

# What do you really know about European cohesion policy?

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*"The Community shall have as its task... to promote throughout the Community a harmonious, balanced and sustainable development of economic activities..."*

(Article 2 of the Treaty establishing the European Community)

*"In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion.*

*In particular, the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas."*

(Article 158 of the Treaty establishing the European Community)

In 2005 the European Council asked the Commission to present a comprehensive review of Community policy and funding instruments by the end of 2009. Representing more than one third of the EU budget, it is not surprising that Cohesion policy is regularly discussed and debated. Such exchanges and reflections can only be encouraged as, together with the formal evaluation of the policy, they make a valuable contribution in underpinning the legitimacy and accountability of the policy.

Recently, many arguments have been developed either to support or to criticise the policy on various grounds, and based on a variety of methodologies (see, for example, Bachtler and Gorzalak, 2007; Santos 2008; or EIB, 2009). Whether looking at the pros or cons, taking literal or statistical arguments, the premise for a sound policy debate is a proper understanding of what the policy is, and how it operates.

Yet, it seems that many discussions are based on a series of misconceptions regarding the objectives and

the implementation mechanisms of the policy. This paper therefore aims to clarify the foundations and the objectives of Cohesion policy, taking into account the dimensions that are necessary for a proper assessment of its relevance and effectiveness.

## WHY DOES THE EU NEED A COHESION POLICY?

***Cohesion Policy is the most explicit and most visible expression of solidarity within the EU. But it is more than that.***

In the context of Cohesion Policy, solidarity is not expressed through compensatory (income) payments, but through support for development. In this sense, it can be seen as a help to self-help, and its success depends to a large extent on the capacity and preparedness of those at whom the support is targeted to make the best possible use out of it (including for the building of good governance and administrative capacity).

Support does not only mean financial support, although this is necessary and important, but also – and sometimes even more so – advice, exchange of experience and cooperation with others, capacity building through training, open discussion with stakeholders and last, not least, a critical, but constructive dialogue between different levels of governance (EU, national, regional, and local).

Although development support through Cohesion Policy is available throughout the EU, financial support is concentrated on those regions which are lagging behind in their development. In this sense, Cohesion Policy has re-distributive effects between regions and countries within the EU.

As a development policy, Cohesion Policy is in the first place targeted at people. However, most people in Europe have addresses, i.e. they live in places (areas, territories, regions) characterised by a combination of specific geographic, environmental, economic and social conditions. Moreover, people do not only live in specific places, very often they also want to stay there and to participate actively in and benefit from the overall development of their region, their country and the EU.

Against this background:

***Cohesion Policy is a development policy aiming at improving the conditions for sustainable growth and jobs, well-being, and quality of the environment in the EU regions and at strengthening the integration of regional economies. In doing so, it allows all EU citizens, wherever they live, to contribute to and benefit from the shared political project of a European space with a high degree of development, cohesion and solidarity.***

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*This overall objective is served mainly by promoting investments in human, physical and social capital which help mobilising resources in regions where they are underutilised, removing bottleneck where productivity is already high, improving regions' capacity to adjust to a constantly changing environment, encouraging an innovative business environment, and supporting cooperation and exchanges. This is fully in line with the medium to long term view of the objectives defined under the Lisbon and the Gothenburg Agenda. In this way, Cohesion Policy can and indeed does also serve as an important lever (with positive incentives) for the achievement of the objectives under these priority agendas of the EU.*

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The original political vision, which gave rise to Cohesion Policy, was based on the conviction that *"no Community could maintain itself nor have a meaning for the people which belong to it so long as some have very low standards of living and have cause to doubt the common will to help each Member State to better the condition of its people"* (Thomson report, 1973).

Accordingly, there was a consensus that a strong and sustainable (economic) Community needed both policies that improve the working of the integrated market and policies that ensure everyone can benefit from this improvement. In fact, the process of European economic integration generated again and again fears that the integration of countries or regions with marked differences in their economic development might lead to a situation where *"the realisation of global economic equilibrium may be dangerously threatened by differences in structure"* (Werner report, 1970).

