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What is wrong with Cohesion Policy? A political explanation

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Outline

- **Research questions**
What has CP achieved so far? What is wrong with CP?
- **Cohesion Policy achievement**
Economic, Social, Institutional
- **What is wrong with Cohesion Policy**
Budget distribution among EU MS; between priorities; funds alignment
- **A political science explanation**
- **How to fix it**

1. Research questions

Cohesion Policy (CP) is the most controversial voice of the budget.

In this context the paper asks two questions:

- 1) **What has CP achieved so far?**
- 2) **What is wrong with CP?**

The paper aims to demonstrate that **the main challenge is not how much is allocated to CP but how the funds are distributed within CP** in terms of:

1. Member States allocation (richer versus poorer regions);
2. Priorities (social and economic);
3. Alignment between ESF and ERDF intervention

The paper uses a political science approach to suggest the variable that influences the three factors above.

2. Cohesion Policy achievement 1988 – 2006

Economic, Social, Institutional

Economic growth?

Despite this financial effort, the literature duels on the question whether CP is an instrument of **distributive politics, side-payments to poorer MS, or a development tool** – i.e. promoting or not economic convergence between regions.

Controversial arguments suggest a **very limited and at times negligible economic impact** and little progression in terms of overcoming regional inequalities among regions (Keating, 1995; Rodriguez-Pose, 1998).

Some progress has been made over the past 20 years, as suggested by the economic development in the largest beneficiaries of CP (Spain, Portugal, Greece and Ireland).

Yet, **many authors remain sceptical of the direct relationship between SFs and GDP growth** (Basile, De Nardis, Girardi, 2001; Betutel, 2002; Sapir, 2003)

2. Cohesion Policy achievement 1988 – 2006

Economic, Social, Institutional

Social Cohesion?

Social cohesion means **guaranteeing access to the same rights for all, respect for dignity of others, the right for all individuals to have the opportunity for personal development and participation in the democratic process.**

Translated into the main areas of CP interventions:

1. Lifelong learning
2. Work force adaptability and information society
3. Labour market policy to promote employment
4. Social inclusion
5. Gender equality

The latest independent ex-post ESF evaluation report suggest mixed results on each of the 5 areas (gender an inclusion being the most problematic).

2. Cohesion Policy achievement 1988 – 2006

Economic, Social, **Institutional**

Institutional development?

The argument on the effect of SF on institutional development and administrative capacity building **are quite recent**.

They have developed with the **enlargement process**.

Based on previous research carried out it emerges that CP has definitely contributed to:

- 1) the **development of administrative capacity for implementing complex programmes**;
- 2) the **establishment of a method of governing development policy common to all EU MS**.
- 3) **Accountability** of the different government level involved in spending has been reinforced.

Before CP was created, many regions did not have any understanding of long-term planning and monitoring or evaluation procedures were deficient or absent.

3. What is wrong with Cohesion Policy? (1)

Budget distribution within EU MS; between priorities; funds alignment

Old MS **49% of the total cohesion budget** - i.e. almost € 150 billion

Criticism:

- a) The financial division finally agreed sees as main beneficiary countries: Poland, **Spain, Italy**, Czech Republic, **Germany**, Hungary, **Portugal, Greece**, Romania and **France** (table 1).
- b) This means that among the 10 most financed countries, 6 still belong to the old MS
- c) The **six old MS are always** the same since 1989 (table 2)
- d) This does not reflect the fact that out of the 85 regions covered by the convergence objective, 60% - i.e. a total of 46 regions and 5 unitary states - is in the new MS, leaving just 35 regions in the old member states (table 3).
- e) Only Portugal and Greece are now below average in terms of GDP per head.
- f) **All the richer MS** also got at least some SF for their poorer regions.

Table 1: Indicative financial allocations per MS

	Convergence Objective			Regional Competitiveness and		European Territorial Cooperation Objective	Total	%
	Cohesion Fund	Convergence	Statistical Phasing-out	Phasing-in	Regional Competitiveness and Employment			
Belgium			579		1 268	173	2019	0.66
Check Rep.	7 830	15 149			373	346	23697	7.69
Denmark					453	92	545	0.18
Germany		10 553	3 770		8 370	756	23450	7.61
Estonia	1 019	1 992				47	3058	0.99
Greece	3 289	8 379	5 779	584		186	18217	5.91
Spain	3 250	18 727	1 434	4 495	3 133	497	31536	10.24
France		2 838			9 123	775	12736	4.13
Ireland				420	261	134	815	0.26
Italy		18 867	388	879	4 761	752	25647	8.33
Cyprus	193			363		24	581	0.19
Lettonia	1 363	2 647				80	4090	1.33
Lithuania	2 034	3 965				97	6097	1.98
Luxembourg					45	13	58	0.02
Hungary	7 589	12 654		1 865		343	22451	7.29
Malta	252	495				14	761	0.25
Holand					1 477	220	1696	0.55
Austria			159		914	228	1301	0.42
Polland	19 562	39 486				650	59698	19.38
Portugal	2 722	15 240	254	407	436	88	19147	6.22
Slovenia	1 239	2 407				93	3739	1.21
Slovakia	3 433	6 230			399	202	10264	3.33
Finland				491	935	107	1532	0.5
Sweden					1 446	236	1682	0.55
UK		2 436	158	883	5 349	642	9468	3.07
Bulgaria	2 015	3 873				159	6047	1.96
Romania	5 769	11 143				404	17317	5.62
Not assigned						392	392	0.13
TOTAL	61 558	177 083	12 521	10 385	38 742	7 750	308041	100

