The Future of EU Regional Policy

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Abstract

The regional policy represents the expression of the European Union's solidarity with less developed countries and regions, aiming at reducing the significant economic, social and territorial disparities that still exist between Europe's regions. Being an investment policy, EU regional policy supports job creation, competitiveness, economic growth, improved quality of life and sustainable development. During the 2014-2020 period, the EU will invest a total of 351 billion euro in Europe's regions. Our analysis aims at highlighting the possible future development for this common policy, in the new Financial European Framework 2014-2020, underling to what extent, the financial instruments of this policy can contribute to boosting less developed countries and regions, concentrating funds on the areas and sectors where they can make the most difference. Also, this article proposes revealing the convergence of the regional policy objectives with those of the Europe 2020 Strategy.

Keywords: *regional policy, economic and social disparities, Europe 2020 Strategy*

JEL Classification: *O, O11, P, P25, R, R10*

1. Introduction

Regional policy aims at reducing the significant economic, social and territorial disparities that still exist between Europe's regions by identifying the regions in most need, defining priorities, involving local institutions and imposing common management, control and evaluation standards – all these elements creating tangible results but also a unique system of multi-level governance. As stated in the literature in the field (Artobolevskiy, 1997), historically, one of the main aspirations of the European Regional Policy was to share progress between member states and to create into an enlarged Europe the means to achieve dynamic growth and high employment on a sustainable basis. Some analysts (Vanhove, Klaasen, 1979) consider that Regional Policy plays a crucial role in reducing economic and social disparities in the European Union, since leaving such disparities in place would undermine some of the cornerstones of the European integration process, including its large single market and its currency, the euro.

In recent years, the debate about the European Regional policy has focused on its benefits as an "integrated approach" towards policy-making. The integrated approach dates back to the origins of the European cohesion policy. In 1957, when the founding six countries signed the Treaty of Rome, their aim was to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favored ones. This aim was inspired by the concern that some less developed regions would not be able to benefit from further market integration. Successive enlargements have substantially increased regional disparities in the EU. In 1986, as Greece, Spain and Portugal joined the Union, the proportion of the population living in a region with GDP per capita below 30% of the EU average, jumped from 12.5% up to 20%. The last two enlargements dramatically increased regional differences in the levels of development and further strengthened the need for a policy that promotes development in all regions.

From the beginning of its launching Regional policy or Cohesion Policy passed through several reforms. This process of reform had aligned the structural funds much more closely with the priorities of the EU's 2020 growth agenda creating a greater emphasis on results and budget discipline through the concepts of macro-economic conditionality and performance reserve. The most recent reform is focusing on investing in EU's regions and cities to deliver the EU-wide goals of growth and jobs, as well as tackling climate change and energy dependence. Taking into account the national contribution of member states and the leverage effect of financial instruments, the overall impact is likely to be more than 500 billion euros. The reform of Cohesion Policy will ensure maxim impact for the investments in accordance with the individual needs of regions and cities.

The Lisbon Treaty explicitly recognizes territorial cohesion as a fundamental objective of the European Union, in addition to economic and social cohesion. This implies that territory matters and Community policies, including the objectives outlined in the Europe 2020 Strategy, should give more consideration to their territorial impact. The integrated approach emphasizes, as some analysis have shown, (Hooghe, 1996) that promoting development requires close coordination of public policies. For example, both investments in infrastructure and investments in education and innovation can contribute to development. Such coordination, however, can only effectively happen at the regional level since factors of growth vary so much between regions. As a result, cohesion policy relies primarily on integrated regional development strategies. Presently, as the debate on the future of the European Regional Policy intensifies, our analysis proposes to respond to this particular question: how can this common European policy provide the appropriate framework for integrated solutions, yet avoid a one-size-fits-all approach.

In order to respond to such a question we will analyze the contribution of the instruments of the regional policy of achieving the diminution of the development gap between member states and the possible implications of the Europe 2020 Strategy for the future of regional policy between 2014 - 2020.

