

## The "Cohesion Pact": Weathering the Crisis

Marjorie Jouen

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## Presentation of the project “A test for European solidarity”

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**H**aving put solidarity at the heart of the European Forum of think tanks held in Barcelona in September 2010, *Notre Europe* has defined a broader project on this theme, which allows it both to publish crosscutting reflection documents as well as *Policy Papers* covering different sectors.

With the economic and financial crisis having hit European countries in different ways since 2008, the EU is considering how far each country is responsible and what kind of solidarity is needed to overcome this challenge. Europeans have hastily set up solidarity mechanisms that their monetary union was lacking. Questions about legitimacy and the limits of European solidarity are now very much being asked out in the open.

They are all the more crucial as they generate tensions in national public opinions and among European political decision-makers. These tensions are not just about macroeconomic issues but have recently been about solidarity mechanisms put in place in the “Schengen area” and also relate

to the different extents of the other EU interventions, such as in the area of agriculture or energy.

In this context, *Notre Europe*'s work is inspired by the vision of Jacques Delors, who advocates articulating European policies around three key points that are more necessary than ever: "Competition that stimulates, cooperation that strengthens, and solidarity that unites." This vision, which embodied the Single Act, draws inspiration in particular from the 1987 report entitled "Stability, Efficiency, Fairness", in which Tommaso Padoa-Schioppa sets out how to push ahead with European economic and social integration in a balanced way.

## Executive Summary

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In 1988, the European Union established the cohesion policy, giving itself an innovative instrument for economic and social solidarity between European territories, the exercise of which was tied to strict implementation rules. This dynamic equilibrium between solidarity and responsibility is at the heart of the “Cohesion Pact”, whose terms are regularly reviewed at the beginning of each programming period. The pervasive crisis that the European Union is currently traversing weighs heavily on the negotiations launched in 2011. Does this pressure, which is also being felt at the territorial level, risk jeopardising the renewal of the Pact, or will it be possible to come to a new compromise?

1. An analysis of the **Cohesion Pact’s components** and of the **evolution of the relationship between solidarity and responsibility** over the last two decades reveals the following: (*page 5 to 19*)
  - The cohesion policy accounts for a growing part of the EU budget (approximately 35%, or more than one third); however, in terms of the national GDP of recipient countries, it remains modest (e.g. 4% in Greece).

- By identifying the obstacles to cohesion, it has been possible to adapt the financial instruments and the criteria for eligibility.

The economic postulate of the Tommaso Padoa-Schioppa report<sup>1</sup>, according to which the sums distributed to the poorest regions would have indirect feedback effects for the economies of the richest regions, has been widely confirmed. This catching-up mechanism led to a second-tier movement of capital, with 30-40% in favour of contributing countries.

- Considered to be necessary conditions for efficiency, the initial principles of implementation for the Structural Funds (strategic programming, multi-annual planning, additionality, concentration of investments, partnerships, evaluation and monitoring) have changed little in twenty years.
- Over time, the need for efficiency led to the reinforcement of certain principles and increased monitoring of recipients, which allowed national administrations to take back control – to the detriment of local and regional authorities – and to sometimes reintroduce outdated sectoral and accounting approaches.
- Beyond the technical reasons, the secret of the exceptional longevity of the “Cohesion Pact” can be explained by political factors, both supranational (the driving force of European integration) and sub-national (affirmation of regional and local players).

2. By **highlighting the difficult conditions for renewing the Pact** within the context of this unprecedented crisis in the EU, the following analytical elements can be observed: (*page 21 to 32*)

On the one hand, the entry into force of the Lisbon Treaty, which recognises territorial cohesion as a horizontal objective of the EU, the Commission’s proposals on the multiannual financial framework and the regulation of

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1. Padoa-Schioppa Tommaso, *Efficacité, stabilité, équité*, Paris, Economica, 1987.

funds which aim to expand the scope of solidarity, by:

- Creating a Common Strategic Framework to govern all jointly managed funds destined for territorial development;
- Accounting for nearly all geographical and socio-economic situations;
- Defining a new, intermediate category of regions called transition regions.

On the other hand, the Commission has established new, stricter conditions for implementation:

- Macro-economic conditions which combine penalties, threats and enforced aid to ensure that the rules of economic governance of the euro area are respected;
- “*Ex ante*” conditions to ensure that the conditions necessary for effective European support are in place;
- A performance reserve of 5% to reward the highest-performing programmes;
- A list of 11 thematic objectives corresponding to the Europe 2020 strategy.

Following the 2009 Barca Report, which called for a place-based approach to the cohesion policy and supported the fostering of local potential, debate has focused on the conditions of use of the Structural Funds and has moved away from the traditional question of the amount and allocation of the budget. This trend has been reinforced by the effects of the crisis.

3. Several **remarks and recommendations** may be made about the possibility of coming to a **new compromise based on a new definition of solidarity**: (page 33 to 40)
  - Faced with the threat of a drastic reduction in the EU budget, which would have serious consequences for the cohesion policy, there are two possible strategies: Either identify the areas or the

instruments that could be eliminated without too much damage, or counter-attack by demonstrating enough ambition to shift the terms of the debate above and beyond the Commission's proposal.

- The unprecedented nature of the end of the 2007-2013 programming period, during which the cohesion policy seemed like a policy of redistribution, must be clearly highlighted. However, starting in 2014, the cohesion policy's role as a policy of development must be affirmed, and we must be open to beginning a true discussion on the model of development we desire.
- We must create the conditions for a transition to a “smart, green and inclusive development model” as advocated by the Europe 2020 strategy and view the cohesion policy as an instrument of social progress and well-being, which may require new criteria for eligibility.
- We must re-establish the democratic link between Europeans and the Union by making the results obtained by European funds tangible to them and by relying more heavily on “community-led local development”.
- The future cohesion policy will also be more credible if procedures are simplified, which would require ensuring at all costs that the European funds are accessible to small, local project initiators.

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## Introduction

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*“The economic integration brought about by the Single Market will entail considerable economic benefits. However, all regions of the Community ought to be able to share progressively in these benefits... It is for this reason that the ‘transparency’ of the Single Market should be facilitated by supporting the efforts of regions with ill-adapted structures and those in the throes of painful restructuring. Community policies can be of assistance to these regions, which in no way absolves them from assuming their own responsibilities and from making their own effort. The Commission has conceived the ‘structural’ policies in this spirit, firmly resolved that they should have a genuine economic impact and that they should not consist merely of budget transfers, which would be far too costly and inadequate as well.*

*“To put it plainly, Community instruments must cease to be seen as mere elements in a system of offsetting payments. Their role is the central one of bringing about the convergence of national economies alongside and in harmony with national and regional policies.”*

“Making a success of the Single Act”,  
address by Jacques Delors to the European Parliament  
in Strasbourg, 15 February 1987<sup>2</sup>.

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2. Delors Jacques, *Le nouveau concert européen*, Paris, Odile Jacob, 1992.

With its latest report<sup>3</sup>, the World Bank sent the European Union a clear message: please do not change anything – almost. This report describes European integration as a “convergence machine”, explaining that unlike other world regions, the EU has been able to integrate more than a dozen poor countries and help them become high-income economies through their participation in a large market, by simply requiring that they “be disciplined”.

The European cohesion policy continues to be one of the strongest illustrations of the tension between solidarity and responsibility that makes European integration so unique<sup>4</sup>. However, despite its exceptionality and the numerous reforms it has undergone at the start of each of four multi-annual programming periods, it has not escaped criticism during this period of pervasive crisis. Some have noted that in the absence of an efficient functioning monetary union over the last ten years<sup>5</sup>, the policy has not been able to counter the growing discrepancies between euro area countries that come from budget adjustment plans and increased structural imbalances. Others reproach it for having fed costly collective behaviours which pave the way for democratic unrest. The increasing uncertainty of the future fully justifies a closer look at the cohesion policy, in order to carry out the analysis proposed by *Notre Europe*’s “A test for European solidarity” project.

Having learned the lessons of the inefficiencies of the three existing funds, the designers of the cohesion policy made sure to not make it solely a redistributive mechanism. However, as the budget issue related to the Structural Funds was present in everyone’s minds, the exercise of European solidarity, benefiting the least developed regions and the most

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3. Gill Indermitt & Raiser Martin, *Golden growth: Restoring the lustre of the European Economic model*, World Bank, 2012.

