

The effectiveness of European market-correcting instruments: Trapped in the EU's decision-making architecture



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Reforming the EU: Central European Perspectives

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The Problem



- **Deepening of economic integration**
 - Removal of tariffs
 - Regulatory integration
 - Monetary integration

- **Increases economic disparities**
 - Werner Report, Delors Report, Agenda 2000
 - Need for levelling the ‘level playing field’
 - Reduce developmental disparities, increase competitiveness & capacity to cope with developmental problems

Brussels' view of the problems of integration: diversity in competitive powers



Brussels' view of the problems of integration: uneven distribution of opportunities

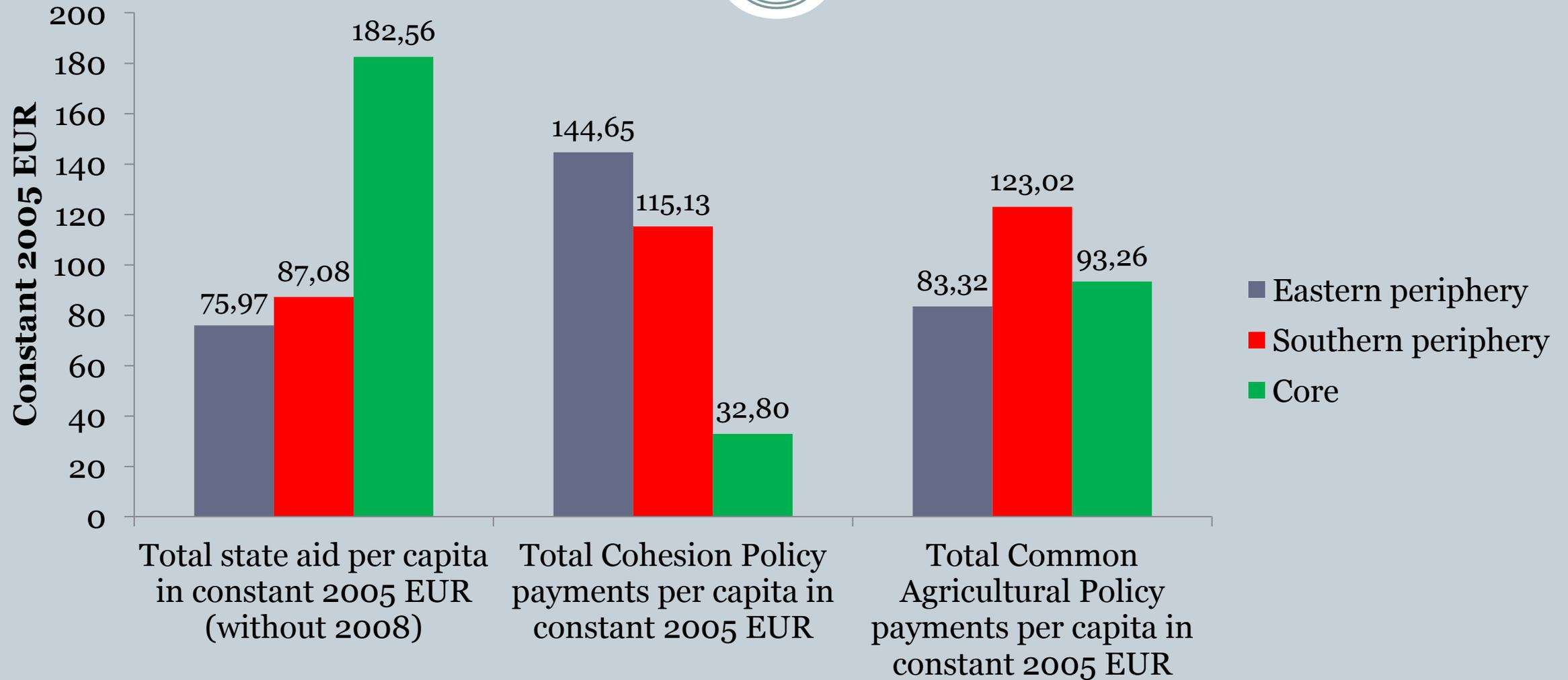


Key EU market-correcting instruments

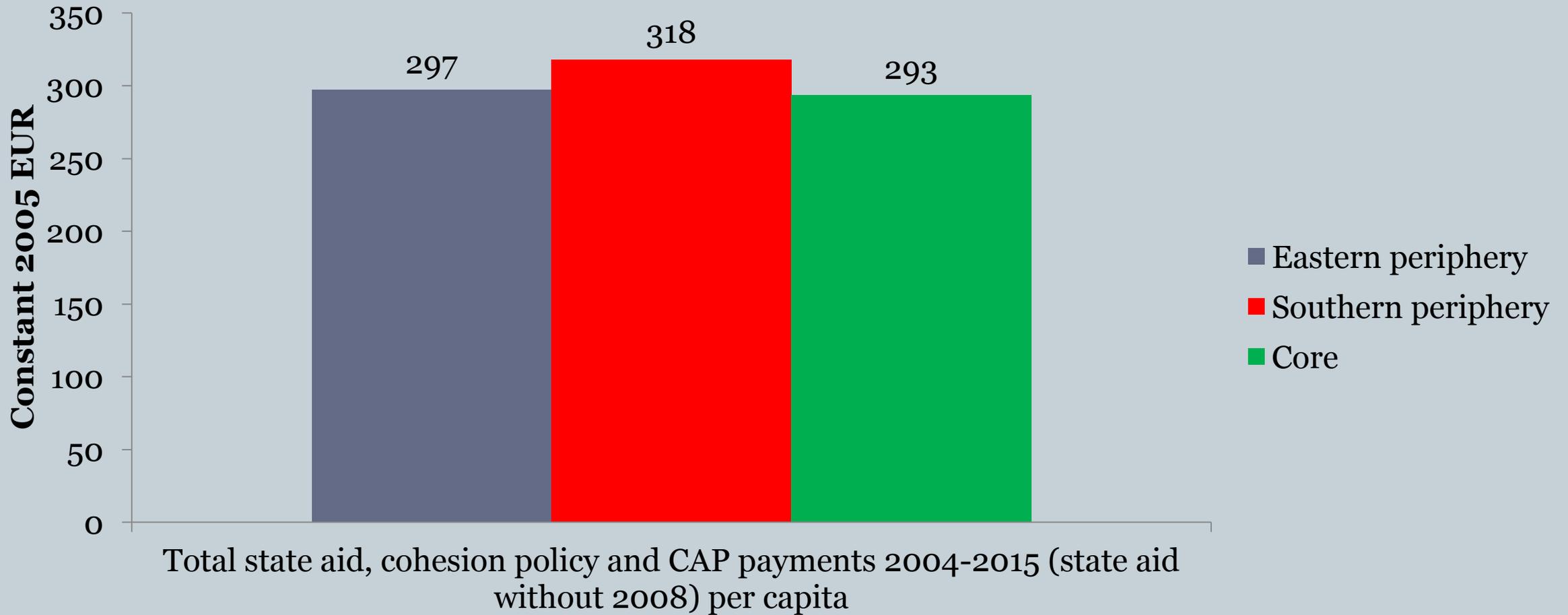


- Transfers to weaker economies (Structural Funds and Cohesion Fund, CAP)
 - Improve “market power”, reduce disparities
- Permissive use of state aid
 - Increase lesser developed regions’ competitiveness for capital
- Market friendly developmental banking (EIB, EBRD, EFSI)
 - Promotion of investments
- Assistance to upgrade domestic institutions (only in the pre-accession CEE)
 - Increase the capacity to play by and live by the single market

Comparison of total state aid, Cohesion Policy transfers and CAP payments per capita (2004-2015)



Aggregate market-correcting spending per capita (2004-2015)



Even state aid in the periphery goes to non-resident firms...