Table 2. EU allocation 1989-2006 in Meuro

	1989-1993		1994-1999		2000-2006	
MEMBER STATES	Total in Meuro	%	Total in Meuro	%	Total in Meuro	%
Belgium	864	1.20%	2096	1.30%	2038	9.60%
Denmark	430	0.60%	844	0.50%	825	0.30%
Germany	6431	9.00%	21731	13.40%	29764	14.04%
Greece	9161	12.80%	17736	10.90%	24883	11.74%
Spain	15086	21.20%	42400	26.20%	56205	26.53%
France	6942	4.70%	14939	9.20%	15666	7.39%
Ireland	4901	4.90%	7403	4.60%	3974	1.87%
Italy	11872	16.70%	21651	13.30%	29656	13.99%
Luxembourg	77	0.10%	103		91	0.04%
Netherlands	814	1.10%	2616	1.60%	3286	1.55%
Austria					1831	0.86%
Portugal	9461	13.20%	17629	10.90%	22760	10.74%
Finland					2090	0.98%
Sweden					2186	1.03%
United Kingdom	5329	7.50%	12981	8.00%	16596	7.83%
TOTAL	71368	100.00%	162129	100.00%	211851	100.00%

Table 3 Convergence: List of regions with GDP per capita below 75% of EU average

New Member States	
Bulgaria	the whole territory (6 regions)
Estonia	the whole territory
Czech Republic	Střední Čechy, Jihozápad, Severozápad, Severovýchod, Jihovýchod, Střední Morava, Moravskoslezsko (7)
Hungary	Közép-Dunántúl, Nyugat-Dunántúl, Dél-Dunántúl, Észak-Magyarország, Észak-Alföld, Dél-Alföld (6)
Latvia	the whole territory
Lithuania	the whole territory
Malta	the whole island
Poland	the whole territory (16 regions)
Romania	the whole territory (8 regions)
Slovenia	the whole territory
Slovakia	Západné Slovensko, Stredné Slovensko, Východné Slovensko (3)
Total	46 regions + 5 unitary states
Old Member States	
Germany	Brandenburg-Nordost, Mecklenburg-Vorpommern, Chemnitz, Dresden, Dessau, Magdeburg, Thüringen (7 out of 16)
Greece	Anatoliki Makedonia, Thraki, Thessalia, Ipeiros, Ionia Nisia, Dytiki Ellada, Peloponnisos, Voreio Aigaio, Kriti (9 out of 13)
Spain	Andalucía, Castilla-La Mancha, Extremadura, Galicia (4 out of 17)
France	Guadeloupe, Guyane, Martinique, Réunion (4 out of 25)
Italy	Calabria, Campania, Puglia, Sicilia (4 out of 20)
Portugal	Norte, Centro, Alentejo, Região Autónoma dos Açores (4 out of 5)
United Kingdom	Cornwall and Isles of Scilly, West Wales and the Valleys, Highlands and Islands (3 out of 18)
Total	35 regions

3. What is wrong with Cohesion Policy? (1a)

Budget distribution within EU MS; between priorities; funds alignment

Despite this evidence there are some supporters, that suggest the budget allocation is in line with CP principle (solidarity!)

2 arguments in favour of continuing to grant money to the richer MS.

First argument: Most countries have at least some regions with GDP per head below 75 % of the EU average.

Second argument: New MS, with their inefficient bureaucracies, cannot 'absorb' much larger sums from the EU.

First argument:

Most countries have at least some regions with GDP per head below 75 % of the EU average.

Begg (2008): “there is no reason why help for poorer regions in rich countries needs to come from the EU, rather than from national exchequers”.

If convergence concerns an entire (or much of a) MS, the argument for EU involvement is more persuasive than if it is just a smaller territory (or even worse a smaller territory in a rich Member States).

The Ecorys report (2008) suggests that **eligibility should be tight and also include substantial co financing** from the MS to prevent lobbying and common pool behaviour.

The old EU-15 MS will receive about 90% of the budget pre-allocated for the Competitiveness Ob.

This is because the eligibility threshold is set at an **income per capita of more than 75% of EU average** (mainly regions in the richer MS).