4. Vignon Jérôme, “Solidarity and responsibility in the European Union”, *Policy Brief No. 26, Notre Europe*, 2011.

5. Watt Andrew, “Solidarity and cohesion within and between countries in a Europe in crisis”, in *Solidarity: for sale? The social dimension of the new European economic governance*, *Europe in Dialogue* 2012/01, Bertelsmann Stiftung, Gütersloh, 2012.

vulnerable populations, was counterbalanced by strict rules for implementation. As of 1988, certain conditions were imposed on recipient regions, as contributing regions required a form of responsibility in exchange for their solidarity. This was the basis of the “Cohesion Pact” which exists to this day (see part 1).

In the current unprecedented context of austerity, negotiations for the future cohesion policy are struggling to find their rhythm, and find themselves blocked by an extreme internal tension created by the proposal for an expansion of the scope of solidarity to territorial cohesion and stricter conditions tied to the reinforcement of economic governance. Making matters worse, while solidarity is seen as more necessary than ever at the local and regional levels, the responsibility of recipients is taking on political overtones (see part 2).

One solution could be to clear up the current misunderstanding that the cohesion policy is an instrument of countercyclical intervention, by clearly stating its primary role as a tool for territorial development. However, an ambitious and sustainable compromise can only occur if the criteria for intra-European solidarity are redefined in terms of the model of development that Europeans wish to construct (see part 3).



## 1. The “Cohesion Pact”: solidarity and responsibility in action

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In 1986, the Single European Act introduced a new chapter dedicated to “economic and social cohesion” to the Rome Treaty. It gave the European policy associated with it the twofold objective of reducing “disparities between the levels of development of the various regions and the backwardness of the least favoured regions, including rural areas”<sup>6</sup>.

The launch of the cohesion policy in 1988 can thus be considered the continuation of the push towards a dynamic Europe begun by Jacques Delors when he took office in 1985, the key projects of which included the Single Market with its “Objective 1992” and the institutional reform under the Single European Act.

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6. Article 130A of the Treaty establishing the European Community, as modified by the Single European Act.

It is based on two viewpoints:

- An economic viewpoint, driven by the research done by Cecchini's team<sup>7</sup> on the benefits of the Single Market and complemented by Tommaso Padoa-Schioppa's report<sup>8</sup> on the necessity of financial assistance to the "losers" of this great operation of the free movement of goods, capital, services and persons;
- And the viewpoint of regional developers, who urge for a concerted mobilisation of existing sectoral funds (the European Agricultural Guidance and Guarantee Fund: EAGGF-Guidance section, the European Regional Development Fund: ERDF and the European Social Fund: ESF) in more dynamic ways in order to make them useful instruments for developing a unique European policy and no longer funds distributed anonymously to national governments by way of compensation.

This twofold approach gave rise to the cohesion policy, which creates an original kind of solidarity: solidarity between European regions, with a clear understanding of their economic and social context. The goal was to implement a dynamic mechanism for convergence, by broadening the field of intra-European solidarity beyond the traditional view of solidarity as being between social groups (which normally derives from the responsibility of individual Member States), such as when the United States overcame the 1929 crisis with Roosevelt's New Deal or when post-war Europe developed social welfare systems. Because of the increased fiscal contribution by the wealthiest countries (direct contributors) and wealthiest (non-recipient) regions, the cohesion policy is governed by fairly strict rules intended to ensure its effectiveness.

At first glance, it seems that the "pact" that Jacques Delors obtained in 1988 has not been fundamentally altered since then, because the policy has

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7. Cecchini Paolo (coord.), *Research on the Cost of non-Europe – Basic Findings*, Brussels, Commission of the European Communities, "Documents" Series, volumes 1-16, 1988.

8. Padoa-Schioppa Tommaso, *Efficacité, stabilité, équité*, Paris, Economica, 1987.

more or less kept the same structure and basic principles. But upon further investigation, it becomes clear that the relationship between solidarity and responsibility has changed and that other, more political factors are at work.

## **1.1. The changing face of inter-regional solidarity**

### **1.1.1. A growing part of the EU budget**

The cohesion policy helped achieve a significant level of solidarity. The amount of money allocated to this policy went from ECU 69 billion for the 1988-1993 period to ECU 168 billion for 1994-1999, then €213 billion for 2000-2006 and finally €347 billion for 2007-2013. The proportion of European Gross National Income (GNI) it accounted for stabilised at just under 0.4% (0.37% in 2013).

Transfers towards regions whose development is lagging behind rose to €143 per year per capita for the 1989-1993 period, then €187 for 1994-1999. They reached a high in 2000-2006 with €217 per year per capita, then fell to €167 in 2007-2013.

At national level, the solidarity required by the Structural Funds can account for as much as 4% of national GDP, as was the case for Greece before 2004. A ceiling has now been set between 3.23% and 3.78% for Central and Eastern European countries.

Over the last two decades, the cohesion policy has followed a course of continuous growth in the EU budget, more so than other EU priorities. However, the level of compromise in the final budget is not significant in itself because it is always a reflection of political power and the continual tension between the contributors' initial wish to make the different categories of recipients as rational as possible and the conflicting desire of other stakeholders (governments, regions, NGOs, various lobbies) to obtain or continue to receive funding. Moreover, depending on the setting and the point in the negotiation, the same Member State may put forward different

arguments on the subject. One example that comes to mind is the United Kingdom’s constant desire to minimise the overall European budget, while also regularly redefining the Nomenclature of Territorial Units for Statistics. In this way, a very small region called Merseyside was invented around Liverpool in the 1990s, in order to be eligible under Objective 1 (regions lagging behind in development). Similarly, after reunification in 1991, roughly a third of the German territory corresponding to the “new *Länder*” became eligible under this Objective.

### 1.1.2. Evolving criteria and instruments in programme budgeting

The way each programme budgeting is broken down is more significant than the final amount allocated. The specific details are always laid out and examined in three areas: the obstacles that could threaten cohesion, the instruments proposed to prevent this threat and the mechanisms for allocating funds.

Because of the arguments in favour of solidarity, what happens most often is a new financial instrument is created or the criteria for eligibility for existing funds are adapted, as shown by the table below:

	THREATS TO COHESION	EFFECTIVENESS OF FINANCIAL INSTRUMENTS	CRITERIA FOR ELIGIBILITY
1989-1993	ENLARGEMENT TO SPAIN AND PORTUGAL SINGLE MARKET PRESSURE		PER CAPITA GDP (LOWER THAN 75% OF AVERAGE) RURAL AREAS IN DECLINE OR UNDERGOING INDUSTRIAL CONVERSION
1994-1999	GERMAN REUNIFICATION STRUCTURAL REFORM OF THE EMU	COHESION FUND (TRANSPORT AND ENVIRONMENT INFRASTRUCTURE)	UNEMPLOYMENT CITIES (URBAN COMMUNITY INITIATIVE) ARCTIC REGIONS (OBJECTIVE 6)
2000-2006	PRE-ENLARGEMENT	PRE-ACCESSION INSTRUMENTS PHARE, ISPA, SAPARD	AREAS UNDERGOING ECONOMIC CONVERSION (INCLUDING SERVICES)
2007-2013	ENLARGEMENT TO CEECS LOSS OF COMPETITIVENESS	LISBON STRATEGY’S EARMARKING	REGIONS SUFFERING FROM THE STATISTICAL EFFECT OF ENLARGEMENT

### 1.1.3. Indirect returns for wealthy economies

The Delors 1 Package was based on the economic premise of Tommaso Padoa-Schioppa's report<sup>9</sup>: he postulated not only that the most vulnerable countries' acceptance of the Single Market would require financial compensation, but also that the funds allocated to the poorest regions would have indirect feedback effects for the wealthiest regions. This reasoning was confirmed several years later in a report to the Directorate-General for Regional Policies<sup>10</sup>, which estimated that 28% of Structural Funds allocated to the four cohesion countries (Spain, Portugal, Greece, Ireland) were "leaking" toward other Member States during the 2000-2006 period, in the form of imports. These benefits can be explained both by the fact that recipient regions were required to only use European suppliers<sup>11</sup> and by the strength of commercial interdependence. This argument comes up time and again, often with a new spin. In 2004, the third Report on Economic and Social Cohesion confirmed these positive effects: "On average, around a quarter of structural expenditure returns to the rest of the Union in the form of increased imports, especially of machinery and equipment. This 'leakage' is particularly large in the case of Greece (42% of expenditure) and Portugal (35%)."<sup>12</sup>

More recently, the Polish Ministry of Regional Development tried to evaluate the benefits for old Member States of funds allocated to Poland under the cohesion policy, not only direct benefits such as contracts obtained by companies under projects co-financed by the EU, but also indirect benefits such as additional exports to Poland tied to increased demand of intermediate and consumer goods. This study concluded that for the 2004-2009 period, most of which was marked by economic pros-

9. Padoa-Schioppa Tommaso, *op.cit.*

10. Beutel Jörg, *The economic impact of objective 1 interventions for the period 2000-2006*, Directorate-General for Regional Policies – European Commission, 2002.

