

## SCENARIOS OF ECONOMIC AND REGIONAL DEVELOPMENT IN EUROPE

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### Abstract

Scenario building is one of the most important instruments of long-term economic and regional planning, even at European level. With the help of scenarios one can explore the manoeuvring space of economic policies and make more conscious the choice of political action. The scenarios described below, have been prepared for the ESPON programme of the European Union, where I participated as a member of a team working on scenarios of the future of the European regional development with special respect to the economic aspects. The four scenarios described are introduced from the aspects of driving forces, supporting EU policies, the enlargement, migration, rural and urban development and regional disparities.

*Keywords:* regional development in Europe, scenario building, rural development.

### 1. Introduction

Scenario building is one of the most important instruments of long-term economic and regional planning, even at European level. With the help of scenarios one can explore the manoeuvring space of economic policies and make more conscious the choice of political action. It is especially important in the present period, when Europe is facing the fundamental issues of further enlargement, the requirements of the Lisbon agenda, to make Europe the most dynamic, competitive and knowledge base economy in the World and simultaneously it has to preserve the traditional European values of cohesion and solidarity. The scenarios described below, have been prepared for the ESPON programme of the European Union, where I participated as a member of a team working on scenarios of the future of the European regional development with special respect to the economic aspects.

For such huge, multifold and complex systems as the European economy, an infinite number of development scenarios can be outlined and described. The four scenarios described below are four of these infinite many possibilities. Nevertheless, they have some particular features. They are selected not randomly; they have a systemic relationship to each other:

- Their selection is based first of all on *economic* concepts, relationships and theories. It was, however, unavoidable to touch upon political, social and other issues of development as well, but the fundamental factors analyses and prognoses are of economic character.
- Their selection is based on practical experiences, which could be observed in Europe and in other parts of the World. Obviously, none of the four possible scenarios can be observed in the pure theoretical form, but there were periods and there are countries and regions in great number, whose development path can be identified – to a lesser or larger extent – with one of the scenarios described below.
- The scenarios are arranged along two axes, which represent two economic policy concepts that have perhaps the larger impact on the spatial development of Europe. These concepts are efficiency on the one hand, and equity and cohesion on the other.

These two axes are the principal determinant factors of the scenarios, therefore they need further explanation:

#### *Axis No. 1.: Equity and Cohesion*

In the last decades, economic, social and territorial cohesion policy became one of the most important policies of the European Union, representing about 36-38 percent of the Community's budget expenditures. There is no doubt, economic and social cohesion objectives of the EU played a very significant role in some countries' development. But beyond the policies and instruments of the EU, one has to consider policies with similar objectives in the member states. Though with different intensity and with different financial resources, member states also wanted to mitigate and reduce internal social, economic and territorial disparities in development and income. EU and national 'cohesion type' policies have played a decisive role in Europe's development in the last half century.

The formulation and implementation of equity considerations and cohesion policies were, however, always accompanied by criticisms and debates. Criticisms became louder especially in the last years. Cohesion policy has been made – by some experts – one of the scapegoats for not achieving the Lisbon objectives. The debates on the future of cohesion policy are related, on the one hand, to the future dimension and resources of these policies: what share of Community GNI should be spent for these purposes, what should be their share in the Community level budget? On the other hand, the orientation of cohesion policy is also debated: what should be supported? Should it be restricted to infrastructure, environment, education and culture – as many experts suggest – or should it be extended to the support of job-creating business enterprises as well? How large circle of countries and regions should benefit from cohesion measures? Should cohesion support be limited in time?

The horizontal axis of the system of coordinates represents the equity and cohesion dimension. But the place of a particular policy mix along this axis depends not only on the size of financial means available for cohesion and social equity purposes. It depends also on the importance, attached to these policies, on their being more targeted, concentrated and on their system of delivery.

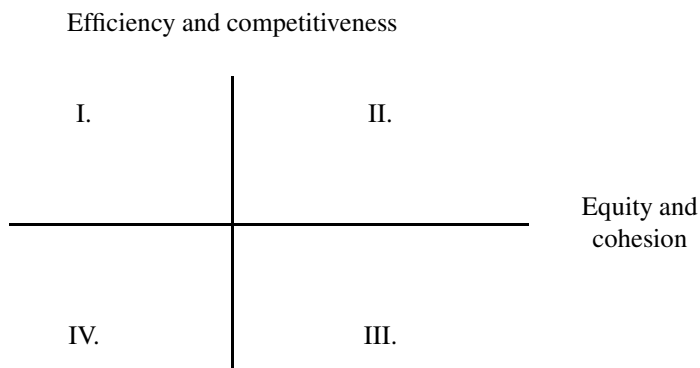
### *Axis No. 2.: Efficiency and Competitiveness*

The traditional equity-efficiency bipolarity is combined in this context with the concepts of cohesion on the one hand and competitiveness on the other. Indeed, competitiveness has become the key notion in the economic policy of recent times. It includes not only economic efficiency, but innovation, marketing, flexibility, structural change and risk management as well. Several recent studies demonstrated that Europe's lagging behind the US in GDP per capita is attributable less to productivity per working hour, rather to the lower working hours per person employed, to the lower employment level, to the lower level of innovation, to the smaller share of fixed capital accumulation, to the lower expenditure on R&D, to the small amount of venture capital, to high taxes and to the low level of labour and capital mobility. To achieve improvements in all these weaknesses needs substantial changes in microeconomic and macroeconomic policies, in the system of welfare services and in governance methods and practices. All these are included in the dimension of the vertical axis representing efficiency and competitiveness.