These fears were still reinforced when in the light of the first energy crisis in the early 1970ies and the first enlargement of the Community in 1973. In this context the Community's Regional Policy with the European Regional Development Fund (ERDF) was introduced to ensure a Community contribution to the regional development in the different Member States of the EU. This new Community policy came in addition to the already existing loan instruments of the EIB (mainly for major infrastructure investments) and the Community's Social Policy with its European Social Fund (ESF) which aimed at adapting and improving the qualifications of the workforce in an integrating labour market.

The fears of unsustainable imbalances again gained momentum in the mid 1980ies when the completion of the single market became the political priority project of the EU and the accession of Portugal and Spain were imminent. In this context, a high level expert group presided by Tommaso Padoa Schioppa wrote:

*"If these interactions between policies will be neglected, or if the solutions chosen for them were inadequate, what in 1985 were rightly applauded as significant steps in the construction of Europe could encounter obstacles and entail inconsistencies. These could be erroneously taken as signs that the programme was mistaken, or too ambitious. The primary objective of a fully integrated internal market in an enlarged Community would lose political support and eventually fail, thereby depriving the Community of a major source of additional economic welfare."*

In 1986, Spain and Portugal joined the EC, and appeared to be clear that, by 1992, the single market without internal frontiers would be completed. This market of – at the time – 320 million consumers, where goods, services and factors of production would circulate freely, represented a substantial advance – in terms of efficiency, welfare and economic influence in the world. However, the complete opening of the market in the enlarged Community was expected to have stronger and more distributive effects than those experienced in the sixties when trade integration proceeded among countries with a similar level of development during a time of fast economic growth.

Against this background, the concept of cohesion was introduced into the EEC Treaty by the Single European Act in 1987. Existing "structural" policies of the Community were reviewed and re-organised, and levels of financial support through the Community were increased substantially.

Since then, three generations of Cohesion Policy programmes have been implemented. But the political vision which led to this policy is still compelling today as recently confirmed by the Barca report (Barca, 2009): One of the primary purposes is *"to give all EU citizens, independently of where they live, a concrete sign that the Union is taking action to ensure that they have an equal chance of benefiting from the opportunities created by the unification of markets and of avoiding the risks."*

In other words, the idea is that the EU needs on the one hand sectoral and macro-economic policies and on the other hand a territorial development policy. Sectoral and macroeconomic policies would create more economic opportunities, through market liberalisation, monetary union and geo-political enlargement. The development policy would ensure that everyone, independent of where he or she lives, would be given the opportunity to benefit from and contribute to these processes.

Cohesion policy was therefore conceived as a development policy which would complement the actions taken by the Community in order to realise the liberalisation of the internal market. And it is a development policy in the sense that it aims at fostering sustainable growth and jobs, improving the well-being of EU regions, and promoting the

integration of regional economies. In doing so, it allows all EU citizens, wherever they live, to benefit from and contribute to the shared political project – that of solidarity in a socially cohesive Europe.

Of course, defining Cohesion policy as a development policy has specific implications, first and foremost with regards to the appropriate perspective to use when assessing its results.

For example, the preparatory study for the creation of the internal market written in 1987 included estimates indicating that the money spent in lagging regions may have a lower marginal efficiency of investment (MEI) (EC, 1987a). This means that Cohesion policy, as any development policy, was conceived within the framework of the conscious political choice to possibly trade a higher (and then uncertain) return on investment with an improvement in economic and social conditions throughout the Union.

### COHESION POLICY AT WORK

Perceptions of the purpose of Cohesion policy vary. It is at times construed as a re-distributive policy shifting resources from rich to poor regions. It is also often regarded as a policy aimed at improving growth at the

### What are the objectives of Cohesion policy?

It is sometime argued that the objectives of Cohesion policy are either unclear or too many. This is the result of the inherent complexity of development policies, which cut across sectors, promote multidisciplinary approaches, and involve many levels of decision and jurisdiction.