11. This community-level practice is along the lines of "tied aid", which is often used in development aid policies. See Corinne Balleix, *L'aide européenne au développement*, Paris, DILA, Collection "Reflexe Europe", Série "Institutions & Politiques", 2010.

12. European Commission, *Third Report on Economic and Social Cohesion – A New Partnership for Cohesion: Convergence, Competitiveness, Cooperation*, 2004.

perity, around 27% of funds received by Poland found their way back, either directly or indirectly, to the 15 old Member States. Germany was the big winner with nearly €2 billion in additional exports, far ahead of other countries like Italy and France who gained less than €500 million in exports. Forecasts for the 2004-2015 period are even higher because they are counting on an accelerated recovery of the Polish economy. “From each euro spent on the implementation of cohesion policy in Poland, EU-15 countries receive the return of 36 cents in the form of additional export of goods and services [direct benefits], or even 46 cents if we deduct their own payments under cohesion policy from the cost [indirect benefits].”<sup>13</sup> Germany’s dominance should be confirmed, as “for each EUR 1 paid by Germany to the Community budget for the implementation of the cohesion policy in Poland, it receives 72 eurocents in the form of additional export contracts. However, when direct benefits for Germany due to the conduct of Community cohesion policy are included, this reimbursement can be estimated at 85 eurocents.”

While Poland benefits the most from these funds, receiving more than €67 billion or approximately 20% of total funds, it is not the country with the least developed economy (with a per capita GDP of 54% of the EU average). This study’s figures can thus give a fairly reliable idea of the importance of this phenomenon whereby the EU-15 countries receive direct and indirect redistribution of funds from all new Member States: nearly €70 billion over seven years.

Concretely, while the direct recipients of the cohesion policy have changed over the last 20 years, the catching-up mechanism provided by European structural operations has always been the source of a secondary movement of capital, whereby 30-40% is transferred to contributing countries, whose

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13. Skrok Lukasz, [Evaluation of benefits gained by EU-15 States as a result of the implementation of cohesion policy in Poland – 2010 update](#), Study prepared by the Institute for Structural research, Warsaw, Ministry of regional development, Warsaw, 2010.

economies are more advanced. Recognising this side of the issue considerably weakens the idealistic tone surrounding the “Cohesion Pact”. While professing European solidarity, these partners’ interests are not based on a moral acknowledgement of responsibility and cooperation, but in fact on financial and economic calculations.

Contributors have an increased interest in an active responsibility for recipient regions: not only must recipients strictly apply the rules so that convergence may begin and lead to a long-term reduction in their financial needs, but this good governance also guarantees even more immediate benefits from the contracts and investment projects for companies from the wealthiest, most developed countries. It is both a reason to maintain solidarity between regions – and not just between countries – and to increase efficiency in the implementation of the cohesion policy.

## **1.2. An increasingly urgent call for responsibility**

### **1.2.1. The principles of the cohesion policy**

Several principles have been identified for the implementation of Structural Funds. These principles are considered to be essential in order for the policy to achieve tangible results – especially increasing the growth rate of the most disadvantaged regions – and have changed little in twenty years:

- Strategic planning: Instead of identifying recipients based on the category to which they belong, the policy functions in terms of Objectives. For example, for 1988-1993: Objective 1 to promote the development of regions which are lagging behind, Objective 2 for the conversion of declining industrial regions, Objective 3 to combat long-term unemployment, Objective 4 for the integration of young people into working life, Objective 5b for the development of rural areas.

- Multi-annual planning: The stability of resources over periods of five or seven years should allow long-term structural reforms and investments to come to fruition.
- Additionality, in order to prevent national or regional governments from profiting from the European aid by removing their contribution.
- The concentration of investment where it has the strongest effect: the least developed regions (where per capita GDP is lower than 75% of Community average) and the most vulnerable populations (women, young people, handicapped people, the unemployed, migrant workers, etc.). The level of aid must be adjusted according to need, from 50% for the wealthiest regions to 85% for the regions or countries lagging the most behind.
- Partnerships between the different levels of government and public and private players.
- Evaluation and monitoring.

En 2007, “proportionality” was added to this list, in order to highlight the importance of simplification for programme managers and monitoring organisations, including those from the European Commission. Today, given the difficulties encountered by many small project initiators, it is unclear how this principle is being used by administrations and whether or not it has had an effect.

### **1.2.2. Stricter requirements for recipients**

Since the publication of the first Report on Cohesion in 1996, many experts have analysed the effectiveness of the cohesion policy<sup>14</sup>. They have generally agreed on the fact that its contribution to the convergence of regions that are lagging behind cannot be clearly distinguished from the more significant impact of other European policies (in particular,

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14. Sala-i-Martin Xavier, “Regional cohesion: Evidence and theories of regional growth and convergence”, *European Economic Review*, vol. 40 (6), pp. 1325-1352, 1996; De La Fuente Angel, “Convergence Across Countries and Regions: Theory and Empirics”, *CEPR Discussion Papers* 2465, 2000.

those linked to the operation of the Single Market: competition, transport, Economic and Monetary Union, etc.) or from the national context<sup>15</sup>. Any evaluation done must thus rely on efficiency. As a result of this, certain principles were reinforced and monitoring increased. However, national administrations also took advantage of this period to take back control and sometimes reintroduce outdated sectoral and accounting approaches.

The trend was toward increased concentration, because of the dual effect of contributing countries demanding stricter rules and a need tied to the accession of much less wealthy countries: for the 2007-2013 period, 81.5% of the total budget (or €282 billion out of €347 billion) has been allocated to convergence regions, compared with 64%, 68% and 71% in the three previous programming periods.

Under the pretence of rationalising and simplifying implementation for programme managers, direct intervention from the Union at regional or local level (innovative measures and Community Initiative programmes) has been gradually eliminated. Meanwhile, the role of European administration has been progressively limited to formal, infrequent, remote monitoring. National and regional managers have become the sole contacts for final recipients of the cohesion policy. The number of Objectives was reduced from six to three; accounting rules, such as lump-sum advances, were introduced in order to facilitate programme progress; sub-regional zonings negotiated between the Commission and Member States were eliminated. Various systems were implemented in order to improve the quality and speed of expenditure, such as the introduction of a penalty in the form of an automatic decommitment for funds that were not programmed after two years.

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15. Fayolle Jacky & Lecuyer Anne, "Croissance régionale, appartenance nationale et fonds structurels européens", *Revue de l'OFCE*, n° 73, 2000; Bradley John, "Evaluating the impact of European Union Cohesion policy in less-developed countries and regions", *Regional Studies*, vol. 40, Issue 2, pp. 189-200, 2006.

The quantitative visibility approach became more important than the qualitative stimulation approach. Emphasis was placed on quantifiable results and performance. As a result, there were fewer possibilities for supporting various broader measures, such as local development, or measures aiming to give certain less reactive social groups or territories a better chance<sup>16</sup>. A Performance Reserve introduced in 2000 in order to reward the programmes performing the best at their mid-term review proved disappointing because, in order to avoid conflict with their regional partners, national administrations often simply distributed the reserve funds evenly. This clause became optional in 2007 and has been seldom used in national programmes since.

These changes have helped cloud the public's perception of European intervention, as well as make it seem less applicable to their daily concerns and reinforce its technocratic image.

### **1.2.3. The contributor countries' biased view of their responsibilities**

Without fundamentally challenging their long-term financial commitment to the territories and groups who are lagging behind, we must recognise that the wealthiest countries and regions often interpret the rules in their favour. Two examples highlight this situation.

