

The sudden inflow of EU funds can be a great burden for Romania's regions, says **Sorin Ioniță**

HOW TO AVOID THE "MEZZOGIORNO SYNDROME"

As a new EU member, Romania as a whole has still a chance to avoid becoming one of "Europe's Sicilies", trapped in a developmental dead end. Nevertheless, inside Romania there are already areas threatened by the immobility-cum-dependency syndrome so familiar to those who visited Southern Europe.

Annoyed by the usually long and inconclusive discussions about patterns of regional development in EU and their causes, a participant in the 2006 congress of the Regional Studies Association stood up, asked for silence and aired a very personal opinion. Thus, according to him, what we see today when we travel across Europe is very hard to explain with econometric and spatial models, but much easier to understand if we watch the Italian neorealist movies of the '40-'50s. The EU commissioner for regional policy, Danuta Hübner, who was present there, was a bit reluctant to agree, which is understandable: it is part of her job description to be optimistic about the transformative capacity of policies. But this example serves as a vivid illustration of painful reality: the notion of *path dependency*, i.e. a vicious circle in which past under-development creates conditions for its own perpetuation. From that point on, as if spelling out this unspoken intuition present in everyone's head had lifted some mental floodgates, the discussion broke up on spontaneous groups, and everybody started to explore the issue: "how many Sicilies do we actually have in Europe today?"

To be more accurate, we should ask ourselves "how many *Mezzogiorno*-s are there", because this stubborn pattern of



under-development is a feature of larger regions, like the whole Southern Italy, not just the island's. Some found two: the Italian one and Eastern Germany after unification. Predictably, others added in smaller tracts of Portugal, Spain and Greece. East Europeans were quick to point out that, depending on the threshold used for analysis, one could as well include almost all of the New Member States; or, alternatively, at least the Eastern halves of Poland and Slovakia, plus the area East of Middle Danube (historically, outside the old Roman *limes*). However, an even more interesting challenge arises here: to identify how many such regions actually exist *within* each country. This means sub-national territorial units that are not only poorer on average, but were also poorer in the past, and where public intervention, by the national state or the EU, only managed to generate "cathedrals in the desert", as they came to be known in East Germany or, before that, in Southern Europe.

This matter is crucial, since the "Mezzogiorno syndrome" is not only about being below a certain threshold (for example, the 75% GDP per capita of the Union's average, set by the Commission for eligibility for Cohesion funds at NUTS II level). It is much more than this: a resilient situation of dependency, rooted in both the economic base and social structure of communities. Here, when assistance funds flow in from the outside, the prices and demand for services respond normally, i.e. they go up. However, the local supply being very limited and rigid, for various historic and cultural reasons, the inputs have to be provided also from outside, and thus the dependency of the whole area increases. When a modern factory is built here, specialized labor has to be shipped in from elsewhere at high costs, because locally this resource is scarce. When a new highway finally arrives, it doesn't bring in much development; on the contrary, locals use the easier access to flee away, and the younger and more mobile are the first to do so, leaving the home region worse off.

As a new EU member, Romania as a whole has indeed a chance to avoid becoming one of "Europe's Sicilies", trapped in a developmental dead end. Nevertheless, inside Romania there are areas threatened by the "Mezzogiorno syndrome". This

chapter aims to show that this is indeed the case, and to discuss how we should conceptualize the situation and the policies to address the problem, especially in the light of the substantial resources earmarked for Romania in the Structural and Rural Development Funds.

1. Regional development: policy or destiny?

In Romania the transition to market and democracy was more difficult and traumatic than in other CEE states, due to the secular legacy of under-development and the severe distortions inherited from a Communist regime which was more inept than the regional average. The attempts to distribute more or less evenly industries and wealth over the whole territory of the country, an explicit policy guided from Bucharest for many decades before 1990, led to perverse effects: over-investment in prestige projects and under-investment in basic infrastructure, maintenance and human capital; industrial *white elephants* – poorly planned and unsustainable projects, decided on purely political reasons; and, as a result, to the emergence of mono-industrial towns or micro-zones, relying on a single large company or industry branch for their whole socio-economic life, in the middle of an otherwise backward region. A complex network of cross-subsidies between industries and regions made it impossible to judge what was economically viable and what not.

Beneath the surface of this formal socialist economy paraded as modern and booming, the social structure of deep Romania has endured in many places more or less unaltered until today. First and foremost, the hard core of autarchic peasant households engaged in strip-farming survived – or, paradoxically, was even reinforced as a viable economic structure during the long decades national mismanagement and food shortages under Communism. This semi-survival, traditional agriculture on small plots was practiced by the members of agro cooperatives alongside – or at the expense of – the official state agriculture. But also by a large proportion of the new industrial workers, who were in fact semi-urbanized peasant commuters, more

attached to their land and garden than the factory that paid their nominal salaries. As a result, Romania has entered the EU in 2007 with an estimated number of 4.4 million agro exploitations ("farms"), out of which only about a third have registered so far for financial support under CAP. A good share of the rest are simply too small and under-capitalized, and therefore fall off the radar screen of any conceivable European policy. In fact, these are just aging rural dwellings completely insulated from the monetized economy. Their distribution across the eight Romanian development regions (NUTS II) is uneven, with higher proportions in the South and East of the country.