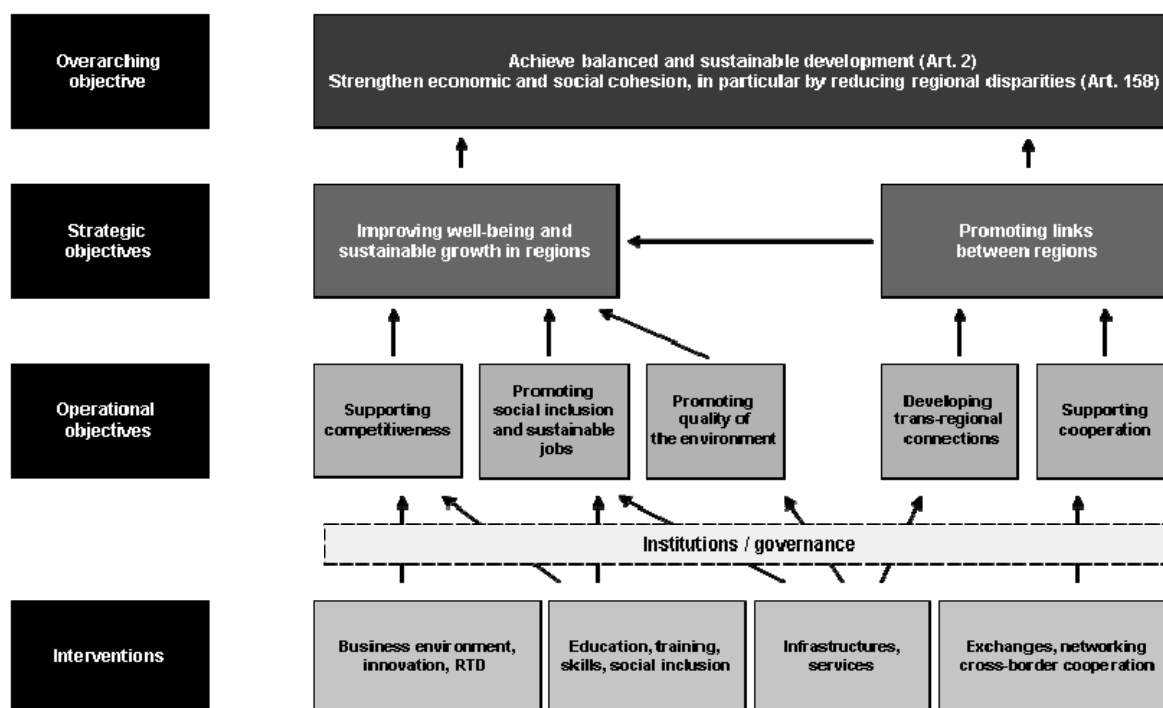
Whilst it is difficult to reduce the purpose of the policy to one single, clear-cut objective, it does nonetheless operate within a logical framework. This framework is represented in the diagram below.

The legal basis of Cohesion policy derives from Articles 2, and Title XVII of the Treaty establishing the European Community. This sets out the overarching objective of Cohesion policy which, as explained above, is intended to enable EU citizens to fully participate in, and fully benefit from, the European integration project.

This overarching objective is flanked by the twin strategic objectives of improving sustainable growth and well-being in the EU regions, and promoting integration of EU regions.

In turn, the objective of encouraging a sustainable

### Cohesion policy logical diagram.



EU level and at other times as a policy attempting to equalise income between regions.

But what is the policy exactly trying to achieve and how? Here are some pointers.

development process is supported by three pillars - , the key operational objectives of the policy. The first one is to support competitiveness and growth-enhancing conditions. This is mainly achieved through interventions aimed at improving the business and innovation environment, improving infrastructure such

as transport and telecommunications, and investing in human resources.

The second pillar is the promotion of employment and job opportunities by adapting the workforce, facilitating access to employment for job seekers, the unemployed, women and migrants, enhancing social integration of disadvantaged people, combating discrimination in the job market, and providing access to services of general interest.

The third pillar is the quality of environment and is supported by measures aimed, for example, at cleaning up polluted areas, boosting energy efficiency, promoting clean public transport, and drawing up plans to prevent and limit natural and technological risks.

The promotion of integration and cooperation between EU regions is supported by two types of operational objectives. The first one is the development of trans-regional infrastructure (transport and telecommunications) and the second one is the promotion of trans-regional cooperation such as the development of economic and social cross-border activities or the networking and exchange of experiences between regional and local authorities.

However, infrastructure investments, promotion of innovation and entrepreneurship, or education initiatives alone, are not sufficient to guarantee a strong impact of policy actions on regional economies. Institutions and governance are as important and are a key factor in the success of other investments. Accordingly, Cohesion policy has increasingly focused on institution and capacity-building at all levels in view of increasing the effectiveness of its interventions in

the Treaty to promote regional development. It is also based on the fact that development has a strong local dimension and that development strategies need to be tailored to the local context to be effective.