In the period that preceded enlargement to the Central and Eastern European countries (2000-2004), the dual principle of solidarity and responsibility extended to candidates was perfectly respected. However,

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16. The analysis by the European Court of Auditors perfectly explained this approach, "The Court notes that such an approach [community-led local development] entails additional costs and additional risks (for compliance as well as sound financial management) which result from giving control of the EU budget to local action groups (LAGs)", as well as its proposals: "...most rural (and urban) areas already have structures that represent the interest of the local community. (...) These have advantages over LAGs in that they are representative of the local population; they are democratically accountable and have already established administrations with the capacity to manage budgets." European Court of Auditors, [Opinion No. 7/2011 on the proposal of a framework regulation](#), 15 December 2011.

the amount that was reserved for them was markedly smaller than that allocated to old Members: during the initial phase, €22 billion for the 12 candidate countries compared with €213 billion for the EU-15. To ensure solidarity, three specific instruments were created to allow the candidate countries to prepare for the transition: PHARE (a twinning instrument to encourage the modernisation of institutions and the development of human resources, partly inspired by the ESF), ISPA (to finance large infrastructure projects, inspired by the Cohesion Fund) and SAPARD (to support agricultural diversification and rural development, inspired by the 2<sup>nd</sup> pillar of the CAP). To ensure responsibility, funds were allocated on the condition that accession negotiations advance, including progress in the adoption of the “Acquis Communautaire” and the implementation of appropriate management structures.

The debate that preceded the opening of negotiations on the 2007-2013 packet highlighted the context of slow economic growth in the main Member States and of a loss of European competitiveness on the world stage. Contributing countries thus tended to sidestep the question of their solidarity obligations<sup>17</sup>. Basing their arguments on the Sapir report<sup>18</sup>, which recommended limiting cohesion spending to the countries lagging the most behind<sup>19</sup> and dedicating the sums freed up to investment in research and innovation, they shifted the discussion towards a new question: Should the cohesion policy continue to promote convergence or should it strive for excellence? In other words, is it preferable to continue to concentrate funds in the regions lagging behind or support the regions with the highest potential for development, assuming that they will act as a driving force for the others?

17. The long-term responsibility of contributing countries is presented by Jérôme Vignon (*op. cit.*) as compensation for the active solidarity expected from recipient countries.

18. Sapir André (dir.), *An Agenda for a Growing Europe – Making the EU Economic System Deliver*, europa.eu, 2003.

19. The Sapir Report recommended relying on national cohesion and limiting cohesion spending to the countries lagging behind, rather than taking into account regional disparities. This would have allowed for an automatic reduction in financing needs from 0.45% of Community GDP to 0.2%.

The final decision was that the wealthiest regions would be eligible for Structural Funds as long as 75% of the funds were earmarked for Lisbon Strategy priorities (technological research and development, innovation and entrepreneurship, information and communication technologies, renewable energies, transport, environmental protection, jobs, training and employability). The least advanced regions would be held to a similar obligation, but at a rate of 60%. The names of the objectives describing the categories of regions were also modified: Objective 1 regions became “Convergence regions” and Objective 2 regions became “Competitiveness and Employment regions”.

### **1.3. The role of politics in reconciling solidarity and responsibility**

The exceptional longevity of the “Cohesion Pact”, which has endured the trials and tribulations of often very bitter intergovernmental negotiations and frequent criticism by macro-economists, is surprising when only the technical arguments, be they economic or social, are considered. The secret or reason for this longevity is most likely to be found in political factors, both at supranational and sub-national levels.

#### **1.3.1. European integration as a driving force**

Budgetary negotiations can be deadly if they do not take into account the bigger picture and have an ambitious vision. Jacques Delors’s 1988 message demonstrates this clearly: he convinced Member States to agree to double the appropriations allocated to the cohesion policy by characterising it as a policy that would help establish the wider internal market. Similarly, negotiations for the 1994-1999 budget, when appropriations doubled as well, highlighted the goal of creating the Economic and Monetary Union.

While it was not overtly stated and although the populations of certain Member States did not always understand it clearly, the vision of a “major enlargement” undoubtedly played a role in the negotiations for the 2000 Agenda. The historical precedent set by this 2004 (and 2007) deadline, while sometimes incorrectly described as the reunification of Europe<sup>20</sup>, was clear to European leaders. It could be considered a paradigm shift, calling for a boost in Community spirit, or even a dose of generosity towards the less well-off Members of the EU and those who aspired to join it even if their ability to take on a role of “active solidarity”<sup>21</sup> remained uncertain.

The political dynamic at play before the adoption of the most recent Financial Package is more difficult to determine. The alignment of the cohesion policy with the Lisbon Strategy appeared to be stricter than desired – not to mention that the strategy itself had lost much of its drive by the end of 2004, with the publication of the Kok Report. While the Constitutional Treaty could have acted as a new conceptual framework, when it was abandoned following the French and Dutch referendums much of the unifying drive within the EU was lost. Today, while the Treaty of Lisbon has established new responsibilities for the EU and calls for additional financial intervention, it is not very likely that this new framework will move people to spontaneous, political action. However, it is possible that for a certain number of parties to the negotiation – in this case the new Members – achieving the enlargement in order to realise a vision of a 27-Member EU was a strong, unifying project. This might even explain why recipient countries were willing to accept much stricter rules than in the past.

### **1.3.2. The emergence of regional players**

The second explanation for the Pact’s longevity comes from the specific governance of programme management. The regional vision put forward by the cohesion policy is not limited to exclusively social or economic con-

20. Because Europe was never unified a first time, as Bronislaw Geremek liked to remind us.

21. Vignon Jérôme, *op. cit.*

siderations; it also stems from a desire for democratisation that Jacques Delors used to speak of as “bottom-up European integration”, as opposed to “top-down European integration” (i.e. through legislation and treaties)<sup>22</sup>. While citizens must be able to feel engaged in the idea of Europe in their daily lives through concrete results such as bridges, roads and hospitals, partnerships born of local and regional authorities must be able to engage in direct dialogue with the ‘Brussels government’.

Over the last twenty years, the European Union has undergone an unprecedented phenomenon affecting the organisation of institutions within Member States, in the form of decentralisation, deconcentration, regionalisation and devolution. However, the role the cohesion policy plays in amplifying this shift is still up for debate<sup>23</sup>.

By giving regions and cities the status of partner in the design of economic, social and regional development, a stable financial and legal framework as well as new instruments, the cohesion policy has doubtlessly helped many new players take the stage<sup>24</sup>. In the fifth Report on Economic and Social Cohesion, the Commission noted a continuous movement of responsibility for public spending toward the regional and local levels since the 1990s. However, this increased burden was not accompanied by an equivalent transfer of resources (with the notable exceptions of Belgium, Denmark and Spain).

Less than a third of public spending is decentralised, with wide disparities among the 27 Members. In contrast, local and regional authorities account for 65% of public sector investments on average. Local authorities could use these figures as an argument for asking to be more involved in decisions and to no longer be satisfied with acting only as co-financiers.

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22. Wolton Dominique, *L'unité d'un homme – entretiens avec Jacques Delors*, Paris, Odile Jacob, 1994.

23. Jouen Marjorie, *La politique européenne de cohésion*, Paris, DILA, Collection “Réflexe Europe”, 2011.

24. Today there are an estimated 150,000 local authorities in the 27 EU Member States, including 268 regions.

We must therefore not be surprised when a regional lobby rises up and disturbs the waters of intergovernmental negotiation, which is based on national net balances. Regions consider that they must be able to procure the financial means to match their abilities, ambitions and responsibilities. Their interests are not necessarily identical to those of their countries, which are categorised according to their ability to contribute to the EU budget. Regions could also participate in other ways, such as questioning national governments on the acceptable degree of internal solidarity (for example, in Germany, Italy, Spain and Belgium). This new state of EU affairs, which could be termed “multi-level governance”, also explains the strength of the “Cohesion Pact”. However, given the current period of crisis and austerity from which the different levels of sub-national governance and more generally the entirely political class are suffering, this could also be considered a weakness.



