

Businesseurope Regional Policy Working Group

Brussels, 4th November 2009

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What cohesion policy for post-crisis Europe?

The role of cohesion policy, since its inception, has been to ensure that European project of economic integration is for everybody. That is why it has become an essential part of the triangle: single market, common currency and cohesion policy. Cohesion policy is a structural policy with European objectives delivered through tailor made programs. Cohesion policy strengthens internal market and allows everybody to benefit from it. The policy generates conditions that allow every territory to become contributor to European growth. Underdeveloped territories are underutilized resources. In other words, the potential of both single market and common currency will not be fully mobilized without an effective and efficient cohesion policy. We have also seen over the last five years how important it has been for Lisbon agenda to mobilize regional and local actors. We have seen that there is no contradiction between the two dimensions of cohesion policy - equity and efficiency. Cohesion policy has been promoting competitiveness and sustainable growth.

Today, cohesion policy can be turned against crisis. The post crisis development challenges and opportunities clearly show that crisis cannot be disconnected from long term growth. Leaders at the exit from the crisis will most likely be different from those at the entry. Nature of competitiveness changes. Key drivers of global competitiveness- research, know-how, information, networking, innovation, proximity are strongly linked to territories. Regional and local economies when generating growth have to take into account global context. Cohesion policy has always been a catalyst of shifts in investment patterns. In the context of crisis, with trillions of euros of public

funds have been pumped into the economy, cohesion policy offers control over new patterns of public investment.

There is a risk – if we do not handle properly crisis exit and post crisis strategies – of structural aftershocks. Those strategies must focus on long term sustainable growth. An opportunity for deep restructuring will be missed if anti crisis policies aim at eliminating production gaps generated by the crisis and do not keep productivity gains on track. The composition of public investment is therefore essential – research, education, innovation, energy efficiency, green technologies are the way to go.

Many measures within the fiscal packages have focused on boosting demand in a rather conservative way (scrapping old cars premium, tax reductions, automatic stabilizers), not really enhancing long term structural transformation. Targeting fiscal stimulus packages in a smart way is a challenge. And there is rather little evidence of aiming through fiscal stimulus at ensuring long term competitiveness, productivity gains and sustainable growth.

Fiscal measures are clearly judged from the perspective of their impact on public budgets and deficits. We seem to care less about growth patterns to which packages are supposed to contribute. Long term sustainable growth could make paying back borrowing possible if growth generated by fiscal stimulus were sustainable.

It is worth looking in this context at the European cohesion policy. In the post crisis era cohesion policy becomes a useful policy tool due to its characteristics and mechanism. It generates feed back effects in economies that are not direct beneficiaries through investment and trade. It attracts private capital and does not crowd it out. It provides demand support while at the same time invests in long term competitiveness and sustainable development. It provides guaranteed funding. Continued reluctance of banking sector to fund investment, and even more so high risk investment in private sector, makes cohesion policy funding a badly needed financial instrument. This is enhanced by recent investment of cohesion funding in financial engineering tools for small and medium size companies. It has the potential of influencing investment patterns at all levels of economy. It can be both turned against the crisis and invest in the long term growth.

Let me say as well that this policy programs have been fixed with a strong focus on what is today seen as smart investment – green skills development, energy efficiency, renewable energy, transport infrastructure, sustainable transport, broad band, support for smes.

In the time of this crisis, European banking sector does not play its traditional supportive countercyclical role vis a vis companies. Financial sector does not provide credit and when it does, there is no guarantee for efficient reallocation of capital. Companies with good growth potential, innovative, future oriented do not appear attractive to financial sector contaminated by risk aversion. Banks rather favor politically protected sectors and firms than companies that Europe needs most. These distortions in funding growth can cost Europe a lost decade which we cannot afford.

Cohesion funding has the power to reshape investment patterns, it is based on strong conditionality, it guarantees durability of support, enhances cooperation and good practice sharing, it offers new forms of funding extending smes capability to innovate, it helps preserve throughout the crisis a higher level of R&D intensity. It clearly helps companies to face the crisis and go the distance.

Removing barrier to growth as one of three areas for cohesion policy action commands a strong consensus among policy and academic circles. Of course poor regions are underutilized resources that could contribute to European growth. But still too often, to achieve their full potential and make full benefit of internal market, many territories need support to close infrastructure gaps in transport, ICT, environment, energy, human capital, education and research. Key bottlenecks must be identified and addressed.

Mobilizing endogenous development potential of regions and local communities. Why the entire potential should be mobilized is, I hope, obvious. The share of EU GDP in the global GDP has dropped recently, and the risk is it will continue to do so with emerging economies growing so much faster, even in the time of crisis. The sheer size of European economy does not allow Europe to leave aside unexploited potential. Mobilizing the full potential requires territorial policies that help people and businesses make the best use of resources that are at hand. This approach commands a growing consensus. Academics point to the role of regional assets in the development

of innovation, the OECD has highlighted the role of place based policies. When we talk to businesses, they increasingly see the challenges confronting them in territorial terms, whether at local, regional or cross border level. Cohesion policy is the only European policy with such a strong territorial dimension, with a clear focus on integrated solutions and with the capacity to mobilize actors across all EU boundaries.