Most mechanisms of development are indeed highly context dependent. They rely on the complex interplay of different factors, spanning from the engines of economic growth to the working of societal institutions, which are likely to change from one place to the other or to work principally at a given spatial scale. One example is innovation which has been shown to critically depend on the interactions between various actors and/or institutions. Such interactions are generally hampered by distance and hence more likely to take place at a local level (Polenske, 2007).

This implies that the choice of the geographical area on which to apply a development policy is a key determinant of its success. In particular, in order to reflect the specificities of the local context, the policy should target territories featuring sufficient homogeneity.

EU countries rarely correspond to such territories. Within most Member States, regions feature wide differences in the factors affecting development and growth such as geography, demographics, assets, comparative advantage, productivity, physical and human capital, infrastructure, institutions and policies. Regions also vary in their ability to reap the benefits of the EU integration process or to adapt to the emergence of a global knowledge-based economy.

This is for instance reflected in the fact that economic performance tends to vary much more across EU regions than across EU countries (see table).

**Dispersion of selected indicators across EU Member States and NUTS2 regions**

		GDP/head (PPS), 2006a	GDP growth, 2000-2005b	Employment growth, 1995-2005b	GDP/person employed, 2005a	Unemployment rate, 2007c
MS level	Max	267.1	8.3	4.3	191.1	11.1
	Min	36.5	0.6	-2.6	12.3	3.2
	Range	230.6	7.7	6.9	178.8	7.9
Regional level	Max	335.9	8.6	5.5	850.8	25.2
	Min	24.7	-1.3	-3.2	9.5	2.1
	Range	311.2	9.9	8.7	841.3	23.1

a: Index, EU27 = 100.

b: Average annual % change.

c: % of active population.

Source: EUROSTAT.

Development strategies must be differentiated to account for the specificities of the context on which they are applied. In the EU, it is therefore relevant to choose regions as the geographical level to implement development policies as they are likely to constitute much more homogenous contexts than Member States.

the other domains.

### Why is Cohesion policy concerned with regions?

Cohesion policy is different from general development policies in that it *adopts a territorial approach to reach EU citizens*. The selection of regions as the basis on which Cohesion policy is implemented not only responds to the mandate given to Cohesion policy by

Still, part of the debate has revolved around the use of administrative Regions as the main building block of Cohesion Policy?

It is true that the places in which people live and to which they are attached are not necessarily identical to the administrative Regions addressed by Cohesion Policy programmes. Moreover, the extension of the regions/places with which people tend to identify

themselves may well change in respect of the subjects (problems/challenges) addressed. We speak in this context of "functional regions". There are, of course, situations where functional regions and the administrative regions addressed by Cohesion Policy programmes are identical. In many cases, however, functional regions would appear to be sub-regions within larger administrative Regions. These sub-regions may even extend across the borders of administrative Regions (and in some cases even across national borders), while covering only a small part of each of them. Finally, with respect to certain subjects, people would appear to identify themselves even with a group of administrative Regions (and/or countries), so called "Macro-Regions" like the Baltic Sea Area.

For reasons of good governance within the institutional framework of the EU, Cohesion Policy mainly works with Member States and large administrative Regions as its key public partners. It tries to address the lack of identity between these administrative Regions and functional regions in three ways:

First, it encourages the authorities of the administrative Regions to identify themselves relevant sub-regions on their territory and, where appropriate, to target the development problems or exploit the development opportunities of these sub-regions through specific measures within its Regional development programme.

Second, it encourages them to leave room of manoeuvre and to promote local development initiatives as long as these contribute to the overall development objectives of Cohesion Policy.

Third, it promotes and supports the cooperation between administrative Regions in order to address common development problems and exploit common development opportunities. This includes the cooperation to enhance the development of sub-regions which extend across regional border lines. Cooperation between administrative Regions across national borders is supported under the specific objective of territorial cooperation.