## 2. The difficult conditions for renewing the Pact

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The negotiations for the 2014-2020 Package began in a completely new context for the EU. After the shock wave caused by the financial and banking crisis of 2008, the degradation of the public finances of certain Member States – particularly Greece – plunged the euro area into a monetary crisis in 2011. Economic forecasts for 2012 are bleak and have crushed any hope of a quick recovery, making it even harder to implement the Europe 2020 strategy and opening the door to numerous doubts about the future of the EU.

The main guidelines for the future cohesion policy were made public in October 2010, by both the fifth Cohesion Report and the communication on the European budget review<sup>25</sup>. They were detailed in the communication on the multiannual financial framework of June 2011<sup>26</sup> and the series

25. European Commission, COM(2010) 700 final, *The EU Budget Review*, 19 October 2010.

26. European Commission, COM(2011) 500 final, *A Budget for Europe 2020*, 29 June 2011.

of proposals for a regulation of the Funds covered by the Common Strategic Framework<sup>27</sup>.

The relationship between solidarity and responsibility changed shape with the expansion of the scope of solidarity on the one hand (due to the entry into force of the Lisbon Treaty which recognises territorial cohesion as a horizontal objective of the EU) and stricter conditions applied to recipients of European Funds in line with enhanced economic governance on the other hand. The complications accumulating around this tension risk destabilising the virtuous cycle that has thus far allowed the Cohesion Pact to be renewed.

## **2.1. Solidarity and responsibility: a strained relationship**

### **2.1.1. The expansion of the scope of solidarity**

With the Common Strategic Framework (CSF) governing all jointly managed funds destined for territorial development – the three cohesion policy funds: the ERDF (European Regional Development Fund), the ESF (European Social Fund) and the Cohesion Fund, as well as the EAFRD (European Agricultural Fund for Rural Development) and the EMFF (European Maritime and Fisheries Fund) –, the Commission intends to define the new conditions under which expanded regional solidarity will take place<sup>28</sup>.

Under the Commission's list of the new territories benefiting from territorial cohesion, almost all types of geographic and socio-economic areas are covered: urban, rural, coastal and fishing areas; regions suffering from natural disadvantages or serious, chronic demographic issues (islands,

27. European Commission, COM(2011) 615 final, *Proposal for a regulation laying down common provisions on the ERDF, the ESF, the Cohesion Fund, the EAFRD and the EMFF covered by the Common Strategic Framework*, 6 October 2011; COM(2011) 614 final, *Proposal for a regulation on specific provisions concerning the ERDF and the Investment for Growth and Jobs Goal*, 6 October 2011; COM(2011) 607 final, *Proposal for a regulation on the ESF*, 6 October 2011; COM(2011) 627 final/2, *Proposal for a regulation on support for rural development by the EAFRD*, 19 October 2011; COM(2011) 804 final, *Proposal for a regulation on the EMFF*, 2 December 2011.

28. Jouen Marjorie, "La dimensions territoriale de la future programmation de la politique de cohésion", in *La politique régionale de l'Union européenne*, ENA, 2012.

mountains and low/very-low population density); ultra-peripheral regions; border regions; areas covered by macro-regional strategies and sea basin strategies; specific sub-regional territories in need of local development strategies and the poorest geographical areas.

It also introduces a new, intermediate category of regions, defined not by the goal targeted by the Structural Funds, but by the level of wealth calculated by per capita GDP. One part of the cohesion policy's budget is allocated to these regions, and specific co-financing rates are given to them. In exchange, they have specific restrictions with regards to their choice of investment priorities<sup>29</sup>:

- The least developed regions, whose per capita GDP is lower than 75% of the EU average, who receive 50.13% of the cohesion policy's budget, have access to a European co-financing rate of 75-85% and have a free range of choice among the 11 thematic objectives corresponding to the Europe 2020 strategy;
- Transition regions, whose per capita GDP is between 75 and 90% of the EU average, who receive 12.01% of the cohesion policy's budget, have access to a European co-financing rate of 60% and have an intermediate range of choice among the objectives;
- The most developed regions, whose per capita GDP is above 90% of the EU average, who receive 16.39% of funds, have access to a European co-financing rate of 50% and have a limited range of choice among the objectives.

The Commission also proposed reintroducing certain former procedures for using funds that had been abandoned, such as integration. The CSC “establish[es] for each thematic objective the key actions to be supported by each CSF Fund and the mechanisms for ensuring the coherence and

29. See Articles 8, 82, 84 and 110 of the *Proposal for a regulation laying down common provisions on the ERDF, the ESF, the Cohesion Fund, the EAFRD and the EMFF covered by the Common Strategic Framework* and Articles 4 and 5 of the *Proposal for a regulation on specific provisions concerning the ERDF and the Investment for Growth and Jobs Goal*.

consistency of the programming of the CSF Funds with the economic and employment policies of the Member States and of the Union”<sup>30</sup>.

At national level, the future partnership agreement between the Commission and a Member State must also include several documents demonstrating “an integrated approach to territorial development supported by the CSF Funds setting out (...) the arrangements to ensure an integrated approach to the use of the CSF Funds for the territorial development of urban, rural, coastal and fisheries areas and areas with particular territorial features (...) an integrated approach to address the specific needs of geographical areas most affected by poverty or of target groups at highest risk of discrimination or exclusion, with special regard to marginalised communities, where appropriate, including the indicative financial allocation for the relevant CSF Funds”<sup>31</sup>.

Staying the course taken in 2008, by mobilising Structural Funds in order to support those countries hit hardest by the crisis within their recovery strategy<sup>32</sup> and the six “programme” countries<sup>33</sup> during the summer of 2011, the Commission announced that it intended to “increase payments for Member States with temporary budgetary difficulties” and thus to temporarily increase the EU co-financing rate by 10%, without going over 95%, so as not to impede the implementation of regional programmes when national public finances have run out.

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30. See Article 11 of the *Proposal for a regulation laying down common provisions on the ERDF, the ESF, the Cohesion Fund, the EAFRD and the EMFF covered by the Common Strategic Framework*.

31. See Article 14 of the *Proposal for a regulation laying down common provisions on the ERDF, the ESF, the Cohesion Fund, the EAFRD and the EMFF covered by the Common Strategic Framework*.

32. Jouen Marjorie, “Cohesion policy and the role of the Structural funds in austerity”, in Natali David & Vanhercke Bart (dir.), *Social Outlook 2011*, Brussels, OSE-ETUI, to be published.

33. The Commission proposed increasing the European co-financing rate for programmes relating to cohesion policy, fisheries and rural development in the six countries hit hardest by the crisis, three of which (Romania, Latvia and Hungary) do not belong to the euro area yet benefited from the EU Balance of Payments facility while the other three (Greece, Ireland and Portugal) received aid from the European Financial Stability Mechanism. Appropriations for 2007-2013 have not been modified, however. *Regulation of the European Parliament and of the Council (...) as regards certain provisions relating to financial management for certain Member States experiencing or threatened with serious difficulties with respect to their financial stability*, COM(2011) 482 final, 1 August 2011.

### 2.1.2. Stricter, more numerous conditions

As a continuation of the measures taken to reinforce economic governance of the euro area at the end of spring 2010 and during the summer of 2011, the Commission also set some new conditions for implementing the cohesion policy, to be added to the rules that were already in place.

Firstly, these are macro-economic conditions which combine penalties, threats and enforced aid. The Commission assumes “the right to suspend all or part of the payments and commitments where, despite the enhanced use of CSF funds, a Member State fails to take effective action in the context of the economic governance process”. It has also indicated that “the suspensions should be lifted and funds be made available again to the Member State concerned as soon as the Member State takes the necessary action” and that “Decisions on suspensions should be proportionate and effective”<sup>34</sup>, taking into account the economic situation of the country and the very unequal impact that such a decision could have on the national budget.

This suspension clause, which has existed in the regulation on the Cohesion Fund since its creation in 1994 and which had never been implemented, was just invoked against Hungary<sup>35</sup>. However, while the Cohesion Fund’s objective of compensating for and anticipating the imbalances resulting from the implementation of the EMU is clearly tied to the respect of the Stability and Growth Pact, this is not the case for the other funds, which raises doubts about the solidity of this proposal’s legal basis. This proposal has been met by categorical opposition from the European Parliament and the Committee of Regions, doubts from the European Court of Auditors and controversy from the Council<sup>36</sup>.