The economic restructuring with partial deindustrialization after 1990 was probably unavoidable, a stage in which some of these distortions and over-investments were eliminated, especially those present in the heavy industry. Without the conditionality from international financial institutions or the EU, things would have probably gone in the same direction, under the pressure of the open markets, only more slowly and hesitantly, with all the political slippages that usually accompany such a process in societies with a weak system of governance. Today, after seventeen years of transition and ten years of approaching the EU on fast forward, a number of conclusions are discernible regarding the relative potential of development in the Romanian regions. In a tentative summary of the factors that determine the wealth and dynamism of our regions, to be demonstrated with data in this chapter, one can say that:

- Old, historic disparities in development could not be erased by the massive efforts and investments, lasting decades, under Communism. The regime only managed to create an appearance of social homogeneity and some unsustainable economic insertions which disappeared as soon as the protecting glass case was removed.
- The divergence between regions after 1990, apparent especially during economic booms – the richest ones grow faster than the poor ones in good years, and decline less during recessions – is therefore to a large extent a reflection of the historical

patterns prevalent under Communism and even before.

- Apart from inherited development and its pre-requisites, additional factors influencing regional growth seem to be playing a role today: geographic location (the closer to the Western border, the better, but this overlaps by and large with the historical patterns anyway); and easy access (the cases of Bucharest, or the city-harbor of Constanța at the Black Sea; or other sub-regions that grow faster than their regional average).
- Demographics will matter increasingly in the future in a way that is completely new for Romania, reproducing trends that occurred after World War II in some parts of Western Europe. First, we share with most of the rest of the Union a general population decline. Second, this aging process is very pronounced in some parts of our rural society, especially in vast plains of Southern Romania, which will probably lead to depopulation and a complete change of the agro economy in a few decades. Economically such a process makes sense, but many social problems will have to be solved along the way, and may temporary palliatives will have to be applied to ease the pains of change at such a breakneck pace.

All these factors are exogenous to governance and lead to the pessimistic conclusion that, ultimately, the patterns of development in Romania are largely pre-determined. The same conclusion was drawn by researchers in other countries that more or less share Romania's problems, such as Poland¹. There are no traceable success stories of policy interventions that managed to change these patterns before 1990, and such success stories are even less likely to appear after the collapse of Communism, when the scope and instruments of social and economic intervention were substantially reduced. Currently there is a hope, shared by many decision-makers

¹ A very good overview in Gorzelak, 2006. "Poland's Regional Policy and Disparities in the Polish Space". *Regional and Local Studies Journal*, special annual issue, RSA-Polish section and Warsaw University.

and public administrators, to spread the development more evenly with the help of large infrastructure projects, financed mainly by the EU. However, such expectations should not be played up excessively: the theory of planting highways in backward regions in order to generate development leads to poor investment strategies in cost-benefit terms, and is in general honored more in rhetoric than in reality. What we observe on the ground is that, when infrastructure projects are successful, this is so because they are prioritized so as to serve economic activities where they already exist and are constrained by the insufficient transportation and utility networks.

This is a well-known problem going down to the core principles of the development theory: development as a phenomenon is complex and elusive, difficult to trigger top-down by government policies, even well-meaning ones. It resembles a living body easy to destroy but hard to regenerate from scratch. Creating a favorable environment for it is one thing the governments can do, and here we come to the orthodox package of competitiveness, functional bureaucracy, low corruption and stable institutions. But this, more often than not, should be a nation-wide strategy, not a region-specific one, and even in this respect, things are easier said than done. In Romania the general policy framework and the business environment are largely determined at the national level, so there is not much a mayor or county councilor from a poor region can currently do to push things in the right direction. (The converse is not true, however: they can do a lot of harm if they choose so; so a useful advice would be to avoid wrong-headed local policies that kill the little growth that is happening naturally in a specific community). All in all, development appears easier to tackle as an object of measurement and evaluation by analysts, than a policy target for decision makers.

On the other hand, working against this deterministic view, which says basically that markets should be left to play their role and effects will appear in due time, the truly historical novelty in our part of the world is the process of EU accession. There has never been in this region before such a

consistent and institutionalized foreign intervention, with technical, financial and political components, and with the declared aim of modernization and development. The *crescendo* of assistance in the last decade reaches a climax two or three years after a country becomes full member; in the case of Romania, around 2009-2010, with grants totaling up to 200 euro per capita annually, which as a percentage of GDP surpasses the level of assistance available to Western Europe after the war through the Marshall Plan. If there is something that can alter the old patterns of regional development, probably this is such a factor. Which does not mean that things will run on automatic pilot once a country joins the Union and money starts flowing in even larger quantities. For every Ireland which used the EU funds smartly, shaping itself up and becoming a modern country, there are counter-examples that did not, burying them in projects with low impact and reinforcing the closed traditional society.

Another important variable to be considered is the opening of the European borders for Romanian citizens in 2002. This was arguably one of the most significant changes for ordinary Romanians in the decade and a half of transition², with an impact still hard to quantify. The massive circulatory migration between Romania and Western Europe in the last four years has brought into the country more money than the official assistance through EU pre-accession instruments. Since the emigration pool is very diverse in terms of skills and community of origin, with the poor rural sector in Eastern part of Romania very well represented, the benefits from this migration are relatively evenly distributed by social category and region. In turn, this contributes to a more even geographic distribution of freshly-added resources, thus moderating after 2002 the general trend of regional divergence, triggered by the natural economic growth. On the other hand, the outflow of workers, reaching a peak in

² Or ever, as some argue: even before Communism, when borders were open, it was the intellectual and business elites who traveled abroad, and not so much ordinary people.