State aid for **large investment projects** in 2004-2015 registered by the European Commission*: the tip of the iceberg (531 aided projects in this period)

	Number of aided large investment projects	Total aid (mn EUR)	Of which aid to projects realized by non-resident companies (mn EUR)	Share (%) of aid to non-resident companies from total aid to large investment projects
Eastern periphery	194	4394.54	3357.22	76.40 %
Southern periphery	103	1879.52	803.43	42.75 %

*Summary information regarding State aid granted by Member States and communicated in accordance with Article 9(4) of the General Block exemption regulation (OJ L 214, 9.8.2008, p. 3) [or previously: Article 8(2) of the Block exemption regulation for regional aid (OJ L 302, 1.11.2006, p. 29)], or point 65 of the Regional aid guidelines 2007-2013 (OJ C 54, 4.3.2006, p. 13) [or previously: point 36 of the Multisectoral framework on regional aid (OJ C 70, 19.3.2002, p. 8, as modified in OJ C 263, 1.11.2003, p. 3)]

Source: the authors' own calculation

Promotion of investments - EIB and EBRD



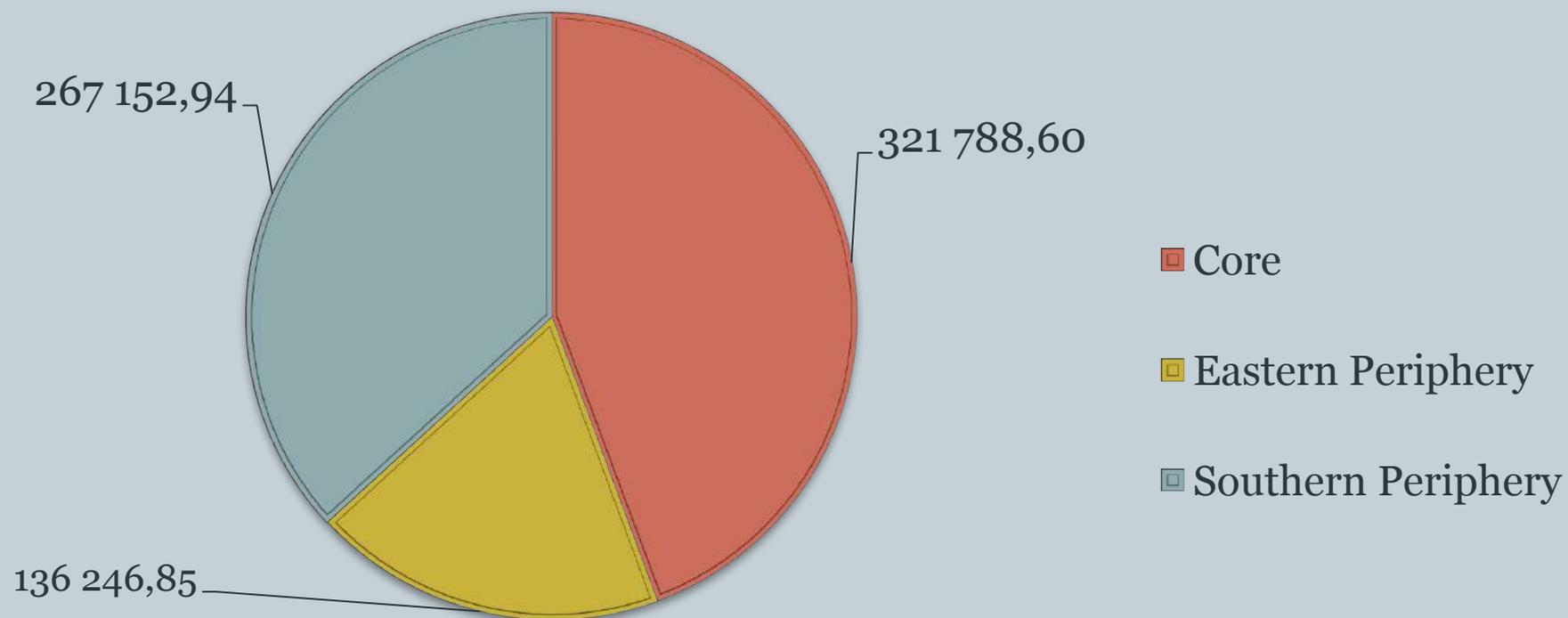
Aggregate data for EIB and EBRD financing in different EU regions 2004-2017

	Core	Eastern Periphery	Southern Periphery
Loan to GDP	0.28%	1.12%	0.69%
Loan per capita (in constant 2005 Euro)	86.95	92.82	151.65

“We work only on projects that meet a strict and clear set of criteria”



