

# The regional effects of the economic crisis in Europe

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Recently, the disparities among countries have increased significantly in the EU-15, due to the difficulties of the Eurozone periphery countries, but also disparities within the countries have followed the same pattern. Fiscal consolidation policies have been harsher in less developed regions, so increasing internal disparities among regions (and citizens). Recent Italian data clearly show that tax increases and expenditure cuts were both, simultaneously, stronger in the Italian Mezzogiorno than in the rest of the country, inducing a worse performance of this area in terms of GDP per capita and employment.

The current recession is producing heterogeneous negative effects not only among the Member States of the European Union (EU), but also among social groups and regions. As well documented, the crisis is having a heterogeneous impact within European societies, hitting the young more than the old and increasing income disparities among individuals and families in several countries. However, there is another surprisingly less debated, but not less relevant aspect of the crisis: the increase in income disparities among European regions. As already noted in the Sixth Cohesion Report, in the EU-28 the pattern of (weak) regional convergence during the years 2000-2007 disappeared in the subsequent period. The Figure 1.1 of the Report (see below) clearly indicates that the convergence in GDP per capita among European regions stopped in 2009 and in the subsequent years, while already from 2007 onwards the employment rate marked a strong increase in divergence.

As shown in Table 1, between 2001 and 2007 the disparities within countries in terms of GDP per capita were stable, while disparities among countries decreased in the EU-12 and were constant in the EU-15. Between 2007 and 2011, the picture

changes: disparities among countries increase significantly in the EU-15, due to the difficulties of the Eurozone periphery countries, but also disparities within the countries follow the same pattern. Table 1. Disparities in Europe (coefficient of variation of per capita GDP)

Source: Svimez (2014) Let us concentrate the analysis on the EU-15. Using employment rates, we can analyse a longer period, up to 2013. The data, which refer to selected, large EU-15 countries, show that there was a remarkable increase in regional disparities within some of them: the peripheral countries. The coefficient of variation of the employment rate, between 2008 and 2013, increased substantially in Greece, Spain, Italy and Portugal, to a lesser extent in Austria and Belgium, while remaining constant in other EU-15 Member States (Table 2). This means that citizens of the relatively poorer regions of the EU-15 periphery were the most affected by the crisis. Table 2. Coefficient of variation of employment rates (15-64) across regions within countries (NUTS 2 level)

Source: authors' elaborations on Eurostat data Why did this happen? On the one hand, it can be due to the structure of their economies. Indeed, the less developed regions were struck more by the fall of domestic demand started in 2011 because of their productive specialization: mainly, construction and non-tradable service sector, and because of the presence of a higher number of less innovation-intensive small firms. On the other hand, it may be due to the effects of the austerity policies too. This second hypothesis seems to be plausible. Fiscal consolidation policies have been harsher in less developed regions, so increasing internal disparities among regions (and citizens). Recent Italian data clearly show that tax increases and expenditure cuts were both, simultaneously, stronger in the Italian Mezzogiorno than in the rest of the country, inducing a worse performance of this area in terms of GDP per capita and employment (Banca d'Italia 2014). The overall territorial effect of fiscal policies in countries with large internal income disparities, such as Italy (but also Germany or Spain) can be measured by the difference between the total public expenditure in a region and the taxes raised in the same region. For poorer

regions the difference is positive: the public expenditures for providing an adequate level of public services, such as health and education, are comparable in similar regions regardless of their fiscal capacity; while tax revenues are relatively smaller (compared to national average) because of lower incomes. Indeed, in the first decade of the century, the eight less developed regions of the Mezzogiorno had a fiscal positive difference of around 56 billion euros each year, stable over time. For 2012, instead, the Banca d'Italia's estimates indicate that the fiscal difference went down to 44 billion euros. This reduction was caused by the austerity policies. Local and regional taxes increased because of fiscal consolidation, but they increased much more in the Mezzogiorno than in the rest of the country. According to the Italian Corte dei Conti a sort of distortionary rule, whereby the territories with lower average incomes, which are economies in trouble, are penalized by a higher local tax burden.

As a result, today, in Italy, the total tax/income rate is very similar among different regions, notwithstanding very large income differentials; the progressivity of tax policies disappeared.

Moreover, public expenditures decreased more in the Mezzogiorno than in the other areas of Italy. This reduction has been the results of two elements. First, it is a matter of composition of public expenditures: public investments declined substantially more than average public expenditure and their role is larger in less developed regions; on the contrary, public pension expenditures were cut much less and their share of total expenditures is smaller in less developed regions, due to lower level of employment in the past. Second, it is a matter of policy choices: health and education expenditures decreased significantly in the whole country, but much more in the Southern regions, due to changes in the rules governing the organization of public services.

Notwithstanding cohesion policies, income gaps within important EU member states are increasing, due to austerity policies. The goal of territorial cohesion, one of the pillars of the EU, is further away.