Gelauff (2005): “richer MS have the financial capacity to deal with investment in the three themes addressed by this objective –

Second argument:

New MS, with their inefficient bureaucracies, cannot 'absorb' much larger sums from the EU.

That is why the EU has decided to cap overall SF spending in the new MS at 4% of their respective GDPs.

Percentage of SFs Expenditure* - EU Objective 1

a. Period 1989-1993		b. Period 1994-1999		c. Period 2000-2006**	
	%		%		%
Ireland	95	Portugal	89	Ireland	82
Portugal	91	Ireland	87	Sweden	79
Spain	87	Spain	82	Germany	77
Greece	84	Denmark	81	Spain	75
France	84	Austria	77	Portugal	75
UK	83	Greece	73	Austria	74
Italy	73	Belgium	72	Finland	72
		France	67	Netherland	72
		Netherlands	67	Belgium	66
		UK	67	UK	66
		Italy	67	France	64
				Italy	60
				Greece	53

Source: European Commission - Annual report on Structural Funds

3. What is wrong with Cohesion Policy? (2)

Budget distribution within EU MS; between priorities; funds alignment

2. Imbalance between Economics and Social Goals

In the actual planning period 2007-2013:

- **60%** of the resources allocated for CP will finance projects under **ERDF**,
- whereas just **24%** will assist actions under the **ESF**.

With the enlargement this imbalance can not be ignored any more.

The last EU enlargement also resulted in **increased inequalities at the social level**

The entry of 12 new countries in the EU, all rather internally and ethnically diverse, has reinforced the need for **European norms of minority protection, access to education and health care**(eg. Roma)

It has been increasingly recognised that **continued economic development depends upon sustained social development** as well as a sustainable environment

Therefore, the social goals need to be framed in a stronger **coordinated policy agenda** supported by **harmonized financial instruments** and **greater financial effort**.

3. What is wrong with Cohesion Policy? (3)

Budget distribution within EU MS; between priorities; funds alignment

Two key strands of intervention exist:

- 1) one based on people supported by the ESF;
- 2) the other investing in more competitive business, supported by the ERDF.

For example:

- a) If the ERDF finances **higher education buildings** and research capacity, than the ESF should be spent on **postgraduate research**;
- b) If the ERDF had been used to **support renewable energy infrastructure** and research than the ESF should support **renewable energy skills development**.

ESF and ERDF alignment:

- the ESF provides the skills for employment,
- the ERDF should ensure that the corresponding job opportunities exists.

THIS IS STILL MISSING!!! Evaluation report

4. How do we explain the problems highlighted?

Cohesion Policy is object of **Interdisciplinary approaches**

- Economics
 - What is the role of policy in affecting economic outcomes?
 - Market failure and government failure
- Regional Science
 - What is the structure of the policy process?
 - How does it address the main objectives of efficiency and equity?
- Political Science
 - Looks into the politics of cohesion policy
 - Due to what combination of forces has the policy emerged?
 - Multi-level governance and Europeanisation
- International Relations
 - How did the policy emerge?
 - Who are the principal actors?

4. A political science explanation: **Lack of political alignment**

We have identified 4 main problems within CP which are ultimately dependent upon one main variable: political agenda and interest non-alignment

TIME FRAME: The goals of CP (economic- social-institutional) are **long term goals** which go beyond the 5 years political tenure:

→ politicians are interested in the **short term reward** that is associated with their legislature period.

JUSTE RETOUR: The Budget distribution among Member States is a **moment of political affirmation**:

→ politicians want to go back “home” saying how much money they get from the EU (**solidarity towards other MS does not interest local voters!**)

PLURI v MONO: The alignment between ESF and ERDF implies **cooperation among different departments**:

→ national and regional government **departments are headed by different political appointees** which are not necessarily interested in working together;

VISIBILITY: Achieving **balance between social and economic interventions** is not in the political agenda:

→ giving priority to **social intervention does not give the same visibility of building infrastructure**, hence does not bring votes!

5. How to fix it?

1. Time frame

- Make the national and local institution **more accountable** (monitoring and benchmarking)- (Crescenzi, 2010)
- **Proposing and independent agency** – high level experts group at national level in charge for 7 years to mitigate the “capture effects”.

2. *Juste retour*

- Deciding the governance and the objectives of CP **before** the amount of funds and their allocation have been agreed (Barca, 2009).
- the **MLG frame** should be applied not only during the implementation but also **during the CP budget negotiation** to balance the power factors during the allocation process - e.g. regions which are not politically aligned with the centre (Bouvet and Dall’Erba, 2010).

3. Mono versus pluri

- Creating a **bipartisan consensus** on CP spending and goals (!)
- **More technocratic approach** to management, planning and implementation

4. Visibility of social interventions

- **Improving communication** about results in social inclusion (ribbon cutting also for ESF);
- Tailoring at local level a **combination of investment priorities across hard and soft interventions** (the crisis has shown how soft interventions are at times more needed than harder!)