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***"The role of regions in delivering Europe 2020 strategy"***

*Regions and the European Union*

Reflections within the framework of the 2010 EU Spanish  
*Presidency*

Centro de Estudios Andaluces of the Consejería de Presidencia of  
the Junta de Andalucía

*20-21 May 2010*

Seville-Spain

We meet at a time of crisis to discuss the future of Europe. There is little doubt about the seriousness of the current crisis and we see today that the cost of use of unprecedented policy methods is very high. The task of regulators and policy makers is to undertake actions that would allow to restore equilibrium shattered by market failure but also to correct failed government policies. This is being done but it is still to be seen how fast and through what policy measures EU member states will return to their paths of growth.

More regulation is not a guarantee for avoiding the risk of recurrent crises. It can even lead to less transparent markets and a more crisis-prone environment. As we have chosen the path of more regulation, it should go

hand in hand with increased simplicity and reduced complexity of financial markets, allowing them to resume their funding service to the economy.

What is also clear is that fiscal and monetary policies are not substitutes for structural reforms. Structural reforms have to address underlying weaknesses of the European economy, sharply growing debts and deficits, ageing, highly probable new surge of inflation, risks generated by climate change policies, low productivity and lack of competitiveness. With less public money more will have to be done. Hence, the efficiency of using public money, both European and national, will have to be higher. Business-friendly regulatory environment, efficient government, non-distortionary taxes, high labour participation rates, especially among women, good education system, research and innovation - all that constitutes a minimum core package of measures to bring growth, jobs and competitiveness.

Without doubt, the European winning strategy has to be based on fiscal tightening, but its focus should be innovation - the only way to boost productivity and growth in a sustainable way.

A couple of month ago, the European Commission presented a new vision for Europe - the EU2020 strategy. The proposed directions do not offer a brand new perspective. Actually, we had made first steps along this path before the crisis hit. But without doubt the crisis has made all challenges much harder to cope with. And the most important issue – entirely absent in the strategy – is how to make Europe go ahead towards 2020 objectives with a success.

Even if we might be technically emerging from the recession, what will be the global and the European new normal is a big unknown. The world and Europe are dramatically different from ten or even five years ago. Emerging economies grow and restructure with a speed that cannot be compared to any European or American industrial revolution. They already play a rapidly growing role in the global context and they are increasingly assertive.

Industries and enterprises that had been leading or doing well before the crisis hit, are often in trouble nowadays. Jobs are created in new sectors. There are new expectations of consumers. There are new markets emerging. Society is aging with all the consequences for public finance, labour market policy, migration policy and new demands. Moving toward low carbon economy implies huge structural transformation. All these changes have dramatic impacts on our society.

Europe needs a long-term strategy not only to respond to global change or to, indeed, lead the global change. We need a long-term vision and a common progress of action also to cope with our own intra-EU problems and opportunities and to better organise ourselves for those common goals.

The new European strategy must link the crisis exit policies – monetary, fiscal, structural - and long-term growth and structural change. It must take into account the diversity of European territory which can allow us to better exploit diverse opportunities, comparative advantages and different potentials. The new strategy for Europe must be based on an active role of European citizen and an involved society. It must not exclude anybody from the pursuit of common European objectives. Multilevel governance and partnership, so well known from European regional policy experience, should be, therefore, the core of governance and delivery of the strategy.

If the ownership of the strategy is restricted to national governments and European institutions, it will simply not be delivered. Regional and local levels of European governance are important co-owners, capable to harness policy tools they have at their disposal as well as the enthusiasm of all partners: business, academia, civil society. And they have the capacity to translate European general strategic goals into their own territorial specificities.

We all agree that today it is important to identify new engines for growth and competitiveness and focus on them urgently. But Europe is too small to afford leaving parts of its territory with growth deficit. We need leading growth centres but their role is also to pull others forward. That is why we must also

enhance economic links between those growing faster and those lagging behind. Clearly, more cooperation is needed to get us out of the crisis and put our economies on long term growth track.

EU2020 is not about final results only, it is about launching a process which has its own value, which has to be well organised, in order to allow exploit synergies between different European and national policies and different levels of governance.

EU2020 is not a green field strategy. Nothing it proposes starts from scratch. There is a European reality. There is an industry, with its structure and competitiveness. There are existing problems. The strategy is about launching new elements but also about changing old patterns and structures. There are promises made to people. There is a need to strike the right balance between what should be protected and what should be replaced by the new.

We are in the process of reforming financial sector and getting it back to what should be its duty. But these reforms are still in the legislative phase. We do not really know when new laws will enter into effect. What will be their impact on real growth. There will be new European laws. But new national regulation might have to follow. Then, adjustment process in financial institutions will be needed. Banks will have to be restructured, recapitalized, reprivatized. They will be repricing their products and looking anew at their market offers. How long it will take? It can take years before banking sector resumes its function at the desired level.