Enhancing territorial cooperation, going beyond sheer cooperation and exchanges of experience and good practice towards stronger commitments, shared solutions to common problems and bottom up macro-regional cooperation strategies – all this enjoys consensus.

Multilevel governance – involving all actors at all levels of European governance in delivering common European objectives. Nature of growth changes. With bottom up growth mechanism involvement of local and regional actors becomes essential. With strongly growing interdependence of growth areas and growth factors, place based approach to growth strategies and policies becomes essential, too. This is even more relevant as the citizens expect an ever higher degree of environmental quality and social cohesion.

Cohesion policy designed today will address the problems of tomorrow. It requires therefore a careful selection of priorities and stronger focus on a limited number of core EU priorities. In this context, the link, already well established, between Lisbon agenda and cohesion policy should be further strengthened not only through stronger integration of Lisbon objectives in cohesion policy programs, but also through greater involvement of local and regional actors in Lisbon coordination structures. Another area where the European challenge will not be effectively addressed without the involvement of cohesion policy is the sustainable development, including climate change related challenges. This implies the need to take into account constraints and opportunities of low carbon economy and climate change proofing of infrastructure investment.

Intellectual reflection on development takes us today along the path of cohesion policy. For the last two years, a reflection on the cohesion policy post 2013 has taken place across European territory, stakeholders, institutions, governments. The new Treaty has also created a new legal framework. Adding territorial dimension to the long established economic and

social dimensions of cohesion has clearly opened the need to identify its meaning and policy mechanism. Extending so clearly the subsidiarity principle beyond European and national level to local and regional one brings new actors into multilevel governance system who cannot be kept outside the delivery system of European objectives and goods. Strengthened role of the European Parliament means that the entire regulatory framework for cohesion policy enters the territory of decision making called today co-decision. This implies a more significant role of the European Parliament not only in the final decision on the policy regulations but also in the political debate on the future policy.

All those factors, combined with a relatively important role of cohesion policy financial instruments, have led to deep multifaceted reflection on potential further reform of cohesion policy, taking into account the 2006 reform and new challenges.

There have been many ideas put on the table. The budgetary dimension has not been openly discussed, nevertheless it is clear that options made will have financial consequences.

One option is to maintain the 2006 reformed policy, incorporating the simplification of the management system introduced into the policy in the context of the crisis and European Recovery Package.

Another option would be to look anew at the challenges facing all European regions and cities, adding to it the upcoming deep restructuring of European economy where regional dimension, as always in the time of industrial revolution, will play an essential role.

A third option could be to reduce the coverage to the poorest regions.

One more option has been also presented in a leaked communication prepared by the General Secretariat of the European Commission which in fact brings the cohesion policy to its end. The paper presents an extreme vision which is not taking into account neither the results of wide public consultation or the 2006 reform, nor the political and economic reality of the European Union. The draft eliminates the regional and local dimension from the cohesion policy. It gets rid of multilevel governance and the role of local and regional actors in delivering European objectives. This proposal goes against the political process of growth democratization, ever stronger present

in the global world and the European Union, in particular in the context of the new Treaty. Politically it is simply incorrect in the Union which is fighting for citizens' interest and acceptance. But also economically it goes against all recent studies and debates about agglomeration effects, development interdependencies, anti-sectorial development trends and place based policy recommendations.

The draft proposes to replace the current system with purely national approach at a time when political and economic game is decentralization. This national approach translates into an redistributive approach to the policy, killing at one shot years of efforts to divorce policy from this approach. Budgetary support is mentioned as a possible delivery mechanism. This national approach would result in a policy limited to the poorest countries, leaving 16 member states and 200 regions outside the policy.

Elimination of regional dimension and the national approach would imply the absence of internal regional disparities among the allocation criteria and reduction of the cohesion policy budget by around 50%. To this cut one should also the removal of social fund from the cohesion policy. After the mistake made by the Union when rural fund had been removed from the cohesion policy, further step down this road are offered again.

The draft proposal eliminates local and regional authorities and their partners from the pursuit of common European objectives . It proposes a massive shift of resources from a policy based on pre-allocation to Brussels run numerous sectorial policy instruments based on an unidentified policy mechanism. It is built on the assumption of sectoral approach to EU policies and budget, of a massive transfer of resources from cohesion and agricultural policies to sectoral instruments, on direct management in Brussels being seen as more effective than shared management.

The world emerging from the crisis is an interesting place where preconceived ideas are being challenged. We are forced to ask fundamental questions about our priorities but there is also a growing recognition that the appropriate responses are increasingly at local and regional level. Even if the challenges and opportunities may spring from further afield that 20 or 30 years ago. When it comes to questions like developing new poles of attraction that will retain skills and knowledge or promote new opportunities for area affected by

restructuring, effectiveness depends critically on local and regional involvement.