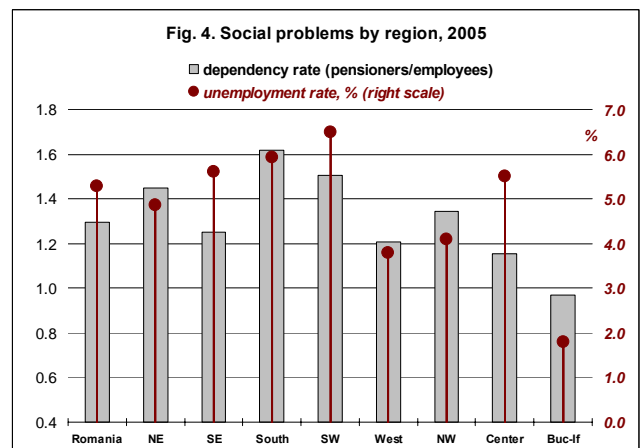
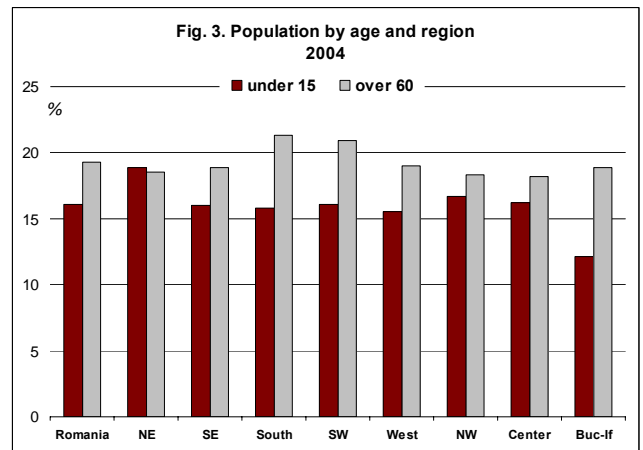
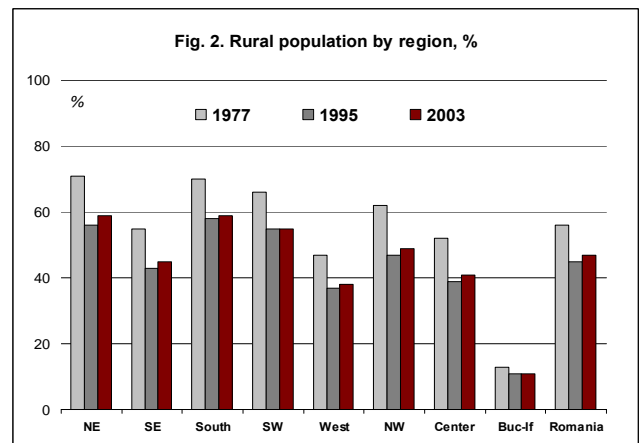
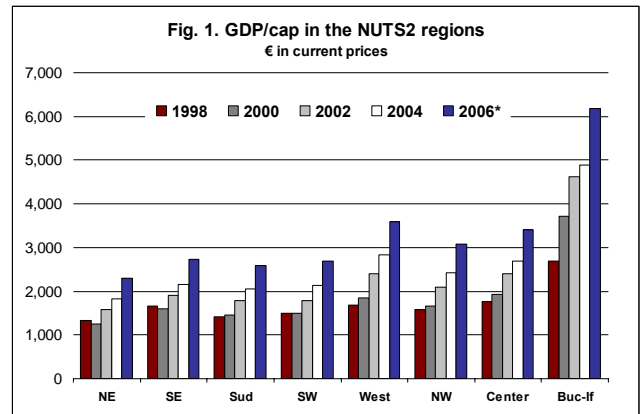
2003-2004, has created a very tight labor market inside Romania and, increasingly, severe labor shortages in some regions and professions.

2. Current trends

As already mentioned, GDP per capita has steadily risen in Romania in real terms since the EU accession negotiations begun, but unevenly across the eight development regions (Fig. 1). Region 8 (Bucharest-Ilfov, which has a special profile, comprising the capital city and its surrounding area) benefited most, followed by the Western parts of the country and Constanța county (at the Black Sea, which pushes up the average in South East). Since 1998 Region 8 has doubled its GDP/cap in Euro terms, which is remarkable: at PPP it is catching up rapidly with the Euro-wide average. Wages have followed the same trend, though less pronounced: salaries in NW and the Central region are not as high as the GDP level in these parts would predict, and this gap may be explained in many ways, from the concentration of the declining state mining sector in SW, to the variable share of the underground economy across regions.

Demographics reflect the changing socio-economic conditions in Romania during transition. There is a general decline of population, which is nothing new, due to the falling birthrate and emigration. The last factor plays an uncertain role in the long term, however: a large part of those who left to work in the EU will return, as their heavy investments in land and houses back home predict, and so the effect will be temporary; but if many of them settle down for good in Western Europe, statistics will register a substantial one-off drop in population in the early years of the decade. In any case, data show that:

- The poorer North and East are more affected currently by the outflow of people, these being areas of highest external and internal emigration;
- There was a reverse in the general, historical trend in urbanization during the transition, especially between 1994-2000, as many urban dwellers moved (back) to villages (Fig. 2). This was part of a subsistence strategy of blue collar workers confronted with