2. Instruments of the Regional Policy in EU

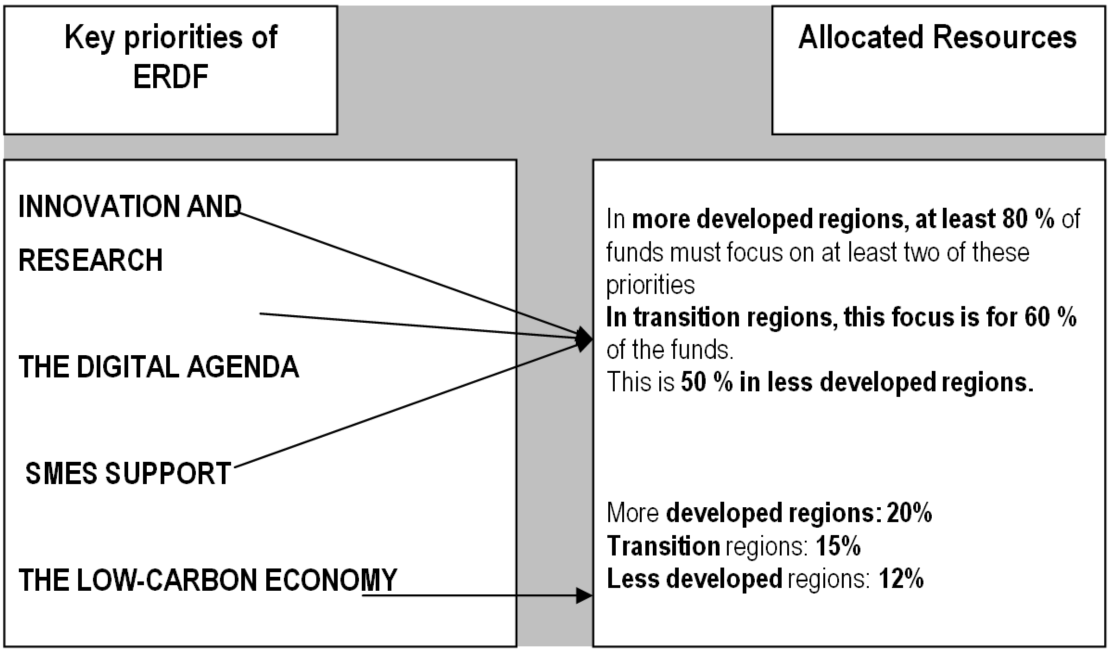
As stated in the literature in the field (Lagendijk, 2003), while the concepts of “region'” and “regionalization” have come to underpin major process of administrative and political reform, at the level of regions, nations and the EU, as part of these processes, the notions of “region” and “regionalization” have been translated in practices related to demarcation of territories, competencies and tasks, resulting in recognized territorial boundaries, organizational structures with set responsibilities and resources, as well as in procedures and scripts of regional action.

In recent years, the European Regional Policy has adopted a new model in regional economic development. It has evolved from a policy aimed at compensating regions for their disadvantages, to a policy designed to improve regional growth and competitiveness. This is where the integrated approach can be extremely valuable. Singling out one policy area, say for example transport, does not make sense without taking into account environmental, social and other economic policy areas.

2.1. The European Regional Development Fund

The performance of one European region in one particular sector can often be closely linked to the performance of another one. In this respect, regional economic development strategies need to avoid being developed in isolation. In this context, the European Regional Development Fund (ERDF) was created in order to focus the investment in European economic and social cohesion on several key priority areas also known as “thematic concentration”.

Figure 1: ERDF Thematic concentration



Source: Own conclusions based on the literature in the field.

In the Financial Framework for 2007 – 2013, ERDF budget had a value of more than 200 billion euro, focusing on co-financing investment projects in the areas of creating sustainable jobs, infrastructure, support for regional and local development, and SMEs.

The ERDF gives particular attention to specific territorial characteristics. ERDF action is designed to reduce economic, environmental and social problems in urban areas, with a special focus on sustainable urban development. At least 5 % of the ERDF resources are put aside for this field, through “integrated actions” managed by cities. Areas being naturally disadvantaged from a geographical viewpoint (remote, mountainous or sparsely populated areas) benefit from a special treatment. Lastly, the outermost areas also benefit from specific assistance from the ERDF to address possible disadvantages due to their remoteness.