### **Why does Cohesion policy promote integrated approaches?**

In recent years, Cohesion policy has adopted the guiding principles of a new paradigm in regional policies, evolving from a policy aimed at compensating regions for their handicaps to a policy designed to improve regional growth and competitiveness. The policy is therefore meant to support development strategies that cover a wide range of direct and indirect factors affecting regional social, economic and environmental performance.

However, the main feature of Cohesion policy is to provide such support within a general integrated framework that has two fundamental dimensions: sectors of interventions and levels of governance.

#### *Integrating interventions in various sectors*

Recent research has shown that growth not only depends on the availability of resources and factors but even more on how well these factors combine.

For instance, the OECD (OECD, 2009) underlines that improvements in infrastructure do not automatically lead to higher growth. However, when combined with improvements in education and innovation, the impact of infrastructure investment on growth becomes significant. Similarly, even if R&D is spatially concentrated, this does not necessarily imply that the benefits will be too. In this context, investing in human capital is central to foster the efficiency of the regional innovation process and ensuring that the benefits of innovation have a wide social and spatial dissemination.

The policy implication is that regional development requires adopting an integrated approach in the formulation of regional policies.

Since factors of growth are deeply interdependent, the positive impact of policies cannot unfold with a fragmented approach where policy actions in different fields are separated. Accordingly, Cohesion policy encourages the formulation of regional development strategies bridging interventions in different fields into an integrated and coherent policy package.

Regional development strategies should also take into account the various channels linking the performance of one region to that of the others. A coherent regional policy should therefore ensure that local strategies are not formulated in isolation but also take into consideration the strategies that are implemented in other places.

In this perspective, Cohesion policy supports the development of trans-regional coordination schemes which are necessary for exploiting the synergies and complementarities present in the system within which EU regions interact.

#### *Integrating various levels of governance*

Sub-national governments are in the best position to decide where the priorities lie for optimal regional development programmes.

However, in order to be effective, these programmes need to be coherent with the policies implemented by supra-regional levels of governance so as to avoid contradictory public actions and duplication of resources.

Coherence is also a key condition for regional development to contribute to the objectives of these higher levels policies.

For addressing these two complementary mandates, Cohesion policy is designed and implemented within a multi-level governance system in which the European, national, regional and local public authorities closely collaborate.

In such system, the role of each level corresponds to its specific competencies. Regional and local levels reveal local preferences and knowledge in order to channel public resources towards the most productive investments. Higher levels are needed for supporting capacity building, for financial support, and for orienting regional development policies towards the maximisation of positive spillovers to the Member States and the Union as a whole.

They also play a key role in ensuring consistency among the interventions of the various levels, in reducing the asymmetry of information as well as in the identification and diffusion of good practices.

### **Why should the EU be involved at all in promoting regional development and greater cohesion?**

This paper started by recalling the political vision which underpinned the birth of Cohesion policy in the 80s. Yet, many continue to ask what exactly the role of the EU level is?

There are three fundamental aspects which explains the value added the EU level brings in Cohesion policy.

#### *Mainstreaming EU policies*

Cohesion Policy plays a key role in mainstreaming the EU policy agenda to national and regional levels, thereby bringing it closer to EU citizens.

Growth and development in EU regions are partly determined by other EU policies, such as the EU trade policy, the decisions of the European Central Bank or actions aimed at deepening the integration of EU markets. In such circumstances, Cohesion policy complements other EU policies so as to ensure that all regions are in a position to benefit from these policies and to better participate to the delivery of their expected outcome.

For instance, Cohesion Policy has contributed to the restructuring of a number of EU regions, thus easing their adaptation to the progressive liberalisation of the EU trade policy. Also, by reducing development gaps between EU regions and favouring mobility of factors, it has facilitated the operation of the EMU, bringing the EU closer to an optimal currency area (i.e. an area

constituted by members with similar economic structure, see Mundell, 1961 or Viner, 1958).

Cohesion Policy makes a substantial contribution to other EU policy objectives. It helps regions to comply with EU standards and meet EU policy goals in transport, innovation, information society, environment and energy. In addition, programmes have often encouraged national and local governments to develop and sharpen their strategies in implementing EU policies. The most striking examples can be seen with the policy's support for environmental priorities, in underscoring the EU enlargement process, or in its aligning of resources in support of activities to underpin the Lisbon Agenda – the EU's blueprint for competitiveness and sustainable growth.