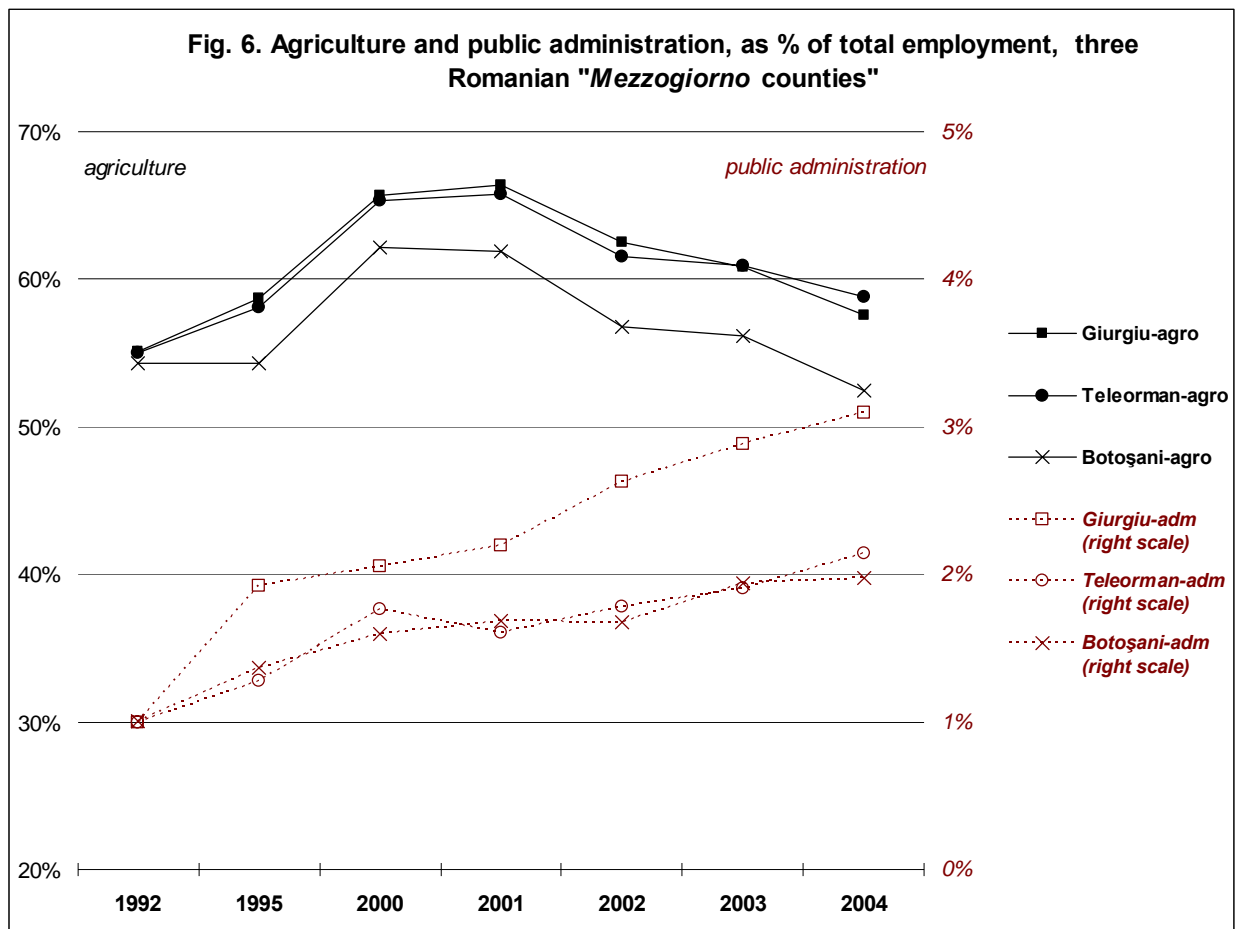


massive industrial restructuring. Things look as if the forced urbanization under Communism led to a backlash immediately after the regime collapsed. This stage is probably over by now and the long-term urbanization trend has resumed lately.

The population aging is obvious especially in the rural South and South West, where it is close to the European average (Fig. 3). Since the younger people still around in these villages and small towns are strongly attracted by the adjacent Region 8 (primarily by the city of Bucharest), a gradual depopulation of these areas is likely to take place in the future. Which, economically, makes sense: the consolidation of land and agro economic activities is a must, especially in the Romanian Plain, where the current pattern of strip farming on small plots cannot endure for long. But the changes will be accompanied by social problems which require vision, determination and resources to be tackled. The policy of life annuities for old peasants in exchange for land

recently announced by the Ministry of Agriculture and agreed with the EU Commission may address this problem if properly implemented, but on the other hand it has the potential to accelerate the uprooting of traditional communities.

Unsurprisingly, the differential in aging trends is also reflected in the social dependency rate, which varies by region. Again, the southern parts are on top at the pensioners / employee ratio (Fig. 4). Demographics and industrial decline have contributed to this, as the successive Romanian governments have been happy to camouflage the under-employment of people with low qualifications through early retirement and migration to villages. The absolute level of unemployment is quite low for a country supposed to be undergoing massive economic and labor reallocations (Fig. 4), but this numbers do not account for the fact that many individuals of working age are under-employed subsistence "farmers", keeping themselves busy by scratching the land on their tiny plots and gardens.