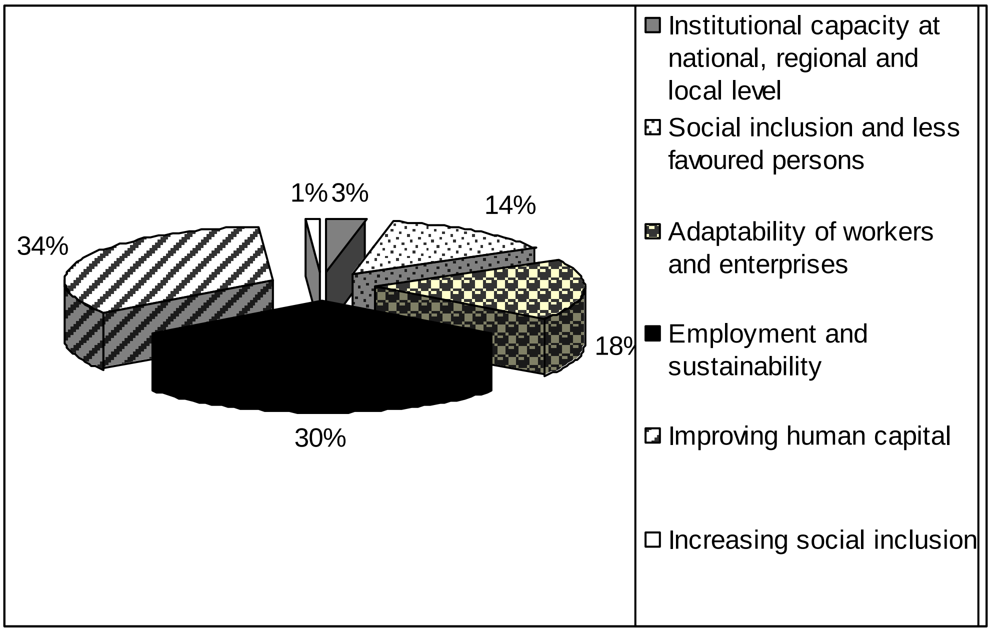
In the New Financial Framework (2014 – 2020), investments under ERDF will be concentrated on 4 key priorities (see Figure 1) of EU relevance: innovation and research, the digital agenda, support for small and medium sized businesses and the low-carbon economy depending on the category of region. Around 100 billion euro will be allocated to these sectors, of which at least 23 billion euro for the low-carbon economy (energy efficiency and renewable energies). As shown in Figure 1, there are separate obligations to dedicate ERDF resources (Less developed regions: 12%, Transition regions 15% and More developed regions: 20%).

2.2. European Social Fund

The European Social Fund (ESF) is a key component of Europe's regional development aiming at reducing differences in prosperity across the member states by increasing employment and providing targeted support to build a more highly skilled and more competitive workforce.

While the primary focus of ESF is to raise prosperity by increasing the labor supply and promoting skills, the current ESF programme also features two cross-cutting themes – gender equality and equal opportunities, and sustainable development. The sustainable development theme focuses on ensuring that the implementation of the programme will take account of the environmental concerns and meet the regulatory requirements in order to sustain projects focused on addressing unemployment problem increasing skills and exploiting market opportunities. Between 2007 and 2013, ESF has benefited from 3 billion euro, divided in six objectives relevant to creating jobs, as shown in the Graph 1.

Graph 1: Broad objectives of ESF between 2007 -2013 (% from total allocated funds)



Source: European Commission, ESF Statistics 2014.

2.3. European Cohesion Fund

After the Treaty of Maastricht it has been introduced the Cohesion Fund meant to support the convergence process of Greece, Spain, Portugal, Ireland and its funds targeted mainly infrastructure projects with certain spillover effects on the whole economy. Regional development policy became more and more a true Cohesion Policy due to European funds used for it and also due to its strategic framework.