The four segments of the system of coordinates, divided by the axes, represent the four scenarios of European economic policy developments and their spatial impacts. The four segments represent: I. Higher efficiency and competitiveness – lower equity and cohesion; II. Higher efficiency and competitiveness – higher equity and cohesion respectively; III. Lower efficiency and competitiveness – higher equity and cohesion; and IV. Lower efficiency and competitiveness – lower equity and cohesion;

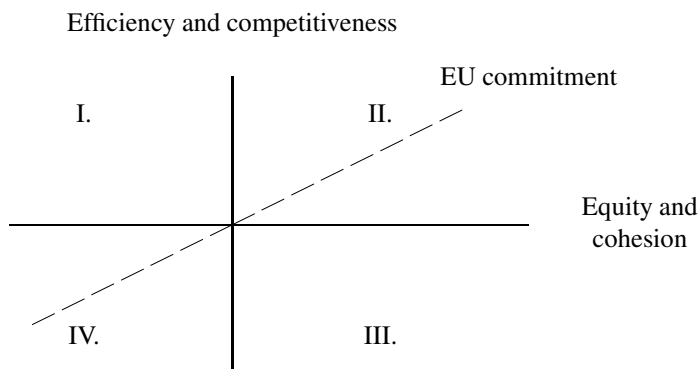
But the scenarios are much more complex than that: there are some developments and policy decisions attributed to the individual scenarios which cannot be placed unambiguously within the dimensions of equity and efficiency (enlargement, migration, some aspects of urban development etc.). The arrangement of these policies in the system happened rather on the basis of conceptual and 'ideological' affinity to the other elements of the scenario.

These scenarios are prospective policy scenarios, because they explore the impacts of changes in some important national and community policies. The dimensions of the axes represent rather the importance and priority of individual policies. Their measurement by exact quantitative indicators is rather difficult though we shall make efforts to quantify them. And they are – to a certain degree – holistic scenarios, because they comprise impacts on several aspects and spheres of economy and society, though impacts on other important spheres of life remain unexplored.



*Fig. 1.*

And – finally – there is a third – invisible – dimension of the system of coordinates. The main themes and distinctive features of the individual scenarios are different EU policies. Neither cohesion, nor efficiency and competitiveness policies and measures can be implemented without the active role and intervention of the European Union. Therefore, the third dimension is EU commitment, which is indispensable for the implementation of policies in both dimensions but – first of all – for their adequate combination.



*Fig. 2.*

The most important – general - features of the scenarios are as follows:

## 2. Scenario 1 – Best Foot Forward

### 2.1. Scenario Hypothesis

The basic hypothesis of this scenario is that efficiency considerations will gradually dominate European and national policies. Europe will consequently follow the objective of catching up with the US and the Far East in respect to competitiveness and growth. The rate of investment will be increased and investment will go mainly to the high-tech and competitive sectors of the economy. Institutions, regulations and policies which are regarded as obstacles of competitiveness and catching-up, will be revised and reforms serving growth and competitiveness will be implemented. Government expenditure will be restricted, what will have an impact on social, employment, environmental and cohesion policies. Simultaneously, business environment will be improved: corporate taxes will be reduced, new entries into the market will be facilitated, and excessive regulations (e.g. concerning employment) will be reduced. State aid will mainly support R&D and innovation. The obstacles of the mobility of capital and labour will be reduced, taxation will be harmonized in a relatively low level.

### 2.2. Driving Forces

The main driving force in this scenario is private entrepreneurship. In close connection with it, the second driving force is constituted by agglomeration economies and 'tacit knowledge' in the main centres of knowledge and innovation, utilized first of all by big transnational private enterprises. Simultaneously, these enterprises will outsource those activities which do not need to be located in these centres and can best utilize the cheaper production factors of more peripheral areas. The role of national government and EU will be primarily 'enabling' and facilitating the free movement of labour and capital. Economic growth will be the most dynamic in this scenario, having 'spread' and 'backwash' impacts simultaneously. The central area will exert substantial attraction force towards potential highly skilled migrants from the periphery inside and outside the EU. On the one hand, it will enable some transfer of income and knowledge to less developed areas, on the other hand, it will drain the most skilled and enterprising people from less developed areas threatening seriously their potential to catch up in development.