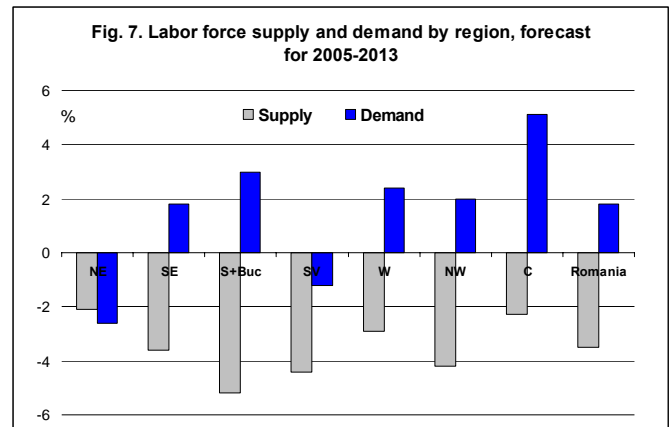


The future does not look much rosier, for the current distribution of labor by sectors (Fig. 5) and the stock of human capital are not favorable to sustained development. Actually, the whole Romania should look more like Region 8 in order to come closer to the EU occupation structure. But this will not happen soon, due to social rigidities, which make difficult for older and unskilled people in villages to respond to market signals, and the relative high costs (financial and emotional) of relocation from one part of the country to another. In general, the decline of the occupation in agriculture after 2000, even in the least advanced counties, has not released labor for industry and services, but was most likely the effect of natural decline of population, emigration and a steep increase in occupation in the public administration (Fig. 6). In these "Romanian *Mezzogiorno* regions" it is possible that the EU assistance remain without the desired effect, as it is not clear if these communities have enough resources, energy and expertise in the private sector to use it effectively.

The effects of the international migration of people of active age, and the increased demand for workforce, especially in the Western regions of Romania and in Bucharest (Fig. 7) predict an ever tighter labor market in the future, with shortages in almost all skill and qualification groups³. Companies and the public sector are increasingly outbidding each other for good employees, or try to move the little manpower available from other parts into the Western regions or big cities. The chances are high that in a few years the tight labor market would have generalized at the country level, spreading into the poorer regions too. The upside of this situation may be the continuation of the current trend of development with low unemployment and rising salaries, which have already doubled in Euro between 2001 and 2005 as a national average (and maybe trebled if we account for the informal sector of the economy), pushing companies up on the added-value ladder and freeing human resources from labor-intensive industries. The downside is that

³ *Regional labor market supply: forecast 2013*, The National Research Institute for Labor and Social Protection, Bucharest, 2005.

the wave of development and economic modernization sweeping Romania from West to East looks poised to replace the old regional cleavages with a new one: urban-rural, where disparities are likely to grow fast especially in the relatively poorer Southern and Eastern parts, as cities and their immediate surroundings pick up with the rest of the country and leave the "deep rural Romania" behind.



3. Current patterns of development and the EU assistance

To summarize the complex dynamics of regional development in Romania, two broad determinants are discernible that have shaped the pace and direction of change over the last decade, and will probably continue to do so. As said, they reproduce well the historical lines of change and modernization, this being a process "*a la longue durée*" (Fig. 8).

- A. First, the *progressing wave model*, advancing from West to East at a pace of about 30-40 km per year. If we accept this simplified but highly visual description, take as the starting point the Austrian border, and the initial moment the late eighties, when Hungary launched its pro-market reforms, the sustained growth of the Western parts of Romania in the last years fits well this model of a progressing wave of development.
- B. Second, the *polycentric diffusion model of development*, where administrative modernization, economic diversity and opportunities, coupled with higher land price, spread around from a small number of cities

that have good access, are large enough to sustain a vibrant social life and therefore manage to attract and retain a critical mass of investors and professionals. In many ways, these cities are better linked with the network of global metropolises than with their immediate hinterland, especially when an international airport exists in their vicinity. For instance, in terms of "institutional distance", Timișoara and București are closer to Brussels than to Oravița or Caracal, respectively.

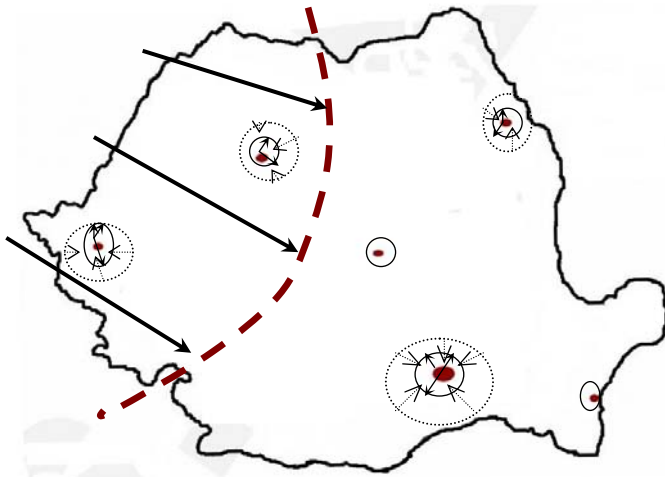


Fig. 8. The two vectors of regional development: the West-East tidal wave; and the opposing diffusion-draining effects of large cities

These two vectors of development may work in conjunction, but also cancel each other's effects sometimes. For example, better access through new transportation networks brought in by the progressing wave may paradoxically shorten the radius of development around development nuclei. Instead of diffusion, what we observe is a draining of resources by the large city from its hinterland, a phenomenon already noted elsewhere⁴. In the case of Bucharest, for instance, the development impetus is felt within a radius of about 20-25 km around the capital, and accurately reflected in the price of land, whereas the area within a 50-100 km radius is characterized by the draining of resources, which tend to concentrate into the regional center. Businesses relocate to benefit from the network effects of the capital, while better commuting allows

labor to travel from farther away. This kind of influence may well be temporary, but where it exists it is strongly felt and may take a long time to wear off. Bucharest, which resembles the above-mentioned Warsaw as a large metropolis in the middle of a relatively backward region, arguably creates the same kind of effect in the adjacent, relatively poor counties.