#### *Fostering EU integration*

Cohesion policy fosters integration between EU regions by contributing to improve communications and transport infrastructure as well as cooperation between EU regions that facilitates not only inter-regional flows of goods, services, capital and labour, but also of ideas and technologies.

The EU territory is a complex system of interconnected places whose performance greatly impacts on the economic, social and environmental outcome of the Union as a whole. Cohesion policy has the important task of deepening the integration and networking between EU regions. These are indeed key factors of EU competitiveness, which allow reaching critical mass and activating agglomeration economies, exploiting synergies and complementarities between European cities and regions, and overcoming possible divisions stemming from administrative borders.

Moreover, regional performances are strongly interdependent due to various types of interregional links. From the standpoint of regional authorities, such spill-over constitutes externalities that should be addressed by higher levels of governance. To the extent that some of the externalities materialise at the EU level, the EU should provide the corresponding coordination scheme. This implies taking into account both positive (such as knowledge spill-over) and negative (such as water pollution) externalities that exist between various types of regions. In turn this can foster the global efficiency of the spatial system formed by the whole set of EU regions by encouraging allocation of resources that reflects benefits and costs for the entire Union.

#### *Complementing national and regional capacities*

Regions must address issues stemming not only from local challenges but from EU or global challenges as well. In this sense, the respective capacities of the local and EU authorities often complement each other - the local level in providing knowledge of the local

context and how to adapt policy responses accordingly, and the EU level in providing broader expertise (through its own resources or by facilitating exchange of good practice) in addressing external challenges to economic and social development and ensuring strategic and coordinated actions. For instance, as pointed by Molle (2006), Cohesion policy clearly contributed to improve the quality of governance in many countries or to change the manner the regional dimension is incorporated into national policy systems, from simple redistribution to regional development strategies geared to competitiveness.

In particular, Cohesion policy has been central in fostering the adoption of an integrated approach to development as mentioned above, giving coherence to different sectoral policies and favouring a dialogue between administrations at various levels which proved crucial for improving the overall impact of sectoral and local interventions. Cohesion policy has also proved to enhance learning effects, fostering the exchange of knowledge about the understanding of problems and how to address them.

#### **FOUR WRONG IDEAS ABOUT COHESION POLICY**

Now that the overall framework has been clarified, it is time to address head-on some recurrent misconceptions about Cohesion policy.

##### **Is there a trade-off between Cohesion policy and EU growth?**

Cohesion policy creates economic growth and welfare, but is not intended, or designed to be a growth maximising policy at the EU level. Yet, while a trade-off between local and global growth can arise, the opposite could also be true.

Gauging the effectiveness of Cohesion policy against an objective of maximising EU growth is therefore meaningless. However, the question of the impact of Cohesion policy on national or EU growth remains a legitimate one.

At the time it was first implemented, Cohesion policy was conceived against the back-drop of a conscious political choice to possibly "trade" efficiency against cohesion. However, there is no firm evidence that such trade-off has systematically materialised and there are even several arguments according to which Cohesion policy could very well contribute to a more efficient allocation of factors at the EU level.

Some authors (see for instance Santos, 2008) have attempted to provide support for the idea that Cohesion policy would be detrimental to EU growth by estimating regional returns on private investment which are usually found to be higher in richer regions.

The assumption is that Cohesion policy adds to the existing regional stock of capital and the argument then goes that by transferring resources from rich to poor regions, Cohesion policy would work against efficiency, and hence global economic growth.

Such an assumption is however at odds with common practices in public economics (see for instance Aschauer, 1989 or Barro, 1990). This literature clearly distinguishes private capital (financed by private investment) and public infrastructure (financed by public investment) and considers the latter as an additional factor that affects the productivity of private capital. The real issue, which is not addressed in the type of analysis mentioned above, is therefore to know where public investment is likely to produce the highest impact on the productivity of private capital. Is it in places where infrastructure is already highly developed or in places where it is lacking?

The empirical literature shows that the answer very much depends on the type of public investment considered. For infrastructure, in particular transport infrastructure, the general finding is that the impact on growth is much higher in places and regions where the existing stock is small (Aschauer, 1989 or de la Fuente, 2002). For investment in R&D, places where the stock of knowledge is already high may be those where the impact is the highest (see for instance Audretsch and Feldman, 2004).