### 2.3. EU Policies

In this scenario, the potential of national governments to tax will be seriously restricted and this will have an impact on their willingness to contribute to the community budget. National contributions to the community budget will be reduced to 1 percent of GDP, or even below this level in longer term. The structure of the

expenditures will gradually, but in the long run substantially, change. The share of agriculture and cohesion policy will be substantially reduced, while the share of expenditures under the heading, what is now 'Competitiveness for growth and employment' would substantially increase. The share of R&D and of external policies would also increase and private sector R&D will be encouraged via tax credits. One of the main aims should be to make the Single Market more dynamic. It means better coordination between regulatory and competition policies to encourage market access for new entrants and to introduce a more pro-active policy to support labour mobility. These aims, however, will be implemented less by delegating more competences to the supranational institutions, rather by the commitments of member states to the fulfilling of some obligations and a more efficient and closer coordination of national policies.

#### *2.4. Enlargement*

Enlargement will progress most dynamically in this scenario. The West Balkans, Turkey and perhaps the Ukraine will be members already in the late 2010s and, perhaps, further countries will join the EU (Belarus, Moldova, some countries of the Caucasus, some Maghreb countries) in the 2020s. The main motives of enlargement will be to enlarge the market and political considerations: to ensure a stable political environment for the European economy. The heterogeneity of the European Union will further increase. Obviously, this huge enlargement cannot be implemented with the present institutional and financial system of the EU. Unavoidably, different 'levels' of membership will arise; several derogations will be applied to different enlargement 'waves', partly because the level of preparedness of the new members will be very different, partly because the 'absorption capacity' of the old ones is limited.

#### *2.5. Migration*

The institutional obstacles of migration within the EU will be removed and even efforts will be made to overcome the other obstacles of labour movement (in terms of the standardization and acceptance of diplomas, overcoming the language barrier, etc). Consequently a relatively large flow of migrants will arrive to the core areas of Europe. This migration flows, however, will be substantially different from those of the 1960s and 1970s (unskilled or low skilled guest workers from the Mediterranean, Maghreb, and Turkey) and also from those of the 1980s and 1990s (asylum seekers from the poorest and war-ridden countries of the world). A large part of the new immigrants will consist of highly skilled, professional people. The knowledge based economy, aimed at in Europe, will require in ever increasing numbers this type of labour force. This demand will increase at a higher rate than the educational system and the number and learning capacity of the new generations will be able to satisfy it.

The present composition of immigrants is still different from the type what was described above. They are – in most countries – less skilled and in higher proportion unemployed than the native population. Nevertheless, if, on the one hand, welfare systems will be reformed, and, on the other hand, European development aid to third countries will be more effective, these measures will – hopefully – generate other type of migration movements than the present ones.

### *2.6. Rural Development*

Agriculture will enjoy in this scenario significantly less support and protection than at present. The share of CAP in the community budget will be substantially reduced. Consequently, rural areas will undergo a fundamental transformation. Agricultural production activity will be concentrated to those farms and those areas, where competitive production can be practised. These are mostly larger farms where the geographic, soil, climatic and hydrological endowments are favourable for agriculture and where markets are easily accessible. In other areas, full-time agricultural production activity will be radically reduced, even abandoned, the land will be used – in favourable cases – for environmental, recreational, and other non-agricultural purposes. The two types of land use will be separated not only at micro level but sometimes at regional level as well. It means that in some regions rural employment opportunities will be radically reduced. This will occur, first of all, in the new member states of Central and South-Eastern Europe (the present share of agricultural employment is 20–30 percent in Romania and Poland) but also in some Mediterranean countries. These people will look for new employment first of all in the urban centres of their own countries, but also in the European core area. The overall decrease in rural population will be substantially less, because many urban residents will move to live in rural areas near the urban centres, in order to enjoy a more pleasant and healthy environment.

### *2.7. Urban Development*

Urban development in this scenario will be concentrated in the European core area, but not necessarily within the administrative borders of the big cities, rather in the Potential Urban Strategic Horizon (PUSH) areas defined in the project ESPON 1.1.1. These are the surrounding areas of urban centres within reach of 45 minutes by car from the centre. It is most probable that new high-tech jobs will be located not in the core cities but also in these surrounding areas where their most important resource and production factor, the professional and highly skilled labour force is most easily available. Consequently, the fate of the core of cities will depend much less on industry and much more on other factors, like their role as service centre, their tourism attraction, etc.

In the new member states and other peripheral areas the future development

trend of the urban system is less incalculable in this scenario. The reason of this is that they will be highly dependent on the outsourcing activity of transnational enterprises and less dependent on endogenous factors. If their main investment motive and location factor continues to be cheap labour, then transnational enterprises have to look for more and more peripheral and smaller places where this type of labour force is still available. This would result a highly decentralized, but unstructured pattern. If they would increasingly utilize the higher educated and skilled labour force of these countries then it would result in the same type of urban structure as in the more developed countries, obviously on a more modest level.

### *2.8. Regional Disparities*

This is the scenario, where regional disparities are expected to increase both among and within countries. Economic disparities are expected to increase among countries because knowledge-based and research-intensive activities would generate the highest income and these activities are expected to increase faster in the core area, where resources for research and innovation are most available. Paradoxically, intensive outsourcing of activities to less developed areas would not reduce but rather increase disparities, because it enables to use labour force in the core area for more productive, profitable and income-generating activities.