With the increase in the volume and complexity of EU assistance over the next seven years, the question arises what will be the impact of these large programs on the existing, "natural" patterns of regional development shown on Fig. 8. By tradition, the focus of the EU regional policy has been primarily the poorer regions, which were regarded as targets of redistributive efforts. This approach has been increasingly criticized in the last years for its inconsistent goals and equalitarian logic, based on the "anthropomorphic fallacy": if human individuals are regarded, following Kant, as goals in themselves, a vision that justifies a certain level of social redistribution at the expense of growth, in the same way the territorial administrative units of Europe (such as NUTS II) could be conceived as moral entities which must be "aided" and "lifted out of poverty" through redistribution. However, this parallel is dubious, precisely because too much focus on regions and their components can miss the more complex social dynamics of people, who may have their own goals and plans about how to accede to prosperity. And even with such a policy in place, critics say, there is no discernible reduction in regional disparities at the broader EU level, while in the countries where disparities have decreased, it is not clear to what extent this is directly attributable to the EU regional policy.

Most famously, the Sapir report commissioned by the Commission and published in 2003 has forcefully argued these points and made a strong case for increasing Europe's competitiveness. Another study, by economists at Ecofin Council, points to the same conclusion: that the twin goals of competitiveness and convergence pursued by the structural funds may be at odds with each other. Therefore, one can choose to pursue "cohesion", in a narrow sense, which is

⁴ Gorzelak, 2006, see footnote 1.

the one that prevails in practice; or, alternatively, it is possible to opt for maximizing total efficiency and growth, and accept some degree of inequality, as long as everybody is better off in absolute terms⁵. As the regional disparities in the new member states may continue to increase after accession, at least in some larger countries, balancing the two goals will become an increasingly political issue, influencing the discussion about decentralization and national development policies in general.

The Romanian government has set as its explicit goal to employ the six Sectoral Operational Programs (SOP) agreed with the EU in order to sustain the national development process and close the gap with the rest of the EU. In the same, they decided to use the seventh (Regional Operational Program, ROP) to reduce disparities between Romania's NUTS II regions. Thus, the authorities intend to trigger a two-tier push, transposing into national policy the EU-wide objective of convergence on many levels. Since the ROP makes up only about 14-15% of the total EU assistance in Romania, it would seem that the Romanian government has adopted the pro-growth scenario.

However, at a closer look this is far from certain. It is unlikely that this clear-cut and rational concept will be put in practice without numerous and tacit adjustments at the margins, which may finally alter it substantially. For example, even in SOPs a set of indicative allocation rules were included, mostly following pressures from below, that will guarantee that in a way or another each region – and, probably, county – will "get their share" of funds. This is just a local reflection of the current uneasiness and debates around the notion of "convergence" in EU circles: does it mean simply redistribution of resources with the aim to achieve equalization of inputs; or a more sophisticated meaning can be accepted ("functional cohesion"), which assumes that regions or sub-regions will continue to play different roles in the economy, with poles and peripheries, and this arrangement is acceptable as long as everyone is better-off tomorrow than today (the "raising wave" model)? We expect

⁵ Thus satisfying the condition for a Pareto improvement.

that this unsolved dilemma, never addressed explicitly in the national debate so far, will continue to haunt our politics and administration for a long time still.

If a clear commitment is not made for one or the other scenario, and the policy mix will result in hesitation and muddle, we expect a number of other institutional factors which are already present may in fact reinforce the existing development patterns, consolidating the trend of historical path-dependence described at the beginning:

- The main problems in running EU assistance at all levels are related to the actual implementation of individual projects. Poor project management and scarce expertise are recurrent themes of discussion. Consultants, engineers and architects are in short supply in many parts of the country, especially in the rural areas, and any project above €30,000 requires a certified expert. This is why project beneficiaries sometimes cut corners and try to do as much as possible with the few people available locally, and as a result run into problems of incompatibility and conflict of interest.
- Most public administrators in Romania still do not realize what project management means, and tend to focus exclusively on the calendar of physical works when preparing a project. They are not planning ahead properly for stages of the project such as the issuing of licenses and permits, repetition of tenders, legal problems with the contractor, dealing with utility providers, etc. This poor management results in delays, and this is more likely to happen in less developed and urbanized regions, where the pool of expertise in project management and consulting is scarce even in the private sector. In general, the New Public Management agenda – with cross-sectoral goals, performance indicators, strict deadlines, evaluation and feed back – will be a hard nut to crack in Romania, but especially in its "Mezzogiorno regions".
- Sustainability of the infrastructure projects may be an issue, but it is still too early to judge this in 2006. According to the SAPARD regulations,

for example, beneficiaries are checked on during the 5 years after completion of the project to determine if they are fulfilling the contract requirements for operating and maintaining the investment properly. There are signs that in a number of cases – especially roads – the cost and management of maintenance operations are a significant burden on poor rural local governments, so the investment gradually runs down. If such cases proliferate, they may indirectly affect the overall absorption rate in the long run, as the authorities will have to tighten the regulations for awarding project grants. Again, this is more likely than not to reinforce the current territorial wealth distribution.