The European Cohesion Fund is conceived as a financial support toll in order to help member states whose Gross National Income (GNI) per inhabitant is less than 90 % of the EU average. Its main priority objectives are: trans-European transport networks and projects related to energy or transport, as long as they clearly benefit the environment in terms of energy efficiency. In the former Financial Framework 2007 – 2013, the member states that have obtained funds through this European Fund were: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia. The total budget of The

Cohesion Fund, between 2007 -2013, was of 66 billion euro allocated to activities related to trans-European transport networks, notably infrastructure projects under the Connecting Europe Facility and to environment[1].

All these member states have developed priority projects of European interest as identified by the European Commission and projects designed to support infrastructure under the Connecting Europe Facility. As some analysts have shown (Shankar, Shah, 2009), during 2007 -2013, the European regional policy has consistently co-financed the provision of environmental infrastructure for water and waste management helping regions meet the stringent framework set out in EU directives. This has also been an opportunity to facilitate improvements in competitiveness while preserving their environment and creating jobs.

3. EUROPE 2020 STRATEGY - A new basis for Regional Policy on the community level

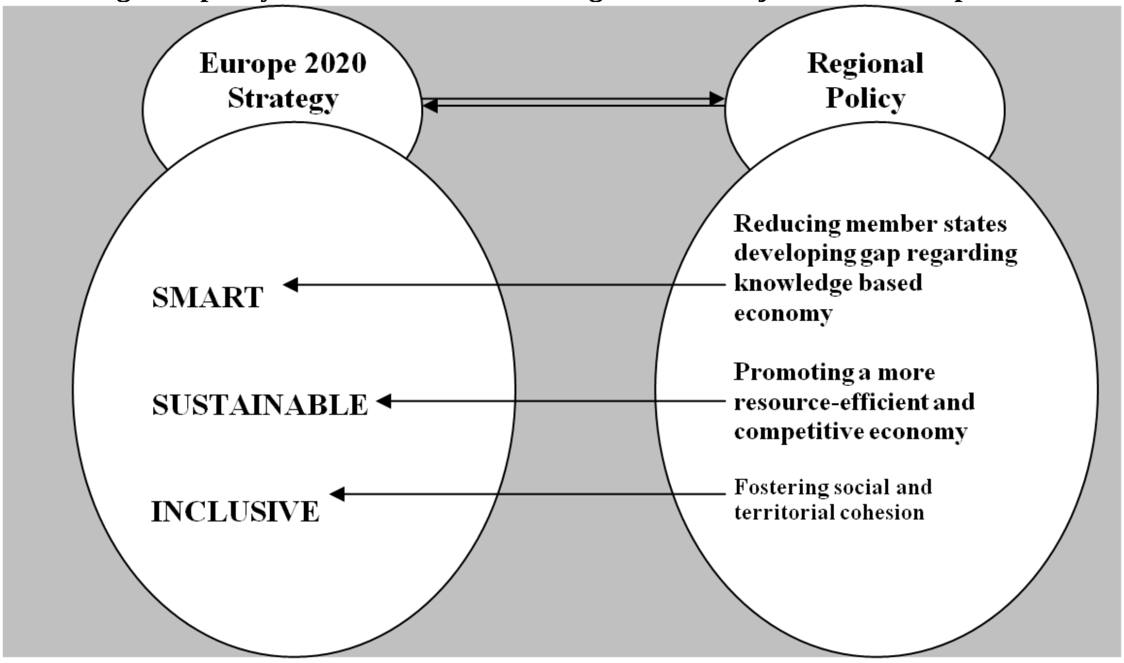
The effects of the recent economic crisis on the EU make the push for effective policy even more urgent. Against this backdrop, the European Commission published its Europe 2020 Strategy, which enshrines the following goals: smart growth, sustainable growth and inclusive growth. As the Fifth Report of Cohesion Policy, published in 2010, is showing, disparities between EU regions are narrowing and differences in GDP per head have shrunk substantially, but in order to help regions to become more competitive, more subsidies are necessary for four main objectives: higher rate of employment, better infrastructure, better trained human resources and more innovative enterprises.

In the literature in the field, some analysts (Budd, 2010) have suggested that regions and regional development policy can significantly contribute to the achievement of Europe 2020 Strategy goals, but in order to do so there should be a balanced approach to investment, e.g. right balance between different types of investment and the strong diversity among EU regions (e.g. differences in characteristics, opportunities and needs) need to be taken into account.