The concentration of economic activities are expected to increase also within countries, because knowledge-based and innovative economy will emerge first in some poles where geographic proximity and ‘tacit knowledge’ (transferable only by direct, personal contact and experience) is enhancing and reinforcing innovative behaviour and competitiveness. In the new member states, where FDI is – and will remain for a while – the principal factor of growth, the increase of disparities, as a result of the very selective location of FDI, will be even marked. The reduced level of structural and cohesion support will be certainly not enough to countervail the impact of market forces.

Fortunately, overall economic growth is expected to be the highest in this scenario. Consequently, increasing disparities do not mean necessarily the stagnation or decline of relatively lagging behind regions. It can mean actually a growth rate which is less than the average. But certainly, there will be regions, where absolute decline will occur.

## **3. Scenario 2 – The ‘European Tigers’**

### *3.1. The Scenario Hypothesis*

This is a positive scenario for Europe’s future. It is assumed that a mixture of policies can be established both at supranational and national (and regional) level, which combines the traditional, but reformed systems and values of Europe with



the institutions, regulations and practices applied in other, more dynamic parts of the world. It assumes also that a more differentiated approach will be applied to countries and regions which are in quite different situations. It assumes finally that external conditions will be favourable, or at least not unfavourable, and enabling to implement the reform of the European Union.

### *3.2. Driving Forces*

Driving forces of this scenario are economic and business organizations and governments of the member states. Economic organizations (enterprises) will apply business strategies suitable to enhance competitiveness and innovation. Governments and politicians of member states, inspired by their responsibility for the future of Europe, will implement those changes in the institutions, laws and regulations on national and supranational level which are necessary to set the European economy on a new development path, without losing the specific European achievements and social traditions.

### *3.3. EU Policies*

With the subsequent enlargements the European Union became more heterogeneous. Heterogeneity is, without doubt, a difficulty and a threat for community governance, but simultaneously it is an opportunity as well. The European Union has to apply a more differentiated approach to countries and regions being in very different situations and on rather different development levels. Differentiated approach does not necessarily contradict to integration, in specific situations it can even facilitate and promote integration.

The new member states of the Union offer a suitable ground for experiments with new policies and new methods of government. They have not yet deeply rooted practices in dealing with European affairs; they have not yet long ago acquired and anxiously guarded rights. Experimentation with new methods in the new member states has not been a foreign idea to the European Commission even so far. For example, the early intention concerning the EAGGF was that the Guarantee section would be larger than the Guidance section by a ratio of two or three to one, but, in practice, this has never been even remotely approached, and the Guidance section hovered somewhere in the region of only 8–10 percent of total EAGGF expenditure. The main reason for it was that member states have not always been enthusiastic supporters of EU agricultural structural policy – mainly because it usually involves contraction of the sector and/or bringing about changes to which agricultural interests are opposed. Now, in the new member states, the European Union applied a 50:50 proportion between Guarantee and Guidance sections immediately after accession. This proportion will bring about a much more rapid structural change in rural areas than what we could observe in the old member states.

This radical change in policies might have been motivated by the intention to pay less direct support to farmers in the new member countries. Nevertheless it can be, and in fact it has been applied also in other fields, with the intention of positive discrimination. (For example, the share of Cohesion Fund within structural instruments is 18 percent in the ‘old’ cohesion countries and 30–34 percent in the new ones. Or, Structural Funds in old member states are ‘regionalized’, in the new member states they are not). There are many ways to restructure European agricultural, social, R&D, cohesion and structural funds in order to promote stronger structural change and growth. These changes can be applied first in the new member states, and if they work well there, they can be extended to the whole territory of the EU.<sup>1</sup>

The economies of the new member states – and those of the ‘old’ cohesion countries as well – are now growing faster than the EU average. Obviously, their economic weight is not sufficient to give a momentum to the overall growth of the EU, nevertheless, theirs can be a valuable contribution to the dynamics and to the more balanced spatial structure of the EU beyond their proper weight, if managed properly. That is one of the main elements of this scenario.

### 3.4. *Enlargement*

Enlargement is a dynamic process also in this scenario. Nevertheless, this process is not exclusively guided by market expansion and political control considerations, as in the first scenario. The deepening of integration is as important aspect of the process as widening of the EU. Therefore, the enlargement process is subject to reasonable limits, set by political, social and economic absorption capacity. The present candidate countries (Bulgaria, Romania, Croatia and perhaps Turkey) will join the community but further enlargement is not to be expected within the time horizon of the scenario.

The policy approach toward individual member states or groups of member states will be differentiated, but – in contrast to the first scenario – this differentiation will not represent a kind of hierarchy or ‘degree’ of membership. It will reflect the different position, and situation of member states. As described in the previous paragraph, pioneering role can be played times by the old, developed member states, but times also by the new members.

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<sup>1</sup>There are examples already also for this practice. The so called simplified method of calculating agricultural direct support – irrespectively of the type of land use and of the species of plants produced and animals kept – has been introduced in the new member states in 2004. From 2007, this method will be extended to the old member states as well.