- An easy way to increase the absorption rate on business promotion has been to set up business incubators and technology parks. About two dozen of these function in Romania currently, most of them developed with PHARE funds, and more proposals are likely to come in the next program cycles. However, even if they were implemented reasonably well from the point of view of the initial physical investment operations, their long-term effectiveness is questionable. Reportedly, only a few came anywhere near to covering their operational costs, the rest remaining practically empty after completion. Probably there is no coincidence that the few successful examples are located in the W and NW regions, or in large university centers, which confirms the dual direction of development mentioned at the beginning of this section. Those implanted outside the areas with the right economic and social conditions are unlikely to trigger growth, remaining proverbial cathedrals in the desert⁶.
- In general, in an institutional environment where the culture of evaluation is very weak, and the outside actors (consultancies, academia, NGOs) are not able or allowed to contribute much, the danger

is high that suboptimal programs will run for long periods of time without their effects being properly assessed, understood and corrections applied.

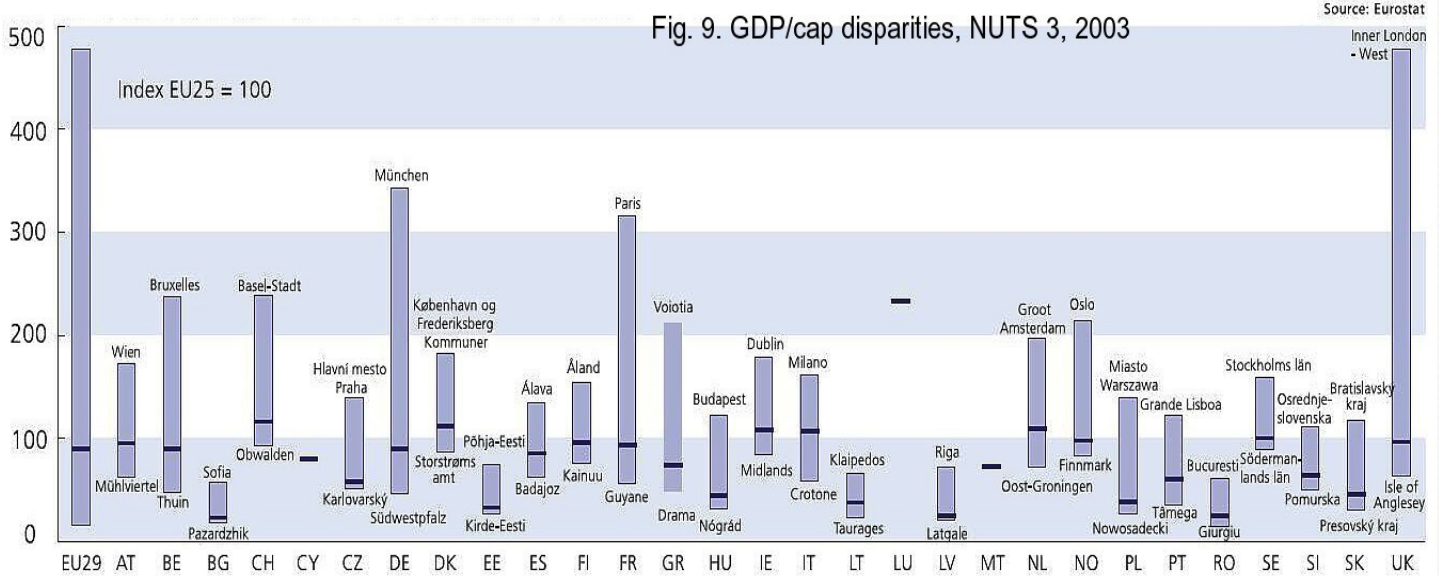
4. Conclusion: the danger of creating dependence

In view of all the above, an increasingly attractive option for the Romanian authorities during the budget cycle 2007-2013 is to consider efficiency the main goal, instead of the mechanical understanding of cohesion as equal distribution of funds in territory. There are two reasons why this strategy is better than the alternative, or a politically-motivated combination of them: first, in order to ensure an overall high rate of growth and modernization of the country; second, to avoid creating or perpetuating the "Mezzogiorno effect" in the Romanian sub-regions where there is already a predisposition towards it. Fig. 9 shows very clearly that regional disparities are not high in Romania when compared with other EU countries, so this strategy should not create disproportionate political concerns. Taking into account the experience of the countries that joined the EU recently, or indeed to the old EU members, we can anticipate that:

- Regions that already benefit from one or the other "natural" development drives in Fig. 8 have a competitive advantage, so their entrepreneurs will be able to function better on the single European market;
- They will also have a better capacity to use of EU funding more effectively. Important: this does not mean that honest efforts are not made by the Romanian authorities in "Mezzogiorno" to shape up their communities. On the contrary: currently there are no discernible variations in output performance (absorption rate) by region, while the stage of institutional preparation for Structural Funds (procedures, accreditation, etc) is relatively even across the country. What we mean here is that the final impact in society (outcome) over the long term is likely to be more pronounced in the other

⁶ Like a high-tech industrial park built in a mid-sized city in North-Eastern Romania, where there is no university center large enough to produce the necessary pool of specialists.

Fig. 9. GDP/cap disparities, NUTS 3, 2003



regions, at similar level of public effort to push up the absorption rates, simply because the productivity of the capital invested may be lower in the "Mezzogiorno" areas.

Although these forecasts should be treated for just what they are, i.e. simple predictions, the polarizing variant of the effects of EU assistance seems more probable than the equalizing one. The situation is, as we have already mentioned, rather common and acceptable, if the Pareto criterion is satisfied (everybody becomes better off in absolute terms). It can be found in many regions of the world, including Western Europe, where the gaps between the most and the least developed regions have also been growing. Still, what can governments and regional authorities do in order to support growth, beyond crossing their fingers and pray that one of the natural vectors of development will extend its influence in their parts? There are a number of Do-s and Don't-s learned from the international experience, which the Romanian authorities may want to consider.

