

***Cohesion Policy: Genuinely modern and
still reinventing itself***
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Prime Minister, ladies and gentlemen,

We have come to an end. So, let me first thank you for your active involvement in the Fourth Cohesion Forum. You have confirmed to me that this young and dynamic community policy - barely twenty years old - is today widely recognized as the most practical demonstration of European solidarity and an effective force for economic progress.

Solidarity, because there is no European region today where you will not find the Community flag expressing clearly the presence of the Union through projects that bring help to its citizens. Economic progress, because European cohesion policy has become the principal Community instrument to help the Union face up to globalisation and to attain its main policy objective: the Lisbon strategy for growth and jobs.

But this event is not one for self-congratulation, even if sometimes I would like to see greater coverage in political life and in the media on the many positive achievements of European regional policy. Rather, for almost two days we looked critically, without taboo, on cohesion policy

with a view to improve its performance and added value. As President Barroso said yesterday, cohesion policy is and must be everybody's business.

The OECD adopted last week its review of the Euro area, which, for the first time, contains a broad chapter dealing with cohesion policy. Just about at the same time EUROSTAT published a report on regional convergence showing that it is taking place in the EU. Notwithstanding the EUROSTAT results, I share the view expressed in – otherwise rather favourable to our policy - OECD's assessment that "the Community could achieve more with its regional budget if it were more performance-based". This should be the *leit-motif* for our debate.

Let me now try to summarize some of the lessons which we can draw from this Forum's discussions over the last two days. We have heard a number of very important messages for regional policy:

First, a new paradigm is emerging where the policy is increasingly geared towards resource allocation. It is a paradigm in which the "catching-up" of the less developed with the better off regions is dependent on jointly moving forward in an increasingly globalised economy. It is a paradigm that stresses *opportunities* for the future, by mobilising underexploited potential, rather than compensating for the *problems* of the past. In short, it is a dynamic process of empowerment helping overall European economic growth and competitiveness. With

the new programmes for 2007-2013, European cohesion policy is already engaged in making this paradigm shift.

Second, Cohesion policy should target the qualitative aspects of growth and its sustainability and not just raw traditional macroeconomic variables such as income per capita. Thus, it should be a policy which encourages the long term economic development of each European region. A policy which targets structural factors of competitiveness, including environmental and social sustainability. Finally, a policy which facilitates anticipation and adaptation of regional economies to changing market conditions by promoting innovation and knowledge.

Third, cohesion policy should function as a European lever to increase the efficiency of national and regional development policies by ensuring better governance structures. This should be done through an integrated policy approach and stronger public-private partnerships in the policy design and delivery. In this sense cohesion policy has already a good track record. It has pioneered regional innovation and information society strategies in Europe. It promoted new policy approaches, ranging from cluster development to financial engineering techniques, from new methods of territorial cooperation to urban integrated projects.

Most importantly it has fuelled co-operation between public and private actors of regional economic development. This was possible because the Commission is perceived as a neutral partner with a transparent European agenda away from local turf wars. Thus cohesion policy has

helped in cutting across institutional boundaries amongst ministries and regional/national structures and providing stability to the developmental effort over and above short term political cycles. It has been a force for intelligent subsidiarity.

Fourth, Cohesion policy should further move towards the provision of public goods through the creation of efficient institutional and business environments and through moving away from the simple provision of direct aids. Markets work more efficiently if cohesion policy provides such public goods as transport and communication structure, information networks, workforce skills, research, development and innovation in structurally weak areas. In this sense this policy acts as a instrument of economic regulation which addresses market failures and which acts as a broker and a catalyst for change without substituting for the market.

In the light of the above let me add in these concluding remarks some additional considerations which I consider essential to further discussion:

First, we should ask ourselves why the policy is still perceived essentially as a simple redistributive instrument. While I am convinced that the critics of cohesion policy are often driven by a profound ignorance of the way it works, some serious reflection is needed among the specialists and the practitioners of cohesion policy.

- *What is the reality of the paradigm shift – a move towards resources allocation and global competitiveness - we are all talking about?*
- *To what extent are regional policies and programmes genuinely integrated and multi-sectoral?*
- *How far we went in replacing direct aids and subsidies with public goods provision and innovation?*

In particular, and this is my **second point**, when we discuss about integrated policies we mean a shift from traditional sectoral approaches to place-based approaches, which put greater emphasis on building endogenous assets and potential by combining investments in infrastructure, education and training, innovation and entrepreneurship, environment and risk prevention.

This takes me to another dimension of policy integration. Territorial cohesion is likely to soon become enshrined in the Treaty together with economic and social cohesion. What would be the implication of this new dimension of cohesion? Shall we strive for territorial standards of development, similar to social and environmental norms?

I often have the impression that we look at territorial cohesion from a “geographic” perspective, by de-composing the territory in many small parts and trying to address each of them separately. In this way we miss

the broader picture and weaken the overall coherence of policy interventions.

A classic example is the urban-rural relationship. Purely “rural” or “urban” strategies may be missing an important dimension of regional competitiveness. Rural regions obtain products and services from, and sell output to, adjacent regions. In other words, economic exchange regularly crosses over traditional rural-urban boundaries. Thinking in “rural” and “urban” regions alone, may overlook the very clusters that can drive the regional economy. As Michael Porter argued sometime ago rural areas are linked to urban areas and distinguishing between “rural” regions and “urban” regions misses true “economic” regions.

