decentralization of power and means is also of great importance in enhancing regional involvement. If regional actors themselves are the vehicle for development strategies and projects, they also feel more responsible for implementation and ultimate success. However, to do so they require their own power and means.

5. Conclusions

Although the number of intra-European migrants has fallen substantially in recent decades, the proportion of domestic intra- and interregional migration

has come to play a more important role. Parallely the mobility of people with high skills is a phenomenon that virtually does not occur at all between countries in Europe. There are, however, areas in member states that are virtually excluded from the modern economic system and which experience an ongoing net outflow of human capital.

Regional effects of this phenomenon in less developed regions in the short and medium term are felt in the economic and social field. Although the departure generally means an improvement in position and income for the migrant himself (increasing his potential value for the region, possibly in the form of remittances), the region not only loses its investment in training and education, but also has to bear an opportunity cost in the form of loss of revenues from his/her productivity life. If such a process of migration of well-trained employees occurs over a longer period, this can lead to a downward spiral. The existing economic structure is insufficiently attractive to attract high-grade economic activities and due to a shortage of such challenging jobs the region is not able to keep or attract skilled or talented people. It is therefore vital to improve the attractiveness of the region in various ways. It seems to be necessary to put attention to the four main factors: infrastructure, information, education, quality of life and organization.

ABSTRACT

Regional Development in the European Union and the Problem of Interregional Migration

The reduction in regional disparities is one of the European Union's priority objectives. This implies that efforts should be made in the political as well as the financial arena to promote regional economic development in less favoured regions within the European Union. Regional economic growth depends to a large extent on the level of private investments that a region either generates or attracts. Public investments are necessary to create the most favourable conditions for private investments. In both cases the availability of a well-qualified labour force is of increasing importance. Regions with a small and relatively low-skilled labour force therefore have hardly any possibilities to stimulate economic growth. As a result companies do not invest in regions with an insufficient labour force and thus do not create high-skilled jobs, while the skilled and talented people leave the region because of a lack of suitable jobs. In the long run this will inevitably increase regional disparities.

The freedom for the citizens of European Union to work anywhere within the E.U. implies that people from the less favored regions have increasing opportunities to work outside their region of origin.

The migration of people, among which skilled and talented people, from less favored regions to the more prosperous regions reduces the development potential of their region of origin. The main scope of this paper is to investigate this possible conflict between the aim of regional development policy, which is to reduce disparities, and the freedom to migrate. The first part of the paper examines the regional development in the European Union and the importance of the human capital for economic growth and regional development. Second part of the paper discusses the causes and effects of intra-European migration. Finally, the most important findings and the policy recommendations are presented.