34. *Proposal for a regulation laying down common provisions on the ERDF, the ESF, the Cohesion Fund, the EAFDF and the EMFF covered by the Common Strategic Framework*, COM(2011) 615 final, 6 October 2011.

35. During its meeting on 24 January 2012, the ECOFIN Council deemed Hungarian efforts to sustainably reduce excessive public deficit insufficient and concluded that its continued failure to follow the recommendations of the Council could lead to the suspension of funding granted by the Cohesion Fund.

36. Jouen Marjorie, *op. cit.*

Secondly, “*ex ante*” conditions have been introduced to “ensure that the conditions necessary for... effective support are in place. Past experience suggests that the effectiveness of investments financed by the funds have in some instances been undermined by bottlenecks in policy, regulatory and institutional frameworks” and the Commission will thus make verifications before programmes begin.

The last type of conditions has to do with programme development. The Commission proposes instituting a performance reserve of 5% to reward the programmes that will have achieved “milestones related to targets for outputs and results linked to Europe 2020 objectives set for programmes in the partnership contract”. But this reward could turn into a penalty as “failure to achieve milestones may lead to the suspension of funds, and a serious underachievement in meeting targets for a programme may give rise to a cancellation of funds”.

Announced in 2010, the consistency required between regional development programmes and Europe 2020 objectives – a continuation of the direction taken in 2007 for the Lisbon Strategy – poses an additional constraint. Recipient regions must choose from a list of 11 thematic priorities: 1) strengthening research, technological development and innovation; 2) enhancing access to, and use and quality of, information and communication technologies (ICT); 3) enhancing the competitiveness of small and medium-sized enterprises (SMEs), the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF); 4) supporting the shift towards a low-carbon economy in all sectors; 5) promoting climate change adaptation, risk prevention and management; 6) protecting the environment and promoting resource efficiency; 7) promoting sustainable transport and removing bottlenecks in key network infrastructures; 8) promoting employment and supporting labour mobility; 9) promoting social inclusion and combating poverty; 10) investing in education, skills and lifelong learning; 11) enhancing institutional capacity and an efficient public administration.

As for the most developed regions, they are even more limited because they may only choose between six of these priorities (numbers 1, 3, 4, 8, 9 and 10).

## 2.2. New debates emerging from the crisis

### 2.2.1. “Deconstruction of redistribution” in the name of development

Selected to analyse the future cohesion policy, Fabrizio Barca wrote a report in 2009, in which he called for a place-based approach to the “EU’s only true development policy”<sup>37</sup>. Among his many proposals, he insisted on the necessity of returning to the original idea of regional development policy, based on the OECD’s observation of a renewal of rural zones during the 1990s while the service sector expanded and industry declined.

This “new paradigm”, based on the enhancement of local or regional potential (natural, economic, social and cultural potential) and not on compensation for handicaps, was a major argument used by the Commission to justify aligning the cohesion policy and the Europe 2020 strategy<sup>38</sup>. “Cohesion policy as a development policy has a key role to play in improving the conditions for long term knowledge-based, sustainable and inclusive growth across all Member States and regions”<sup>39</sup>. It is thus presented as an instrument for coordinating common European guidelines and implementing them in field, thanks to partnerships at all levels of government.

This new way of thinking was fairly well received by recipient countries, notably by the largest among them, Poland. During the six months of the

37. Barca Fabrizio, *An Agenda for a Reformed Cohesion policy. A Place-based Approach to Meeting European Union Challenges and Expectations*, europa.eu, 2009.

38. European Commission, *Investing in Europe’s Future – Fifth Report on Economic, Social and Territorial Cohesion*, 2010.

39. Fesús Gabriella & Roller Elisa, “Paradigm shift in European cohesion policy”, in *New paradigm in action*, Warsaw, Ministry of regional development, 2011.

Polish Presidency of the EU, the Polish Ministry of Regional Development insisted of the necessity of having an efficient and effective place-based response to the challenges of EU development<sup>40</sup>. It embraced the Academic thought calling for the “deconstruction of the stereotypical, and largely false, image of cohesion policy as policy serving exclusively as instrument of redistribution and/or social compensation in the EU” and highlighting that “what is at stake is mechanisms ensuring better effectiveness and efficiency of the multi-level governance models operating in the field of development”<sup>41</sup>.

The current trend is, surprisingly, a shift in the debate, from the traditional question of the amount and allocation of the budget<sup>42</sup> given to recipient countries to that of the conditions of the use of these funds<sup>43</sup>. More generally, the crisis and its socio-economic impact on countries that had experienced high levels of growth by betting on deregulation (including Ireland, Latvia and Hungary) seem to have put an end to a decade of confrontation between opponents of any public intervention in the name of the free market and supporters of political aid to the most vulnerable populations. However, far from being the end of any substantive discussions, this shift is paving the way for new bargaining between the Commission and the Member States with their regions. In order for the alignment of the cohesion policy to the priorities of the Europe 2020 strategy to be accepted, increased flexibility must be granted, allowing for the choice of thematic priority to be adapted to the local context.

### **2.2.2. An awkward countercyclical role**

Given the current monetary and budgetary crisis, the Commission’s main argument for defending its proposal consists in presenting the cohesion

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40. *Key messages of the Polish Presidency conference in the field of cohesion policy*, Warsaw, Ministry of regional development, 2011.

41. Gasiór-Niemiec Anna, “The new paradigm of Regional Policy”, in *New paradigm in action*, Warsaw, Ministry of regional development, 2011

42. The proportion of supporters of a reduced budget compared to the defenders of the Commission’s proposal remains nearly identical to that of 2005: one third of Member States against the other two thirds.

43. Jouen Marjorie, *op. cit.*

policy as a policy for medium- and long-term investment. The Commission is trying to distinguish the current measures concerning the 2007-2013 programming from the future programming which will probably be launched in 2015 (given the frequent delays with start-up) and which could take place during a period of increased economic prosperity. However, it is difficult to deny that the Structural Funds, and the ways in which they will now be used in order to prove their ability to respond to repeated calls for intra-European solidarity, will be a burden on budget negotiations and will draw lasting attention.

In light of this, it is possible that the announcements made during the summer of 2011 have maintained the misunderstanding of the role of the cohesion policy during economic slumps. On the one hand, proposals were made in order to accelerate the use of appropriations, by increasing the co-financing rate and establishing Task Forces to help countries build their cases. On the other hand, no change was made to overall budget allocations in 2006, aside from changes in need.

Citing the absence of a legal basis, the Commission opposed repeated proposals<sup>44</sup> to use available funds to support specific projects that would foster competitiveness, reduce the impact of unemployment or create jobs. The conclusions of the European Council of 30 January 2012 were vague, making reference to the reprogramming of Structural Funds towards measures in favour of jobs for young people and SMEs, and the mobilisation of non-programmed funds. Meanwhile, the amounts announced by President Barroso (€22 billion for the ESF and €60 billion for the ERDF) correspond to funds that have not yet been allocated but which have already been assigned to each country. For the time being, there is no way to go back on this distribution.

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44. See: Committee of the Regions, *The EU Budget Review*, Opinion 318/2010 of 31 March 2011 and Merkel-Sarkozy document of January 2012 in view of the European Council of 30 January 2012.

The Commission also turned a blind eye to suggestions that Greece could be given funds that were programmed but not used, in order to alleviate the current budget by temporarily subsidising the salaries of civil servants<sup>45</sup>. The fact is that accepting this kind of exception would set a dangerous precedent and could mean the end of the cohesion policy: it would no longer be possible to justify the circulation of funds “via Brussels” that the media and certain British political leaders continue to rebuke<sup>46</sup>.

However, this lack of flexibility during a crisis currently affecting local authorities in unforeseen ways is problematic. The sub-national European public sector saw its resources and spending regularly increase until 2007. In 2008 and 2009, a countercyclical evolution of its finances due to the support of central governments and leveraging allowed it to maintain a high level of investment<sup>47</sup>. In 2010, this trend came to a halt because spending by local authorities, which accounts for two thirds of public investment in Europe, dropped by 10%. In 2011, economic contraction continued with the shut-down of large national programmes (voted within austerity plans), increased costs for building and public works and stricter financing constraints.