In this respect, it should be mentioned that The Eighth Progress Report on Economic, Social and Territorial Cohesion (EC, 2013) shows that the international economic crisis has made more difficult for the Cohesion Policy to reach the Europe 2020 goals due to reduced employment rates and increasing poverty and social exclusion. Moreover, the same Report highlights that, in the next Financial Framework – 2014- 2020 - widening regional disparities must remain one of the key goals of the European Union and Cohesion Policy. The report shows also that the intensity of problems varies significantly throughout European Union and suggests that the design of future cohesion programmes should reflect these differences to maximize impact and target problems where they are more acute (see Figure 2).

[1] Here, the Cohesion Fund can also support projects related to energy or transport, as long as they clearly benefit the environment in terms of energy efficiency, use of renewable energy, developing rail transport, and strengthening public transport.

Figure 2: Regional policy contribution on achieving the main objectives of Europe 2020 Strategy



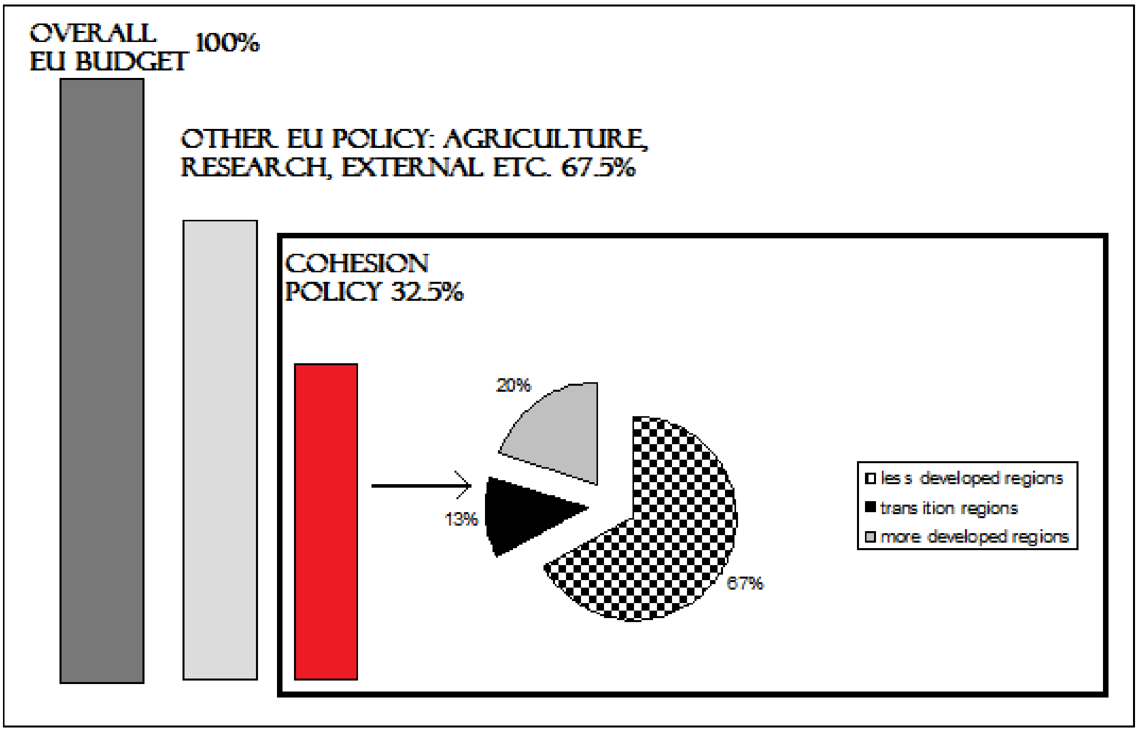
Source: Own conclusions based on the literature in the field.