- Sectoral development programs should not be split up by area and locality, in an attempt to provide equal shares to everyone. Public schemes aimed at increasing competitiveness should be focused where the growth is generated, and these sources of development are not evenly distributed in territory.

- Funds should not be excessively pumped into programs where the impact is hard to measure, but there is anecdotal evidence that effects are minimal. "Soft" and complex areas such as investment in the human resource or research should be approached with extreme care. Many safeguards should be put in place to ensure money is not thrown at inefficient institutions and sectors with limited output but strong rent-seeking habits.
- Authorities should not try to mimic elusive and poorly understood "models". The current high admiration, based on superficial analysis, for the "Irish model" should give way to a more informed assessment of why some countries benefited more than others from the EU accession. For example, how important were for Ireland the pre-existing good and competitive education system, the large English-speaking diaspora, the country's location, or the low-tax, balanced-budget policies pursued by the Dublin government, which were against – rather than in line with – the prevalent views in Brussels at that time. Arguably, these elements contributed as much to the country's spectacular growth after accession as the structural funds themselves. Apart from relentless growth-oriented policies, which would set Romania on a

collision course with the more socially-inclined old EU members, it is not clear what exactly can the country copy from the Irish model.

- Public policies should not fall prey to intellectual fads or lobby groups that push for this or that economic sector, because "this is the future". Among the 293 NUTS II regions of Europe, there is barely a single one which doesn't have among its top priorities a strategy to become an IT hub, to pioneer some sort of e-government and promote tourism (classic, cultural, agro, eco, etc) in order to capitalize on its "unique beauties and strategic location". In reality, it is very difficult to predict what the future is going to bring in terms of comparative advantages. The public authorities can only speed up growth and modernization if they encourage consistently: (i) the most efficient economic activities, with neutral policies, and (ii) good fundamental and applied research, where the latter is measured by the accepted international standards of the profession.
- In regional policy – as it is happening in industrial strategies where a sector is promoted aggressively – the authorities face an old dilemma: picking champions is not cost-free. Giving preference to one sector is done at the expense of the others, and preferential treatment in one region or sub-area may lead to problems in other parts.
- An important priority should be to remove whatever administrative barriers may still exist against the integration of the major Romanian cities into the international and regional networks. The recent scandal around the road transit taxes at Romania's borders with the EU shows how trivial bureaucratic details can sometimes lead to disproportionate negative effects⁷. Bucharest should be able to become the business hub and the airport of choice for 1.5-2 mil inhabitants from Northern Bulgaria, as Vienna is for Western Slovakia; planting administrative obstacles in their way makes no sense.
- Large public investments must be pursued with as little political interference as possible, by following the principle of cost-benefit optimization. For example, in road transport, a coherent program to eliminate the main current bottlenecks – with ring roads around major cities, parallel tracks for pedestrians and carts in villages, improvements to the main passes through the mountains – may generate more social benefits and easier travel among regions than one extra highway, at the same cost.
- Decision makers will have hard choices to make regarding some investments aimed at reducing territorial disparities. New rural infrastructure in areas with rapid depopulation is unlikely to reverse the demographic trend, as the youth will continue to leave, especially if there is a big city no more than 100-150 km away. No matter what development experts may say, or what the government does, in twenty years from now Romania cannot possibly have the same share of 45% of the population in the countryside, at least half of whom are engaged in inefficient agriculture, simply because there is no other EU member with this type of social structure.
- Regional disparities are visible not only in the endowment with resources and infrastructure, but also in the capacity to maintain this stock of fix capital. The current institutional arrangements create skewed incentives which encourage a relentless drive for new public investments at local and regional levels, but much weaker stimulants to maintain the new assets properly. The more public infrastructure will appear across Romania, the more expensive it will be in terms of operating, and without careful planning these costs will be difficult to cover from the local budgets, especially in poorer regions. Since the EU does not provide funds for such routine activities, and the tradition in the Romanian bureaucracy

⁷ Various border fees that had to be paid by motorists when crossing into Bulgaria. When the two countries joined the EU in January 2007 these bureaucratic obstacles to free travel became very visible, so had to be scrapped under popular pressure.

is to overlook maintenance costs, the danger is high to end up, again, with expensive and dilapidated cathedrals in the desert, which will contribute little to the reduction of regional disparities.

- One of the policy domains where the shortage of knowledge, experience and manpower is felt most acutely is the area of urban and regional rehabilitation projects. These are probably the most complex type of intervention eligible for EU funds during the 2007-2013 cycle, combining aspects of legislation, local economy, welfare policy and urbanism. Such projects, if successful, can have a dramatic impact on local communities, much more than a shiny new road nearby, changing the whole dynamics of local development, and making (again) parts of cities or regions attractive through post-industrial reconversion. However, the expertise for running such demanding schemes is almost inexistent right now, and there is just one small project funded by EU and completed so far⁸. Managing properly the larger interventions currently on the agenda (such as the rehabilitation of a number of historical city centers, including that of Bucharest) will represent the real test.
- Finally, ultimate success or failure must be judged in terms of the broader picture. As long as the whole country grows and the wave of development lifts all the boats, though some more than others, there is no reason to panic. Being below the national average on some indicators does not necessarily mean *Mezzogiorno*, but being poor and dependent, yes.

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⁸ In Baia Mare. Sibiu, one of the two EU capitals of culture in 2007, is in a somehow special situation and its experience is difficult to generalize.