These difficulties seemed to increase over the months as refinancing become particularly complicated for regions. In the spring of 2011, the German Stability Council raised a red flag when the *Länder* of Bremen, Berlin, Schleswig-Holstein and Saarland were heading towards a “budgetary emergency” and ordered them to quickly adopt five-year deficit reduction programmes. In December 2011, the Valencian Regional Government was only able to invest €1 billion in Treasury Bonds and had to ask the Official Credit Institute for help with the remaining €800 million. The Spanish government urged its regions to limit their deficits to 1.3% of GDP, but

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45. Pisani-Ferry Jean, “La Commission européenne est trop timide sur les dépenses des fonds structurels en Grèce”, Euractiv.fr, 11 January 2012.

46. “European Project under pressure”, *The Guardian*, 29 January 2012.

47. DEXIA, “Les finances publiques territoriales dans l’Union européenne “, July 2011.

in September the regions of Murcia and Valencia were already running deficits of 3% and 2.3% of GDP, respectively, and Castile-La Mancha was forecasting an annual deficit of 9.8% of GDP. While Spain made a commitment in January 2012 that no administration would have serious liquidity problems, it warned that in return it could temporarily monitor the budgets of regions and local administrations in order to carry out a restructuring plan<sup>48</sup>. According to Dexia, only 64% of financing needs of French local authorities and hospitals – estimated at €22 billion in 2012 – will be covered at best<sup>49</sup>. In January, the Rhône-Alpes and Provence-Alpes-Côte d’Azur regions issued €172 million in bonds<sup>50</sup>. This operation was a significant event for local authorities who were used to relying on Dexia and must now turn to the bond market because traditional commercial banks are in no hurry to grant them loans.

### **2.2.3. Political and public leaders’ responsibility called for by the citizens**

Since 2008 – when the savings and pension systems of several countries collapsed, the speculative bubbles burst in Ireland and Spain with disastrous effects on jobs and the Greek public finance crisis erupted – European citizens seem torn between the desire to help their unlucky neighbours and a certain mistrust of the public authorities who were unable – or unwilling – to curb the excessive collective accumulation of debt.

It is less the idea of solidarity that they are questioning than the responsibility and efficiency of its management. Quantitatively, the cohesion policy cannot be to blame because the amounts paid by the EU are not in the

48. Morel Sandrine, “Madrid serre la vis à l’égard des régions, mais leur apporte aussi un peu d’air frais”, *Le Monde*, 20 January 2012.

49. Michel Anne, “Les collectivités locales seront confrontées à un manque de financement en 2012”, *Le Monde*, 15 December 2011.

50. Ehrhart Isabelle, “L’appel des collectivités”, *Le Monde*, 22 January 2012.

same league as the levels of debt or deficit<sup>51</sup>. The ceiling of 4% of GDP was only reached for Greece, for a few years before 2004, while average contribution from the Structural Funds was 2.5% of GDP for the least wealthy countries (Spain, Ireland and Portugal).

However, the Structural Funds seem to have played a role in changing mentalities and in the establishment of “nouveau riche” behaviours. Ironically, the Structural Funds are criticised for their leverage effect on private funds – widely evaluated at 3 to 1 but in some cases as high as 45 to 1 – and their qualitative added value, which gave inhabitants and economic players the confidence to invest and support sustainable catching-up measures for the most disadvantaged regions<sup>52</sup>.

The seriousness of the situation is reflected by the open criticism by citizens of their political and public leaders, be they local, regional or national. In Spain, leaders are being criticised for backing oversized investments which led to wasted public funds<sup>53</sup>. In most Member States, the past three years have been marked by a harsh electoral backlash: with a few rare exceptions (such as Poland), the existing governments were swept away. However, this criticism can also find a dangerous outlet, such as with the rise of populism, which does not always find a voice in national democratic life, or the growing success of extremist parties in the European Parliament.

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51. In 2010, Ireland's budget deficit was nearing 12% of GDP; in 2011, Greece's budget deficit should be greater than 8.5% of GDP and Spain's should be greater than 8.2% of GDP.

52. Jouen Marjorie, *op. cit.*

53. See the following articles: Morel Sandrine, “Aéroports fantômes”, *Le Monde*, 17 January 2012 and Peregil Francisco, “Des folies en Espagne”, *Le Monde-El Pais*, 19 November 2011.

### 3. A new compromise based on a new definition of solidarity

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**F**our months after the publication of the Commission's proposals in October 2011, negotiations for the cohesion policy seem to be paralysed by the crisis. The fear of a drastic reduction of the EU budget, in the name of general austerity policy, is on everyone's minds and makes it difficult to commence discussion on the proposed reforms. There are two possible strategies to take when facing this threat: either make concessions by identifying the areas or the instruments that could be eliminated without too much damage, or counter-attack by demonstrating enough ambition to shift the terms of the debate.

Even though the amounts involved seem trifling when compared with the level of debt of certain national governments or the sums at play for the EFSF and the ESM, the Structural Funds have received continual solicitations for the past three years. The first option should thus be ruled out, especially because – as we have already seen – the Package proposed by the Commission covers everything: the newly eligible territories, new

ranges of co-financing rates, the extension of the method applied to the Structural Funds to other territorial development funds and even, to a certain extent, the conditions for implementation.

As for the second option, the best course of action would be to revise the different parts of the current proposal while keeping in mind lessons from the past. First, the role that the cohesion policy is expected to play between now and 2020 must be clarified, the budget packet must be given a true European perspective and Europe and its citizens must be given the means to reconcile.

### **3.1. Clarifying the role of the cohesion policy and making a choice between redistribution and development**

A long period of “market fundamentalism”<sup>54</sup> has just ended. Various academic studies agree that this model leads to unsustainable increases in socio-economic inequalities<sup>55</sup>. This state of play, combined with the 2008 crisis, finally makes it possible to discuss the exact role of the cohesion policy on a sounder basis.

In 1988, the favoured approach was to render solidarity more concrete, using medium- and long-term subsidies to form this link between countries whose economies and policies were becoming more and more interdependent. The reaffirmation of the cohesion policy as a key instrument for the

54. “Most supporters of market fundamentalism who see any external intervention, public or private, as a threat to well-being neglect the significant ‘market failures’ which are well-documented”, Fitoussi Jean-Paul & Stiglitz Joseph, “Nouvelles réflexions sur la mesure du progrès social et du bien-être”, *Revue de l’OFCE / Débats et politiques*, 120/2011.

55. “There is now compelling scientific evidence that since the mid-1970s socio-economic inequalities have increased significantly in the world including Europe. There is also ever more evidence that countries and regions with higher socio-economic inequalities experience the most acute socio-economic problems whether we speak about economic growth, increases in violence, poorer educational achievement, declining civic or electoral participation or higher mortality rates”, Baer Jean-Michel, Preface of *Why socio-economic inequalities increase? Facts and policy responses in Europe*, Directorate-General for Research – European Commission, 2010.

internal development of the EU – a key topic since 2009 – is thus simply a return to its roots. Convergence results cannot be observed earlier than the medium term and nearly all the mechanisms associated with the cohesion policy were designed with this timeline in mind.

The temptation to create a countercyclical instrument could be risky because it could both disappoint if results are not obtained quickly and it could also make European structural intervention seem banal – the added value of the EU would become less and less obvious. Given the relatively small amounts that are dedicated to it (0.37% of the EU’s gross national income), it cannot be considered an instrument of redistribution and can only “make a difference” by identifying precise targets.

In this context, and given current social pressures, the only fund that could be mobilised is the ESF, for training and vocational rehabilitation of the unemployed. The ERDF could help support small public investment projects that would be likely to quickly create jobs in promising sectors (“green” and “white” jobs). However, in order to avoid the mistakes of the past, the efficiency of any reprogramming must be guaranteed through unprecedented support measures. The question of centralised management – at national or European level – and the possibility of deploying Task Forces should be studied case by case, because nothing could be worse for European democracy than to give weight to the idea that subsidiarity is a principle that is only applied in times of plenty. Furthermore, as suggested by the European Court of Auditors<sup>56</sup>, the problem of governance is not restricted to new Member States, but also applies to the old ones. The adoption of measures to achieve a certain convergence in this area would thus also be welcome. As for the amounts available, when faced with an extraordinary situation there should be an extraordinary response: if the cohesion policy seems better suited to providing a countercyclical

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56. European Court of Auditors, *op. cit.*

solution than direct national intervention (which also risks being lost in current expenditure and loan repayment costs), it should be possible to automatically “recycle” appropriations for European projects rather than adhere strictly to the amounts set in 2006.