Regional Policy can contribute to achieving those goals of smart, sustainable and inclusive growth by preparation of the next generation of national programmes for regional development in the period after 2014, providing the opportunity to increase the effectiveness and the quality of measures for cohesion development in the EU-28. Through its instruments, Regional Policy can invest in human capital in order to ensure that people have the right skills necessary to build a resource efficiency society. Such a financial tool is The European Social Fund that can help to unlock the skills, creativity, entrepreneurship and capacity of the workforce to innovate, in line with the Europe 2020 flagship initiative "An Agenda for new skills and jobs". In the future Financial Framework 2014 -2020, it is essential that Regional Policy actions are designed in synergy with those of Europe 2020 Strategy, since this common European policy is uniquely placed to contribute to the delivery of the EU's sustainable growth objectives as a 'place-based policy' which promotes multi-level governance and public-private partnerships within integrated strategies.

4. The objectives of Regional Policy in the New Financial Framework 2014 - 2020

The New Financial Framework for 2014 – 2020 outlined a new strategic programming approach for Regional Policy with a view to a closer integration of the EU policies to deliver the Europe 2020 Strategy and the Integrated Guidelines. This approach would consist of a common strategic framework (CSF) translating the targets and objectives of Europe 2020 into investment priorities. The framework would cover the Cohesion Fund, the European Regional Development Fund, the European Social Fund, the European Agricultural Fund for Rural Development and the European Fisheries Fund. It should be noted also that cohesion policy has an important share in the new Financial Framework for the 2014 – 2020 period, cumulating 351 billion euro from the total 1 082 billion euro. All EU regions benefit from these funds, but the level of investment is adapted to the level of development, as shown in Graph 2.

Graph 2: The new funding context and the objectives of EU regional policy (2014-2020)



Source: EC – *A reformed Cohesion Policy for Europe*, 2014

Note: Less developed regions refers to that particular regions with a GDP lower than 75% from EU-28 average. These regions represent 27% of EU population. Transition regions are those regions with a GDP lower than 75 – 90% of EU -28 average. In these regions is located 12% of EU population. More developed regions are the regions with a GDP higher than 90% of EU – 28 average, in those regions being situated 61% of EU population.

As shown in the graph above, in the 2014 -2020 period, the Cohesion policy supports diversification of regional economies, and contributes to the development of the poorer member states and regions.

Also, the new budget would allow member states to create a development and investment partnership with the EU based on the common strategic framework, would set out the investment priorities, the allocation of national and EU resources between priority areas and programmes, the agreed conditionalities, and the targets to be achieved. As some analyst (Swidlicki, Ruparel, Persson, Howarth, 2012) have underlined, sound macroeconomic policies, a favourable microeconomic environment and strong institutional frameworks are preconditions for creating jobs, stimulating growth, reducing social exclusion and bringing about structural changes.

This is even truer for regional policy, since its effectiveness largely depends on the economic environment in which it operates. It is therefore possible to strengthen the links between the cohesion policy and other common policies of the European Union, helping to increase the effectiveness of this common policy that seeks to support much needed investment in infrastructure, human resources and the modernization and diversification of regional economies, and it contributes to more growth and jobs in the poorer member states and regions. Member states and regions benefiting from such investments can achieve above-average and sustainable growth and are, as stated in the literature in the field (Hjerp, Medarova-Bergstrom, Cachia, 2011), “better equipped” to catch up faster with the EU level than they would be without cohesion policy investment.

Overall, between 2014 -2020, the reformed cohesion policy will invest in Europe's regions, cities and the real economy. It will be the EU's principle investment tool for delivering the Europe 2020 goals: creating growth and jobs, tackling climate change and energy dependence, and reducing poverty and social exclusion. The main financial tool will remain the European Regional Development Fund at key priorities such as support for small and medium-sized enterprises where the objective is to double support from 70 to 140 billion euro over seven years. Some analysts (Böhme, Zillmer, Jæger, Holstein, 2013) consider that such initiative will provide stronger result-orientation and a new performance reserve in all European Structural and Investment Funds, increasing the efficiency in the cohesion policy compliance of the Member States with the European Union's recommendations.

The Cohesion Policy reform has placed an important role on Regional Strategies for Smart Specialization. Regional strategies for smart specialization are a concept promoted by the European Commission under the Cohesion Policy for 2014 2020 which includes identifying the unique characteristics and resources available for each country or region in order to boost economic development and competitiveness of the region. Through regional smart specialization strategies are highlighted competitive advantages of each region which would allow prioritization of new national industrial policy. Regarding this issue, it is worth mentioning that the global financial crisis has shown that economic development can not be left solely to the private capital account, but requires the involvement of the competent public authorities both by fixation the line of strategic directions and through public investments drive certain effects. Implementing the concept of governance in European regional policy implementation requires the involvement of public and private actors for the valorization of existing local and regional level and can have positive effects on re-industrialization process.