### 3.5. Migration

Migration will be a rather large-scale and dynamic process in this scenario, but not so unidirectional than in the first scenario. For many of the new migrants, the destination of the migration will be the new growth centres outside the Pentagon area (described in the 'Urban development' paragraph below). This migration will be even more intensive than that to the traditional destinations, because, in these areas, more people will be affected by rural structural change. As a result, the Pentagon area will be partly relieved from a part of the migration pressure.

### 3.6. Rural Development

EAGGF allocations to countries and regions will not dramatically decrease (their sum will remain unchanged) but within that sum the share of Guidance section will increase substantially, first in the new member states then in all countries in the EU. That means that radical structural changes will take place in the rural areas. Their accessibility will improve substantially. Structural Funds will support the generation of non-agricultural jobs and income opportunities in these areas. In the new member states, small villages will establish microregional co-operation for employment generation. Before 1989, a large part of income and employment in rural areas was generated through non-agricultural activities of agricultural co-operatives (mostly supplying services for large enterprises). After the political and economic change this source of employment and income disappeared. The acquired skills and infrastructure are still there and can be re-utilized, certainly in other organizational and ownership forms than in the past. These measures are indispensable in countries where the share of agricultural employment is still very high.

### 3.7. Urban Development

The name of the scenario 'European Tigers' refers to the emerging growth pole system outside the Pentagon in the European Union. According to the philosophy of this scenario, policentricity (decentralized concentration) at European level can be best achieved by fostering the development of these poles.

The experience of the last years seems to confirm the viability of this strategy. The table below shows the share of capital regions in the increment of GDP in the Central and South-Eastern European candidate countries in the period between 1995 and 2001. In Romania and Bulgaria this share is more than 100 percent, because in all other regions GDP had declined. In the Czech Republic and Hungary capital regions have produced about two third of the increment of GDP. Even in Poland and Slovakia, where development was more balanced, capital regions produced more

than one third of the increment which is much higher than the respective regions' share in population.

*Table 1.* The share of capital regions in the increment of GDP in the candidate countries 1995–2001

Country	Capital region	The share of capital regions in the increment of GDP
Bulgaria	Yugozapaden	151 %
Czech Republic	Praha	65 %
Hungary	Közép-Magyarország	58%
Poland	Mazowieckie	35 %
Romania	Bucuresti	278 %
Slovakia	Bratislavsky	38%

Source: CEC: The Third Report on Economic and Social Cohesion. Statistical Annex. Brussels 2003

*Table 2.* The change of the relative development level of capital cities and capital regions in the EU, 1995–2000

Country	Capital city or region	Per capita GDP as a percentage of EU15 average		
		1995	2000	Change
SVE	Stockholm	129.6	147	+17.4
CZ	Praha	114	121	+ 7
ESP	Madrid	102.9	110	+ 7.1
HU	Budapest	82.4	100.9	+18.5
SK	Bratislava	91.5	97.9	+ 6.4
RO	Bucuresti	38.1	48.1	+10
GR	Attiki	75.7	77.1	+ 1.4
PT	Lisboa e Vale do Tejo	90.7	90.9	+ 0.2
FINN	Uusimaa	128.8	143.2	+14.4
HU	Közép-Magyarország	65.7	75.6	+ 9.9
PL	Mazowieckie	42.7	58.9	+16.2

Source: CEC, Second Progress Report on Economic and Social Cohesion. 2003

But this phenomenon is not unique to the new member states. Practically all capital regions have increased their relative levels of development (compared to EU

average) in the Northern, Southern and Eastern periphery: Stockholm, Helsinki, Budapest, Bucharest and Warsaw with more than 10 percentage points. Beside capital regions, there are a few other regions outside the Pentagon which can fulfil the growth pole function.

This means that without these regions the ‘catching-up’ process in these countries could not take place, these regions and cities are actually the ‘carriers of growth’ in the relevant areas. It is a fact that cannot be disregarded. It is assumed in this scenario that EU policy will build upon this process as a very important factor of European cohesion policy and, simultaneously, factor of European growth and competitiveness. Additionally, this development process will largely contribute to a more polycentric structure of European space and urban network.

### *3.8. Regional Disparities*

Growth poles and gateway cities, outside the Pentagon, are ‘carriers of growth’ in these countries and areas. As a result, these countries will catch-up with the more developed countries of the EU. Simultaneously, disparities within these countries will increase (as it has been experienced in the last one and half decade), since the large part of national GDP increment will be born by these leading regions. Economic disparities among countries in the European Union will decrease, while disparities within countries – especially within the less developed, peripheral countries will increase. These increasing disparities can be regarded as of transitional, provisional character. Filtering down and ‘spread’ and ‘pull’ effects sooner or later will have their impact upon the growth of the other regions of the respective countries, though this internal catching-up process might prove to be of rather long run character. Nevertheless, within countries there is always a budgetary redistribution process, so that poorer regions are beneficiaries of higher income generation in the growth poles even in the short run.