Another possible source of trade-off is highlighted by the New Economic Geography (NEG). The argument is that since agglomeration fosters efficiency, Cohesion policy limits the possibility of the Union to fully exploit agglomeration economies since it forces activities to stay in places where they would not in the absence of policy. Such view comes from a literal reading of theoretical NEG models with no discussion of the underlying assumptions (full harnessing of resources, no agglomeration diseconomies, etc.). More subtle frameworks (see for instance Duranton and Puga, 2001) suggest that development schemes of periphery regions that are well articulated with those of core regions could very well enhance global growth by allowing exploiting synergies and complementarities between regions with different functionalities.

Moreover, such efficiency-equity trade-off is likely not to hold when some resources are underutilised which is clearly the case in reality, in particular in lagging regions. As suggested by the OECD (OECD, 2009), helping these regions to tap on idle resources would contribute both to efficiency and equity.

The issue is therefore mostly an empirical one which has surprisingly been hardly addressed in the literature. In the real world it is likely that Cohesion policy contributes to global growth. This is because it contributes to mobilising underutilised resources in various types of regions; it helps reducing

agglomeration diseconomies, notably by improving infrastructure in urban areas; and, it promotes the exploitation of interregional synergies, notably by developing the capacity of all types of regions to interplay with more developed ones.

### Is Cohesion policy ultimately about redistributing resources from rich to poor regions?

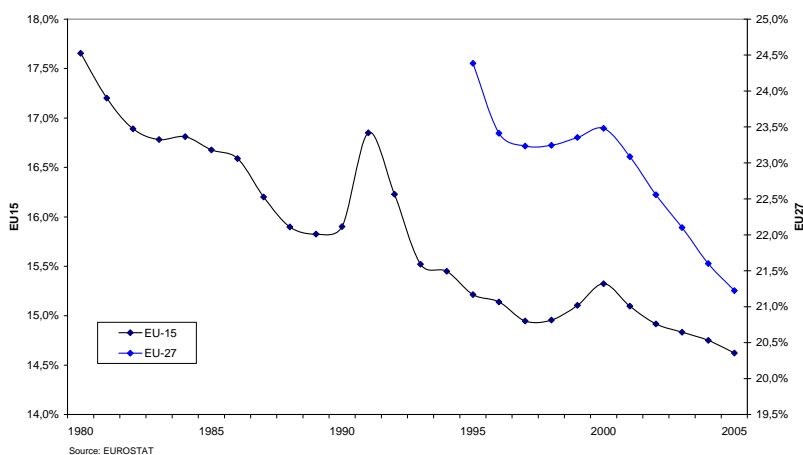
Another element frequently – and often huskily – discussed in relation with Cohesion policy is its redistributive function. Indeed, since the European Union is a political entity whose content is principally of an economic nature, it is constrained by the balance of economic advantages it offers to its Member States.

The overarching objective of Cohesion policy described in the first section of this article suggests that the policy has primarily an allocative function. The policy does not have the redistribution of income among EU regions and citizens among its objectives. However, the benefits of Cohesion policy tend to be concentrated in places where development lags are large and it is financed by a tax system in which contributions increase with wealth. Consequently, some redistribution of resources from rich to poor regions of the EU must take place via Cohesion policy. Such impact is simply the consequence of its implementation modalities. In fact, the objective of Cohesion policy is to provide regions with public goods, ensuring that the burden weights more on rich than on poor regions. This feature is likely to be found in any system where taxes are used to provide taxpayers with public goods. It does not imply a redistribution objective for that reason.

Also, in most countries, the value of public goods received by the median taxpayer may very well be close to the value of the tax she/he paid. That does not make the public sector a "money go round" system with little value added, a critique which is sometimes addressed to Cohesion policy. Cohesion policy indeed implies to levy resources in the Member States to provide public goods through regional policy, partly implemented in the States where these taxes have been collected. Such feature is common to many public policies and does not imply particular inefficiencies.

### Does Cohesion policy attempts to make all

GINI index: GDP per head, NUTS2 regions, EU15 and EU27



### regions equal?

As argued above, the objective of Cohesion policy is to promote regional growth and development potentials and hence to reduce regional disparities within the EU.