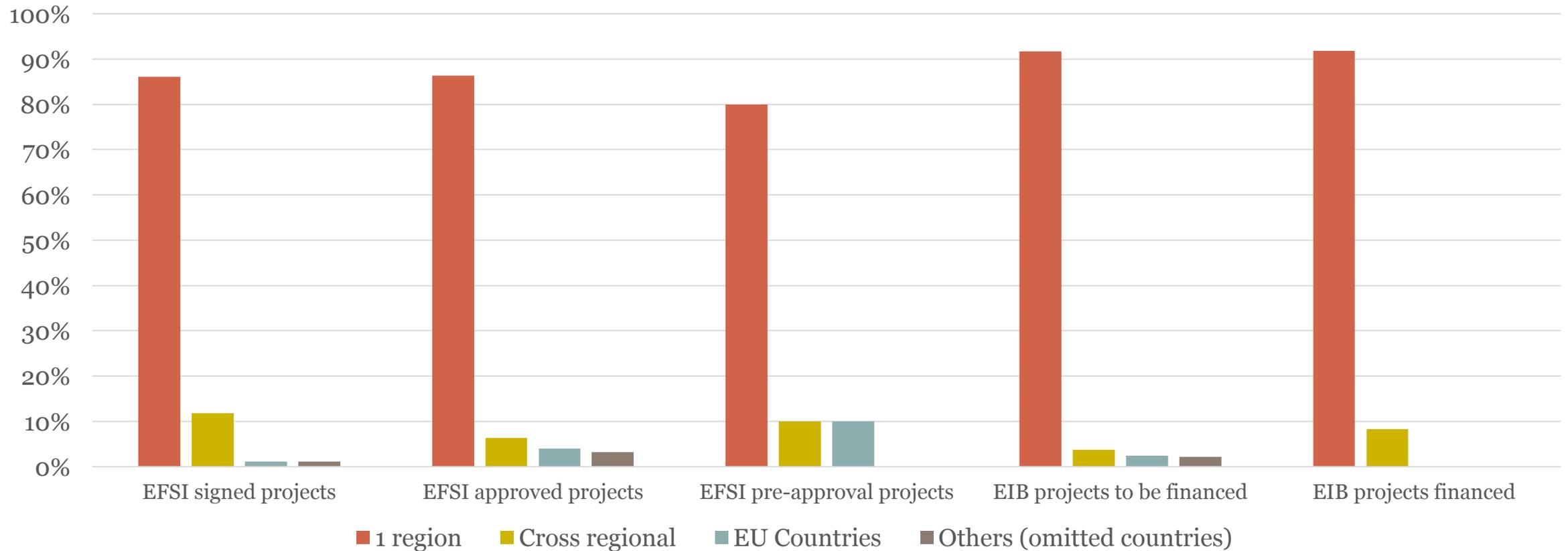
Loan (in million constant 2005 Euros)



Serving the common interest of core and periphery?



Distribution of beneficiaries by specific projects loans in 2004-2017



EU policies for leveling the playing field: the outcomes



General problems of EU market correcting policies



- Outcomes: shaped largely by pre-existing endowments
- Scope: Limited resources (1-2% of EU GDP), weak infrastructural powers
- Guiding principles: hotchpotch of third road and Keynesian ideas embedded in a dominating neoliberal frame
- Missing goals: Production of regional public goods, programs that could serve the longer term common interests of EU core and periphery

Challenges of reforming EU market correcting policies



- These policies are the products of a polity that
 - Prefers national over common European interests
 - Strong incentive to externalize developmental consequences of integration
 - Weak incentive to care about mutually advantageous programs
 - Allows for the dominance of the most developed (creditor) countries
 - Weak incentive to depart from the status quo
 - Focus on aggregate outcomes at the price of distributive consequences
 - Missing representation of the common interests of Europeans as a counterweight to member states' interest

Reforming the EU – CEE perspective



- **Policies**

- Preference for policies that would reflect the common longer term interests of the countries of the core and periphery (e.g. EU wide GVC policy)

- **Institutions**

- Preference for DG Economy (EU level capacity to monitor and manage diversity)
- Preference for EU level control over the quality of core state institutions that shape state capacity to support development (judiciary and public service)

- **Polity**

- Preference for the political representation of the Europeans, besides the representation of the peoples of the member states