## **4. Scenario 3 – The Beaten Track**

### *4.1. The Scenario Hypothesis*

Relatively high equity and high level of social protection, but lower efficiency and – what is the consequence – lower growth rate in the last decades, than in other parts of the developed world, first of all in the United States and in the Far East: these are the characteristics of the European economy during the last decade. The basic hypothesis of this scenario is that the principal policy directions – on EU and national level – will not change fundamentally in the next decades. Obviously, this hypothesis does not exclude minor changes in the formulation of policy objectives and their implementation. The argument behind the hypothesis is that the existing

supranational, national, social, sectoral and professional interests and their representatives are in the position to block mutually any more radical rearrangement of institutions or redistribution of resources. Development will take place in the present framework. This framework is flexible and good enough for enabling the development of the European economy without major crises and shocks, but not adequate for switching it over to a substantially higher rate of growth.

#### *4.2. Driving Forces*

No specific and new driving force can be observed in this scenario. Obviously private capital and entrepreneurs will be interested in growth, expanding markets and business-friendly economic environment, and they will lobby for improving these conditions. But European institutions will continue to be dominated by intergovernmental decision-making in which business interests are only one factor of influence. Trade unions, farmers' unions, national, regional and local administrations, and - what is most important - voters' opinion are also factors to be considered. From this plethora of interests are emerging policy directions and decisions governing the member states and the Union, as a whole. But the endeavour to meet very different and sometimes contradictory requirements and expectations would result necessarily in partly contradictory and inconsistent decisions, measures and policies. These contradictions will weaken the effectiveness of these decisions and policies significantly. Examples for this case will be given in the next paragraphs.

#### *4.3. EU Policies*

With the subsequent waves of enlargement, the number and share of small and less developed countries has increased significantly in the European Union and so did their influence on European decision-making. Being net beneficiaries of Community budgetary allocations, their interest is to maintain the payments to the common budget on a possibly high level and to maintain a high share of cohesion and structural funds and - perhaps to a somewhat lesser extent - that of agricultural supports. It is probable therefore, that contributions to the common budget cannot be reduced to the extent that net contributors would like to see, nor can the share of structural, cohesion and agricultural supports. What can be perhaps achieved, it is the concentration of cohesion and structural supports to the least developed - mostly new - member states and their regions. In this respect, there is a kind of agreement between the largest net contributors and the poorer members. Cohesion and structural supports will be spent in the least developed and peripheral areas, where support is really needed, but its effectiveness and the capacity to absorb it efficiently is ambiguous.

On the other hand, old member states will succeed in achieving that the whole of cohesion support and the overwhelming majority of structural supports will be

spent on infrastructure, environmental improvements, human resource development and not on direct support to (medium and small) enterprises. By referring to the regulations of competition policy, the arguments in favour of these proportions can be strongly supported. Nevertheless, the fear of cheap labour's concurrence, reinforced by EU support, plays an important role in this endeavour of the old member countries.

Unfortunately, small and medium size enterprises did not exist in the new member countries before the political and economic change. All such businesses were established in the last fifteen years. They did not have the time to accumulate resources and therefore they need desperately capital support.

Experience has proved that the development of infrastructure and human resources, the improvement of the environment are necessary but not sufficient conditions for development and growth in these countries and regions. Technical and financial support is also required. There are several examples even in the old member states for the case that huge infrastructure and environmental investments did not yield the expected results in terms of income and employment generation (East Germany, Southern Italy, Spain, Greece).

The impact of harmonization of taxation will have similar impact. Harmonization in that case means not the lowering of tax levels in the 'overtaxing' countries, but the raising of tax levels in countries where the tax level has been low. Large and highly developed member countries want to avoid in this way the 'flight' of capital to these 'countries of low taxes'. Their argument is that these countries can afford to impose low taxes only because they are compensated by Structural Funds support for the loss of tax income. Nevertheless, for some countries it would be worthwhile even to lose some Structural Funds, if they could attract additional FDI into their countries to generate income and employment.

#### *4.4. Enlargement*

In this scenario, the main objective of the European Union is deepening the integration. More functions and tasks are delegated to the supranational institutions, but without the fundamental reform of these institutions and of decision-making (as it happened so far). Consequently, this deepening will be in contrast with the increasing heterogeneity of the community. The result will be to slow down the enlargement of the European Union. The present candidate countries (Bulgaria, Romania) will be – though perhaps with some delay – accessed to the EU, but further enlargement will be postponed for an indefinitely long period.

#### *4.5. Migration*

One of the main objectives of this scenario is to create employment and income for people in their native countries and regions. The large transfer of resources

– through EU cohesion, structural and agricultural policies – should serve this objective. But if the structure and regulation of these funds will be inadequate for creating more jobs and income, then the huge transfer of resources will not bring the expected results. Consequently, despite the huge resource transfer, disparities in employment level will not decrease substantially and the intention to migrate will be strong in many parts of the European Union. This migration movement will strongly contrast with the objectives of cohesion policy and will give rise again to some incomprehension and dissatisfaction both in the countries, regions of origin and in the countries of destination.