Imbalances both of global nature but also within EU will have to be coped with. And this is not only about the Chinese exchange rate and industrial policy. In the EU. micro policies fixing labour market, stimulating productivity, increasing wage and price flexibility will be needed. Internal market will have to be reenergized.

New growth engines must work towards strengthening European cohesion: economic, social, and territorial. Aiming at cohesion is not a cost; it taps

unused potential, expands growth basis, and generates European social capital. Both, innovation that can bring productivity gains, and greening, that can create new demands and markets, they both require local and regional focus. They require place-based integrated approach to investment and growth policies. A region, a city, a town, a rural area happens usually to be such a place where all partners needed to bring about a solution can be found and all elements of a solution can be brought together. This is the experience of European regional policy. This experience demonstrates that combining integrated approach to growth with territorial specificity brings the best results in terms of growth, sustainable jobs, creativity and innovation.

In the context of the crisis and the Europe 2020 strategy, it is legitimate to ask how can we overcome the integration fatigue, from where can come the energy Europe needs to face with a success all the challenges. A substantial part of the response is multilevel governance. The new Treaty is clear – Europe is much more than European institutions and national governments. We can do our job only if we really understand that European tasks and responsibilities must be shared in a well orchestrated way between European, national, regional and local levels of European governance. All of them must be of the highest quality and accountability. The real drivers of change - businesses and universities working in partnership with local and regional authorities and civil society – all of them should play a key role in the new delivery mechanism of the EU2020.

In the nearest future, EU member states will be more often than ever reaching out to public action as a policy tools. It always bears some risk in terms of efficiency. That is why the best place for the public action must be chosen as well as adequate policy tools. We have sufficient experience in the EU to say with full responsibility that public interventions at local and regional level are often decisive for dynamism and change, for promoting creativity and innovation, for job creation, for energy efficiency, for bringing different actors together. In the current global context, there is clearly a need to seek actively new development opportunities at local and regional level. Accountable multi level governance combined with tailor made policies increases chances to

make the most of the potential of individual territories. Territorial diversity can become indeed an asset.

Already today political, economic and social powers and responsibilities are increasingly being spread between all different levels of governance. Globalization and many other challenges (climate change, energy security and efficiency, demography) encourage authorities at different level to make decisions collectively. Hierarchical or top down approach is disappearing from good practises of governance. This is a result of growing complexity of development issues that can be tackled effectively only through an integrated approach. Also, our citizens expect from authorities who are around the corner effective local actions in response to local impacts of global challenges. Sub-national levels of governance become increasingly relevant for public interventions. This has been reflected already for quite some time in growing share of public investment at local level.

This process leads to a growing role of place-based integrated approach to decision making, policy programming and implementation which in turn allows synergies between policies to develop and be exploited, it leads to a better coordination of fragmented sectoral intervention and elimination of potential contradictions in policy making. Specific problems deriving from geographic handicaps can be better coped with.

There is a lot of work to be done in Europe. The crisis has challenged us all at a time when we have been already in the midst of adapting ourselves to globalization and the need to turn our economies and the way of life away from fossil fuels and towards a more sustainable model. In front of all the challenges entire Europe, including the local and regional one must act swiftly and decisively, and let me emphasize – with a high degree of urgency.

In this context, let me say that European regional policy is the only European policy that has taken Lisbon strategy with the highest accountability. The lisbonization of the policy in 2007-2013, its earmarking mechanism, its focus on building regional innovation strategies, its focus on energy efficiency, its

support for innovative small and medium size companies, its incentives through prizes and awards for the best regions and Lisbon related projects, its involvement in building networks and clusters for progress, its continuous awareness raising efforts – all that offers today a good practise for the governance machinery of the new growth, jobs and competitiveness strategy.

For the EU 2020 to be effectively implemented, governance is crucial. How to make a change happen, from where energy should come, can we reduce EU to two levels of governance, can we exclude regional and local governance levels from the pursuit of common European objectives. These are all questions that must be asked. But to reduce Europe to European institutions and national governments , would be unrealistic politically and economically unwise. But subsidiarity in practice must mean sharing - not splitting; it must mean coordinating and using synergies between all levels of governance.

The 2006 reform of regional policy has shifted the paradigm of the regional policy from reducing disparities to mobilizing development potential. Reduction of disparities is a non linear long term process and rather a moving target. What matters more, therefore, is the focus on mechanisms facilitating growth and structural change based on growing competitiveness which regional policy can trigger. The reform has also emphasized the importance of adjusting targets and policy tools to specific potentials and needs of member states and regions. Linking the regional policy objectives with those of the European Union's through strategic approach to the policy and content related conditionality has influenced concentration and quality of interventions. The reform has also recognized that while the role of regional policy in facilitating functioning of the internal market and economic and monetary union remains valid, the challenge of globalization has made the opening of regions to global competition key to the sustainability of their progress. In short, the 2006 reform has made a major step towards consolidating the role of regional policy as EU development policy tailored to specific situations while recognizing the horizontal nature of challenges and EU policy objectives.