Therefore we need to move away from a territorial piecemeal approach and focus on an integrated development policy for well defined economic regions linking different types of territories. In other words we must ensure the consistency between actions to promote competitiveness and actions to promote territorial cohesion.

This requires a tailor-made development strategy matching the individual needs and the potential of a given territory. This means that innovative growth poles need to be developed with a view to ensuring balanced development of the hinterland. We should think about developing strategies for rural areas around “regional hubs”, being a large city, or a network of small and medium sized towns. This will help regions to maximise their development potential instead of only compensating

handicaps of lagging areas. So, the question I would like to leave you with is the following:

- *How can we address the specific local contexts and specificities without losing the overall economic coherence of policies and interventions? Should we develop overall targets for regional interventions?*

Third, we all agree that one major difference in regional economic performance lies in regions capacity to innovate – to transform ideas and new knowledge into high-quality products and services and, perhaps more importantly, to be able to change the mentality of the people and prepare them for living in a constantly changing environment. However, it is important to understand that innovation promotion is neither constrained to R&D efforts nor limited to “high tech” sectors.

Many regions quite rightly target high-technology, knowledge-intensive sectors as a means to increase productivity and economic performance. But any industry can leverage innovation to become more productive. As a US Competitiveness Council report rightly argued: there are no inherently “low tech” industries; only low-tech companies that have failed to apply high technology tools and skills and new production processes.

Let me now move back to our starting point: **how can we make Cohesion Policy even more performance based.**

The value added of cohesion policy goes well beyond its budgetary impact in the regions concerned. In particular in those competitiveness regions where with comparatively little European money but can experiment new policy avenues and catalyze public and private efforts through new partnerships. I think there are many in this room that can testify of this.

However, we have to admit that compared to the original proposal of the Commission to shift decisively the focus of the “contract” between the Community and the Member States from management to strategy, the framework in force today is a step in that direction, but there is still a long way to go.

Certainly, we have a strategic framework in place as enshrined in the Community Strategic Guidelines; true, we have a system which allows us to conduct a strategic dialogue over the period on the progress obtained; no doubt, we have an earmarking mechanism which is helping us to concentrate interventions on the most relevant domains.

Yet, let us face it, a lot of attention, time and resources continues to be dedicated to administering the policy, to ensuring the regularity of the expenditure, to controlling and auditing, etc. In short the procedural aspects of the policy still absorb a large part of our energies. Do not get me wrong, this is necessary to demonstrate that taxpayers’ monies are well spent and to ensure the budgetary authority of the good management of Community funds.

But too much administrative burden may divert the energies of the actors and managers of Cohesion Policy away from its objectives of competitiveness, growth, jobs. In addition, some of the existing provisions may further distort their behaviour by focusing their attention on absorption and little on results and outcomes.

We clearly need to strike a balance between these two equally important objectives and ask ourselves:

- *What sort of performance-based mechanisms and incentives can be developed to improve the effectiveness and consistency of Cohesion Policy?*
- *Would it be possible/suitable to set measurable targets to determine the performance and efficiency of Cohesion Policy?*

I would like to conclude by sharing a final reflection on the place of cohesion policy in the wider system of **economic governance of the Union**.

It is useful to go back to the origin of this policy which was created as an essential element of Single Market. This policy came into being as the mechanism for ensuring the medium-term structural adjustment of economies with sometime different economic cycles, different

competitive capacities, different economic fundamentals, and different internal disparities slowing down aggregate growth.

Twenty years down the road, the Single Market is a reality though further work is needed in many areas. In addition, most of the Member countries have joined (or will soon join) the Euro zone. With monetary instruments definitively outside the realm of national intervention, we need to ask whether the original rationale of Cohesion Policy is still valid or even, I would argue, more compelling than ever.

The economies of the Euro zone are continuously confronted to asymmetric shocks, linked in particular to the new internal division of labour following the astonishing growth of India and far-east Asia. With a Euro which has moved from 0.80 to 1.4 to the dollar, many regional economies are confronted with a dramatic decrease in their competitive position, not to speak of the territorially asymmetric impact of climate change, different levels of energy dependency and efficiency and last but not least very different demographic behaviour. It is therefore worth asking:

- *What sort of instrument needs to be developed to ensure the adjustment of national and regional economies in terms of modernisation and diversification?*
- *How can cohesion policy support the structural adjustment needed to accompany and stabilise the economic performance of the Euro zone?*

The above coincides with the features of a modern policy which needs to continue innovating and reinventing itself. A policy which attracts so much interest from outside the Union. The cooperation agreements we sign and the delegations we receive from China, Russia, India or Brazil are a good testimony of it. These countries and economic zones that turn to us for inspiration are confronted with increasing disparities and social tensions. They are looking into a policy which is essential in preserving and improving the so-called European social-market model.

Ladies and gentlemen,

The moment has come to close this fourth edition of the Cohesion Forum. I hope that the discussion has been fruitful and valuable for all of you. It was certainly so for me.

I am looking very much forward to your contribution to the public consultation which opens today on the future of our policy. Your views and proposals thereon will be highly appreciated. We will close this first round of consultation at the end of January. I will report on its results in spring with the Fifth Progress Report on Economic and Social Cohesion.

I wish you a very pleasant trip back home. Thank you very much.