#### *4.6. Rural Development*

Support for agriculture will be the largest in this scenario, because contrasting interests will not enable to reform the CAP radically. Consequently, ‘stabilization and peace’ in rural areas will be purchased at the expense of other regions, cities and social groups of the population. But even this stabilization will be only partial. Together with CAP, also its important feature will be preserved, namely, that big farms and developed areas are its main beneficiaries. The development of rural areas will be, therefore, differentiated. Rural areas under favourable natural and economic circumstances will fare rather well, while rural areas and farms in unfavourable circumstances will remain among the lagging and problematic areas of the EU, ridden by unemployment and poverty.

#### *4.7. Urban Development*

One of the basic objectives of cohesion policy in the next programming period (2007–2013) is to improve the accessibility of services of general economic interest for every European citizen. This is the basic idea of urban development in this scenario. Cohesion and structural funds will be used to improve the provision with basic community services in all towns and cities, independently from their size and profile.

Consequently, the development of urban areas will be the most balanced in this scenario. Small towns will have the same chance to receive support for improving their infrastructure, as large ones. EU-level urban policies will have the most influence on actual developments in this scenario.

The reconstruction and revitalization of the central part of cities and towns will enjoy priority. EU cohesion and structural policies will not support extensive urban sprawl. The accessibility of basic services in every area will certainly slow down the excessive population concentration in large cities. Formulating it in ‘ESPON concepts’, the favourite urban formations in this scenario are FUAs and PUSH areas and less MEGAs and PIA areas.



However, the major driving force of the urban system is, undoubtedly, the economy, business and economic growth. It is the economy which creates the basic hierarchies and networks in the urban system. In absence of dynamic growth, no high level infrastructure and service provision can serve as substitute for the lack of growth poles, 'spread' and 'pull' effects.

#### *4.8. Regional Disparities*

It is the scenario, in which the disparities both among countries and within countries are supposed to decrease. EU cohesion and structural policies play an important role in these developments.

But this statement on decreasing disparities requires some qualifying additions:

- first: it refers first of all to infrastructure provision, to accessibility of services, to the quality of the environment, to welfare services and to the facilities and level of education and training. It refers less to the level of income and even less to the level of employment. In the last respect, disparities might even increase between countries and regions.
- second: the overall rate of economic growth remains relatively low in this scenario. Not so low, as in the 're-nationalization' scenario, but certainly low, compared to the expectations. Decreasing regional disparities are, therefore, partly due to the failure of breakthrough in the most developed, leading regions.

### **5. Scenario 4 – Balnibarbi for the Balnibarbians**

#### *5.1. The Scenario Hypothesis*

The name is borrowed from Jonathan Swift, otherwise the scenario has nothing to do with the country of the same name in Gulliver's Travels. The scenario occupies the lower left segment of the system of axes, characterized by low equity and low efficiency. The basic hypothesis of this scenario is that populist politicians and one part of the national elites would pursue alleged national interests in a way which would significantly weaken the cohesion and integration of the European Union. This political movement might be the result of some domestic economic and political difficulties, for which politicians scapegoat the EU, the enlargement, the widening or the deepening of the EU. One reason for this change in policies can be the short term disappointment and frustration with the results and impacts of enlargement either in the old or in the new member states or in both. National governments do not comply with their commitments to European policy objectives and regulations. Obstacles of free movement of labour would be maintained, the period of derogations would be extended. The regulations of EU competition policy

will be more frequently evaded. This is the reason why the advantages of integration can be less and less exploited and, simultaneously, the effectiveness of cohesion policy will be also reduced.

### *5.2. Driving Forces*

The driving force of this scenario is – like in the previous one – vested interest, private capital and profit interest, but not that of transnational enterprises but that of national ones. National elites claim – open or hidden – preferred treatment in public procurement procedures and in subsidy allocations. Trade Unions and Farmers' Unions and other professional organizations demonstrate against specific imports, against migrant labourer, outlets and shops of transnational enterprises. National political elites – in order to increase their votes – are making concessions to these claimants. Intertwining between economic and political elites can also occur, especially in the less developed member states. All this would limit the dynamics of the Single Market, slow down or even reverse the deepening of integration and through this limit overall employment, growth and cohesion.

### *5.3. EU Policies*

One common feature of this and the previous scenario is that the capacity and willingness of nations to contribute to the Community budget would be reduced. The centralized resources of the Union will be from the second half of the 2010s not more than 1 percent of the overall GDP of the Community, perhaps even less. The big difference from the previous scenario is that there will be no radical change in the structure of spending. Opposing interests do not enable a structural reform of EU expenditures and the reform of the decision-making system in the EU will be also delayed. Consequently, the EU and the EC should have to perform the same functions and tasks as previously, but only with more limited instruments, possibilities and competencies. The EU will not be in the position to exert – with its instruments and resources – a really significant impact on the developments in the member states, while – before the public – it will continue to share the responsibility for the developments in the individual member states.

### *5.4. Enlargement*

Enlargement of the Union will be slowed down or even stopped in this scenario, though the present candidate countries (Bulgaria, Romania and perhaps Croatia) even if with some delay, will join the EU. Even in the case of the member states, which already had joined the Union, derogations and restrictions will be extended. This obviously would give rise to dissatisfaction and frustration in the new member

states and, as a result, they will be especially prone to turn to populist and nationalist policies.