The key issue of post 2013 reform is how to make regional policy more effective in generating growth, jobs and global competitiveness in a sustainable way. The challenges of globalization and its local impacts, climate change, energy security and renewable energy potential, demographic trends generate strong pressures towards identification of growth opportunities at local and regional levels. Tailored responses are needed which makes good understanding of both challenges and opportunities as well as specific place based potentials indispensable.

In the context of both problems to be addressed and available policy tools, European post 2013 regional policy must be carried out across the Union's territory. Restricting it to the poorest regions inevitably would take us back to the old fashioned approach, based on the principle of "compensating for the past" rejected even in the context of 2004 enlargement as subsidy based policy instrument with a strong sectorial focus, weak from the point of view of effectiveness. This type of approach to the policy would make its focus on the pursuit of common European objectives very unlikely. We would generate a quasi European policy working as supplement to national objectives oriented sectorial policies.

The challenge of achieving EU wide strategic objectives, on the one hand, and a rather limited number of available European policy tools point to the need of focusing all European policies, and regional policy in particular, on these objectives. First results of 2006 reform provide evidence that regional policy can successfully aim at generating conditions for regions to actively develop their strengths, comparative advantages, competitive potential, creativity, regional innovative capabilities. Such a policy orientation must be based on a proactive anticipation of future trends. The role of European Commission in providing information on future trends and challenges (e.g.Regions 2020) and through this helping regions to identify directions for change should be, therefore, enhanced. Equally important would be its role in encouraging development of frameworks facilitating interactions. Competitiveness emerges from interactions between businesses, researchers, authorities, civil society and international partners.

Competitiveness should be the focus of the future regional policy due to well known trends in global challenges. An additional strong justification for this focus comes from the fact that the crisis has already led, and will do it even more deeply in the years to come, to abandonment of competitiveness goals in both public and private investment policies. Public resources have been increasingly transferred towards stability objectives as well as policy and investment measures and we will witness strengthening of this trend. The response should be to have competitiveness as major regional policy objective for all European regions. For those regions where catching up remains a long term goal, a second objective should be established in the new policy architecture, with a view to provide more support for those who lag behind and who indeed face the genuine challenge of convergence.

New regional policy should be based on a modern multilevel governance but not of hierarchical nature. I have talked about it earlier. Let me also emphasize that subsidiarity, extended by the Treaty to local and regional level, has acquired a new character, moving from separation of powers to sharing and coordinating.

While moving towards performance based and result oriented policy has become a buzzline for quite some time and first experience of evaluation has provided some food for thought and good practice in this respect, there is still a long way to go before this pioneering policy reform can become a fully fledged new approach. Much more work is needed in particular on methodologies.

As all national, European, regional and local processes get increasingly intertwined with global changes, opening regional economies to the global competition is fundamental. 2006 reform has started this process putting emphasis on the need to measure regional economic strength against the global context. In post 2013 policy edition, this trend must become a cross cutting rule. Pressures for reforms which Europe needs come increasingly from this multifaceted intertwining. If this is not further and strongly

encouraged by the regional policy instruments which have high leverage and catalyst power, European economy will face the risk of its global marginalization. We must also recognize that globalization and openness work towards decreasing role of state level policy frameworks and growing role of responsibilities of regional and local authorities, citizens and entrepreneurs.

Understanding that European regional policy is not merely a financial tool for investment but a policy that is generating new resources, adding to growth potential is crucial. This points to the importance of the process of setting policy priorities and focusing its investment. Therefore, the objective today cannot be reducing or eliminating production gap generated by the crisis or growth deficit but putting productivity gains on track. Hence, the emphasis on competitiveness is a must. Post 2013 policy should be an instrument to enable competitiveness. Equally, it must avoid generating conditions that would impede competition. It must work towards opening regional economies to international competition, promoting international networking of regions and enterprises, making this networking a condition for programs and projects.

Future policy should offer to regions in a more robust way good practice that can enable those less competitive to open up to global competition without protective measures. This can be achieved through helping regions to identify measures they can use to increase innovation, productivity and competitiveness.

An important challenge for the future regional policy will be striking the right balance in linking it with the EU 2020 strategy, avoiding, on the one hand, its subordination and, on the other, its marginalization. Both the experience of linking the regional policy with the Lisbon strategy through the earmarking exercise and its delivery system make this policy particularly well tailored to the EU2020 governance requirements. It provides an integrated, place based formula for investment. It provides effective delivery system . It provides ownership on the ground. Its strategic approach allows to translate common European objective into national, regional and local ones. It offers an

effective use of conditionality to distribute funds among projects and territories. It offers capacity to monitor and provide technical assistance.

Without any doubts restructuring will be a permanent feature of our economies in the years to come. Regional policy should nurture it, stimulate the spirit of change and openness of local and regional economies to the world. It seems rather likely that in spite of the needs, the most likely scenario is that the European budget after 2013 will not be sufficient to support all actions that should be supported through European policies. In my view, this condition can be less costly to European citizens if all European policies aim at the same objectives through different, policy specific incentives.