While clearly highlighting the unique nature of the end of the 2007-2013 programming period, the cohesion policy’s role as a development policy must be affirmed starting in 2014. However, if we wish to put an end to the current ambiguity, we must also be open to beginning a true discussion of the model of development we desire, as Joseph Stiglitz invites us to do: “... we should take this moment as one of reckoning and reflection, of thinking about what kind of society we would like to have, and ask ourselves. Are we creating an economy that is helping us achieve those aspirations?”<sup>57</sup>.

### **3.2. In search of a new horizon for 2020**

The Commission suggested that aligning the regional development programmes with the Europe 2020 strategy would be the logical continuation of recognising the structural role the cohesion policy has to play. While most of the stakeholders (nations, regions, NGOs, various lobbies) welcomed President Barroso’s March 2010 proposal, they are far from considering it to be a major integration project in the tradition of the Single Market or the EMU. The goal of this strategy is indeed to re-establish the equilibrium between the three pillars of technology, environmentalism and socio-economics. To do so, it proposes various implementation mechanisms, such as flagship initiatives. This strategy appears to be more realistic and less ideological than the Lisbon Strategy. But there also is an overwhelming lack of vision.

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57. Stiglitz Joseph, *Freefall: America, Free Markets, and the Sinking of the World Economy*, W. W. Norton & Company, 2011.

The following examples support this criticism:

- By advocating for inclusive growth, the Europe 2020 strategy makes a major concession to reality and to the increased inequalities of the last 20 years. It does not go quite as far as the analysis led by the networks of researchers for the 6th Framework Programme (FP) for Research and Technological Development, according to which the issue is not about creating new jobs in the knowledge-based economy, but to fundamentally transform the legal and political framework in which jobs are created. “In mature European economies there has been a shift from manufacturing, which provided relatively well paid and regular employment for people with medium levels of skills, to services, where employment is more polarised between highly paid professional and managerial work and more routine manual service work. Findings from INEQ and PROFIT show that the polarisation of the employment composition impedes career progression and increases the difficulty of redressing the intergenerational transmission of inequality”<sup>58</sup>.
- Sustainable growth is certainly a challenge that requires better use of resources and the development of green technologies. However, the solutions proposed give voice to the idea that the main obstacle to overcome is getting people to admit the validity of the approach and obtaining quantified commitments from partners. This is misleading because choosing sustainable development is not all smooth sailing. Repeatedly disappointing United Nations conferences show it and the situation is no better at the local level<sup>59</sup>. Political leaders must constantly make decisions while faced with conflicts of interest from public players, private players and citizen groups. These conflicts only arise later, after the classic, productive model is abandoned<sup>60</sup>.

58. Directorate-General for Research – European Commission, *op. cit.*

59. Ostrom Elinor, “Unlocking Public Entrepreneurship and Public Economies”, Discussion paper at the EGDI-WIDER conference on *Unlocking human Potential – Linking Informal and Formal Sector* in Helsinki, 17-18 September 2004.

60. Claval Paul, “Le développement durable: stratégies descendantes et stratégies ascendantes”, in *Géographie, économie et société*, 2006/4 vol.8, 2006.

Though somewhat of a generalisation, after the shock of the financial crisis, the European mind-set was probably prepared for a shift in objective: by 2020, the EU would be carried, not by smart, green and inclusive growth, but by a smart, green and inclusive model of development. This is not a mere semantic nuance, but rather the reflection of the aspirations and research that the Fitoussi-Sen-Stiglitz Commission translated into concrete proposals: progress between 2010 and 2020 should no longer be measured in terms of GDP but using new measurements of social progress and well-being.

The negotiations on the cohesion policy will be profoundly transformed because the issue of European integration will no longer be about overcoming the crisis but making headway along the path of social progress and well-being – or more precisely, about ensuring economic, social and territorial cohesion based on new indicators.

If we reconsider the traditional three categories that contribute to each programming – main threats to cohesion, instruments proposed to prevent these threats, mechanisms for allocating funds – the demographic and health conditions of regions, unequal income distribution, education levels, the state of the environment and physical constraints could become the most important criteria for eligibility and give rise to new financial tools or new methods of intervention. And this new state of affairs might just help the cohesion policy finally achieve positive results in terms of social cohesion in micro-territories – a goal that it has not really been capable of achieving in twenty years.

### **3.3. Reconciling Europe and Europeans**

The other wild card in our current model is the citizens, or rather the democratic link between Europeans and the Union.

In analyses of public opinion, it is often noted that the disillusionment with Europe that occurred in the early 1990s corresponded to an overall increase in unemployment and that a negative correlation was established between unemployment rates and European affiliation. If this hypothesis is true, it would suggest increasing EU intervention in social issues. However, this field largely falls to individual nations and their ability to quickly obtain serious results is limited.

During the first two programming periods of the cohesion policy, the EU was very successful at carrying out projects with tangible results (and continues to do so in Central and Eastern European countries). While this helped keep Europe connected to Europeans, momentum was slowly lost as three separate phenomena came together and affected programming and implementation: renationalisation, overly-complicated procedures and complex problems in need of resolving, especially when funds stopped being used in an integrated way. This shift did not go unnoticed by the Commission<sup>61</sup>, which is trying to reconnect this tie directly, using its proposal of “community-led local development”. The idea is to expand the LEADER method, based on local action groups in charge of small development projects in rural areas, to all types of territory – urban, periurban, coastal, etc. But there is no indication that this proposal will come to pass because it goes against the sectoral rationale of fund management and the reproduction of the vertical model in use in Member States and the culture of quantitative evaluation (*see above*).

The last change required to make the future cohesion policy credible is to simplify procedures. While this has been invoked on a regular basis for nearly twenty years, it has been merely wishful thinking as it would mean revising all the procedures, to make it easier not for those managing or monitoring, but for recipients. The European Court of Auditors had no

61. Jouen Marjorie, “Local development in Europe: assessment and prospects after the economic crisis”, *Policy Brief No. 21, Notre Europe*, 2011.

trouble deriding the new system proposed by the Commission which, after announcing the principle of reducing the administrative load, established six levels of rules, without counting an additional level that could be added by Member States<sup>62</sup>. While this task is particularly thankless, it should not be overlooked. It is absolutely necessary to simplify procedures in order to “speak to Europeans”, or in other words to make European funds accessible to ordinary project initiators.

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62. European Court of Auditors, *op. cit.*

## Conclusion

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**B**ecause of its scope, the current crisis has often been compared to the Great Depression of 1929. However, they differ distinctly on a historic level: European society in 2012 is not the same as it was in the inter-war period. The individuals who make up this society do not have the same values, the same behaviours, the same aspirations or the same information. These differences are often overlooked in reflexions on how to “exit the crisis”, an exit that will obviously be shaped by putting the financial, monetary and economic mechanisms that govern us back in order. However, Europeans will only regain confidence as citizens, workers and parents if the EU gives them the opportunity to take part in the construction of a better future: for them, for their children, their neighbours and their friends, in their neighbourhoods, their cities, their towns and their regions. The contribution of the Union will be most appreciated if it not only plays a distant, financial role in solidarity, but also allows citizens to carry out projects and achieve a collective state of well-being.



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# Competition, Cooperation, Solidarity

## The “Cohesion Pact”: Weathering the Crisis

The European cohesion policy can be seen as one of the strongest illustrations of the tension between solidarity and responsibility that makes European integration so unique. This policy paper by Marjorie Jouen analyses the 2014-2020 cohesion policy and suggests revising the different parts of the package proposed by the European Commission while keeping in mind lessons from the past.

The author revisits the “Cohesion Pact” between EU countries which determines the distribution of EU aid and the strict monitoring of its use. She then reveals the underlying difficulties of the renewal of the Pact, due to the exacerbated tension between solidarity and responsibility, as well as the effects of the current crisis. She finally explains that an ambitious and sustainable compromise post-2013 can only occur if the criteria for intra-European solidarity are redefined in terms of the model of development that Europeans wish to construct.

To achieve this, the author suggest to clarify the role of the cohesion policy; to develop a vision for post-2020 Europe that prepares the transition to a “smart, green and inclusive development model”; and to reconcile the European Union and its citizens by reinforcing the “local” aspect of European policies and simplifying procedures.

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