It is even more the case in the countries remaining outside of the Union. Populist politicians in several member states will call for referendums on the accession of individual countries and the probability of the NON vote in some member states is rather high. The excluded countries will react with anti-European sentiments, with massive social and environmental dumping and with the neglecting of the border control of illegal border traffic to the European Union. The main victims of such policies will be the respective countries themselves, nevertheless, they can inflict sensible losses also to member states, especially to those on the external EU border.

### *5.5. Migration*

One of the fundamental achievements of the European integration was the free movement of labour within the Union. It became subject of some restrictions and withdrawals during the last enlargement. Old member states have applied different derogations for different periods of time in this respect. It means that this policy has been partly 're-nationalized' in the recent period. Some horror scenarios of East-West migration frightened the public in Western member states. Politicians, facing in some countries high domestic unemployment, could not resist the popular pressure in this field.

The assumption behind this scenario is the continuation of this trend. Restrictions and derogations will be extended for longer periods of time. Meanwhile a radical ageing will take place in most EU member countries, and labour – especially highly skilled labour – will become bottleneck of economic growth and development. If politicians will realize this situation late, and – especially – if they will act to facilitate labour movement and migration only with substantial delay, then the only possibility will be to attract migrants from outside the EU. Namely, ageing and natural decrease of population will take place in most new members even more dramatically than in the old member countries.

### *5.6. Rural Development*

Changes in rural development will take place slower and in a different structure in this scenario than in the previous one.

Agriculture ('Management of the natural resources') will continue to be one of the largest expenditure item in the EU budget. The vested interest organizations of farmers and national politicians depending on rural voters will spoil any efforts to reform and restructure agricultural policy in the EU. Nevertheless, the overall relative reduction of the EU budget will restrict the volume of agricultural support as well. If national governments would want to maintain the level of support to agriculture, then they will be forced to contribute from their own resources. CAP,

one of the entirely supranational policies of the EU will ‘degenerate’ to a mixed one. The first steps in this direction have been taken already during the last phase of enlargement, when new member countries were allowed to complement the direct EU support given to their farmers, and amounting to 25 percent of that of farmers in the old member states, with 30 percent from their own resources. In case of shrinking EU budget, it would certainly happen in old member states as well.

Nevertheless, in case of ‘re-nationalizing’ – partly or fully – agricultural subsidies, the competition in agriculture within the European Union will be transformed into a competition of agricultural subsidies, as it was the case already long ago outside the European Union. Rich countries can afford more to subsidize their farmers than poorer countries can do to theirs. Consequently, agricultural production, employment and land use will decrease much more rapidly in less developed member states than in the more developed ones. Furthermore, the extension of environment-friendly land use, the engaging rural people in non-surplus producing agricultural activities requires also support. In absence of this support land will be simply abandoned and exposed to different environmental hazards and to deterioration. In this scenario, the retreat of agriculture and agricultural land use will take place primarily in the less developed, poorer member countries, differentiating land use not according geography, soil and climate but according to the subsidizing capacity of the respective member states.

### *5.7. Urban Development*

The development of the urban system will take place in this scenario mostly within national boundaries, especially in the less developed member states. Cities in border regions continue to be in peripheral and disadvantageous position, since, at present, the trade between regions within the same country is about 80 times more intense than is trade between two regions which are in two different countries, and this situation in this scenario will not change substantially in the future..

It would follow from narrowing down urban system development into the national context that capital cities of the countries would be in an outstanding position. They would remain the centres of national power, wealth and control. Nevertheless, this scenario is unfavourable even for capital cities of smaller and less developed countries. Their functions will reach only as far as the national borders. They will not be in the position to assume and fulfil European, even transnational central functions. They cannot be integrated fully in the network of European or World metropolises, from European point of view they remain ‘provincial’ cities.

Because of the restricted mobility of foreign capital and the increasing economic role of national governments, administrative function of cities remains one of the most important factors determining the fate of individual cities. Administrative centres will be in a more privileged position, because resource allocation will depend to a significant extent from national and regional governments. These medium size administrative centres will be the main beneficiaries of this scenario

while the position of both large metropolises and smaller cities will be unfavourable, compared to other scenarios.

### 5.8. Regional Disparities

Re-nationalization and national isolationism is, obviously, most harmful for small, less developed countries, even if they are frequently most afraid of the ‘big countries’ imperialism’. Their market is small; their most important driving force is the assimilation of existing technology and organizational practices of larger countries. Consequently, economic development disparities will increase in the ‘re-nationalization’ scenario, to the disadvantage of smaller and less developed countries.

Simultaneously, disparities within countries might decrease for two reasons. First, leading regions cannot fulfil the breakthrough in the absence of intensive inflow of capital, knowledge and innovation. Secondly, lagging behind regions and agricultural regions will be more ‘protected’ from European and worldwide competition through national subsidization and bailout of languid enterprises owned by the state and/or managed by the national elites. In sum, overall economic growth is the smaller in this scenario.

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