Other important dimension of the new Cohesion Policy is the linkage between regionalization and governance process in European Union. As mentioned by some analysts (Prisecaru, 2014), regionalism is widely associated with decentralization – an assumption based on the subsidiarity principle, which involves a certain transfer of attributions from governments or central authorities to regional authorities. In this vision, the New Cohesion Policy for 2014 2020 should imply the use of some newer concepts, like governance, and aims at developing a strategic capacity, an institutional capacity and democratic legitimacy, while at the same time strengthening the administrative capacity**.**

Regional Policy can contribute decisively to a new industrialization in Europe. As mentioned by some analysts (Mansfield and Milner, 2011) much of the existing research on regionalism centers on international trade (although efforts have also been made to analyze currency markets, capital flows, and other facets of international economic relations). In the light of the most recent reform of Regional Policy in Europe, we argue that whether states choose to enter in the field of industrial policy the economic effects of these arrangements depend on the preferences of national policymakers and interest groups, as well as on the nature and strength of domestic institutions.

5. Conclusion

The European Regional Policy has as a main objective to help promote uniform, balanced regional development in the old and new member states. As shown by the European statistics, regional policy has made a significant contribution to spreading growth and prosperity across the European Union, while reducing economic, social and territorial disparities. Undoubtedly, without regional policy, disparities between member states would be even greater, yet the lasting social effects of the international economic crisis, the demand for innovation arising from increased global challenges call for an ambitious reform of this policy.

The financial and economic crisis has already compelled the European Commission to propose measures to improve the economic governance of the European Union. In particular progress needs to be made in the following key areas: concentrating resources on the Europe 2020 objectives and targets, committing member states to implementing the reforms needed for the policy to be effective and improving the effectiveness of the policy with an increased focus on results. The explicit linkage of the regional policy and Europe 2020 Strategy provides a real opportunity: to continue helping the poorer regions of the EU catch up, to facilitate coordination between EU policies, and to develop the cohesion policy into a leading enabler of growth, also in qualitative terms, for the whole of the EU, while addressing societal challenges such as ageing and climate change.

Regional policy is maybe the most suitable field where multilevel governance is enforced or applied but real convergence is still very slow to achieve. European funding is not enough for reducing the gap, local, regional and national efforts and funds are needed, public/private partnership is very important for taking into good account regional resources.

Better governance is essential to achieve sustainable regional development as confirmed in recent ex-post evaluations of the cohesion policy. It is a crucial building block for creating ownership and consensus over a common vision among the stakeholders that drive the strategy and programme implementation. The involvement of socio-economic partners and civil society needs to start early and be carried on during the whole programming cycle, in order to achieve the two essential objectives of the Regional Policy: to enhance the European Union's competitiveness and to increase solidarity between different European regions. These two main goals of the Regional Policy can help attain one of the fundamental objectives laid down in the EC Treaty: achieving economic and social cohesion by reducing disparities between regions and by spreading the advantages of the common market more equally across the EU territory.

In terms of contribution of Regional Policy to a New Wave of Industrialization in Europe, it is our opinion that although the new industrial concept in Europe can be relevant to its future competitive development, in order to understand industrialization in the peripheral regions of EU. It should also be noted that, despite the introduction of decentralization policies, local industrial development will, as before, very largely depend on central government resource allocation, the stability of government and the role played by large and medium scale enterprises, including Multi-National Corporations (MNCs).

However, today, the European territory as a whole faces new challenges: globalization, climate change and an ageing population. These challenges do not stop at national, institutional or policy borders, but create an impact on regional and local communities. Hence, during 2014 – 2020, the future Regional Policy has the potential to turn these challenges into opportunities, since it is designed in such a way that it provides solution at regional and multi-regional level through development strategies and local projects for the benefit of the European Union as a whole.

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