This objective has often been translated as the promotion of convergence between EU regions. This does not mean that the objective is to equalise performance and situations across regions (which would correspond to unconditional convergence) but rather that the policy should help poorer regions to reduce their development gap with respect to the EU average, to the extent that the regional context makes that possible. Hence, it recognises that even in the case where potentials would be fully exploited in each region, large performance differentials would inevitably remain. This corresponds much more to a concept of conditional convergence.

Evidence suggests that convergence is effectively taking place among EU regions as for example suggested by the figure which shows the evolution of the Gini index calculated on EU-15 and EU-27 NUTS 2 regions for the period 1980-2005 and 1995-2005 respectively.

At the same time, disparities are currently growing inside some Member States (in particular the new Member States). This is however not in contradiction with the convergence objective of Cohesion policy. In particular, within countries disparities mainly stem from the fact that in the Member States concerned, the process of growth features important regional differences, being very strong in a limited number of regions (which generally includes the capital city region).

High growth in such types of regions does not prevent growth from taking place in other regions which, although being more moderate, allows these regions to converge with respect to the EU average. For instance, during the period 1995-2005, there were only three regions of the new Member States that recorded growth rates below the EU average.

### Is Cohesion policy hampering people (labour) mobility?

Cohesion policy has the important task of deepening the integration and improving the connections between EU regions. These are key factors of EU competitiveness, which allow reaching critical mass and activating agglomeration economies, exploiting synergies and complementarities between European cities and regions. At the same time, Cohesion policy focuses on improving the business environment which eases and often even accelerates the restructuring process.



By providing support to transport and communication infrastructure, Cohesion policy contributes to facilitate flows of trade in goods and services, as well as transfers of technology and ideas. Cohesion policy has also played a key role in increasing the attractiveness of some regions in terms of direct investment, thereby contributing to furthering the integration of capital markets in the Union. Finally, Cohesion policy contributes to increase the level of education and improve the accessibility to regional labour markets which can only raise the rate of labour mobility in the EU.

From an institutional point of view, Cohesion policy facilitates the coordination of policies across regional and especially national borders. Border regions are a classic case where narrow national interests have led to an underinvestment. Many cross-border regions are working hard to ensure that they can benefit from a large labour pool, a large market and heightened specialisations by working across the border. Making a marked contribution to overcoming the potential divisions which may stem from administrative borders is another way through Cohesion policy supports integration of regional, and hence EU, economies.

As a result, Cohesion policy cannot be considered as a policy which inhibits factor mobility, but on the contrary facilitates it. A policy aimed at giving all places the opportunity to make use of their potential and all people the opportunity to be socially included independently of where they live is by no means a policy which restricts mobility.

## CONCLUSIONS

The purpose of this paper was to clarify the rationale and the objective of Cohesion policy in an effort to rid the debate surrounding the policy from a series of misunderstandings and misconceptions.

The main argument developed in the paper is that the rationale of Cohesion policy is of both a political and economic nature. With regards to the politics, it has been argued that Cohesion policy was conceived as an instrument to strengthen the political project of making cohesion central to the EU integration process, by providing all regions, and in particular the most backward ones, with the necessary support to compete in, and benefit from, such a process.

However, as time passes, Cohesion policy has evolved from a framework compensating for regional handicaps to one aiming at unleashing local growth and development potentials. Its economic rationale is rooted in a place-based integrated approach of regional development where strategies bridge interventions in different fields, and possibly initiated by various layers of the governance system, into a policy package that is intended to harness fully the potential of the local context.

Cohesion policy must be discussed on the basis of a correct understanding of its rationale and objective which have several dimensions.

In particular, Cohesion policy can only be validly assessed by framing it within an appropriate political perspective. Attempts to evaluate its economic content while ignoring its political value can only lead to an impoverished exercise misconceived in its foundation and misleading in its conclusions.

Of course the policy can be improved. Its impacts can be made more incisive, its focus strengthened, its implementation modernised, its links with the competitiveness agenda reinforced. But the temptation to call for adjustments by addressing its economic rationale out of context should be avoided.

Cohesion policy was conceived as a precise, open choice and still needs to be sustained by a clear political commitment. If for any reason this should change, an explicit courageous amendment of the political design should proceed and not follow practical (budgetary) modification.

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