

creates among Member States, one should reconsider the very same existence of regional structural funds within the enlarged EU. This applies, with stronger force, to the funding of the Common Agricultural Policy. Theory and evidence show that Structural Funds are pure income transfers with little long-term effects. The availability of such transfers generates two very negative effects. First, it leads to rent-seeking behaviour on the part of poorer regions seeking such funds. It also creates rent-seeking coalitions of the 'half poor' against the 'even poorer' or the 'very rich', giving rise to spurious coalitions whose only objective is to increase the amount of transfers accruing to one particular region or country. Both activities cloud the political discourse. Secondly, it determines inefficient allocation of resources within those regions that are the beneficiaries of such transfers. This leads to a sub-optimal allocation of regional labour, capital and entrepreneurial resources and to a self-perpetuating system of expectations in which below average income levels are almost 'sought' by the regional administrations as a conduit for additional structural funding. In the long run, both of these effects lead to the misallocation of resources, corruption, underground activities and a lack of sustained growth that characterise and distinguish, for example, the Mezzogiorno of Italy. Structural Funds should be phased out over the next EU budget cycle (2006–12). The Cohesion Funds, whose objective has been achieved with the successful establishment of the euro, should be terminated with the end of the current spending cycle (2006).

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