Evaluating the effects of regional interventions.
A look beyond current Structural Funds' practice

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Cohesion Policy and the Challenges of the Future

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"Cohesion" has become one of the most important phrases of current policies conducted within the EU member states and the European Union as such. It is a relatively new term, first brought into the *acquis communautaire* of the European Communities in the Single European Act of 1986. This Act emphasizes the need to enhance the social and economic cohesion of the European Community with a view to levelling regional disparities and their potential growth, which was an anticipated result of the introduction of the single market. It was when the Maastricht Treaty established the European Union that the notion of cohesion did indeed take root. Since then – especially after the Cohesion Fund was created – it has become one of the leading directives of European Union policies.

"Cohesion" as a policy directive has three dimensions: economic, social, and territorial. The latter one is still a subject of discussion about its meaning.

Since the very beginning, "cohesion" has been simply understood as "convergence". These two terms have been used interchangeably. Cohesion is clearly viewed in terms of its equalising function. To reach a state of 'cohesion' means to eliminate territorial disparities in the level of economic development (economic cohesion) and in the access to labour and income (social cohesion). Such an approach to cohesion coincides with the regional policy of the European Union (formerly the European Community), which allocates about 60 per cent of its funding to support regions with a low level of development (defined as less than 75 per cent of the EU average GDP per capita, using purchasing power parity).

Member States, especially those that benefit the most from Structural Funds and Cohesion Funds, follow the Commission's principles of their own cohesion policies. In most, if not all of them, we also find "cohesion" and "convergence' used synonymously.

Yet, the goal of territorial convergence is hardly, if at all, achievable. This conviction has emerged even within the DG Regio (at that time DG 16), when they wrote in the Third Report on regional policy (*The Regions of the Enlarged Community*), published in 1987, that reaching a state of cohesion within the Community was a task the fulfilment of which was rather distant in time. As time passed, however, these reservations were reduced and a general belief that achieving "cohesion" through implementing "convergence" can constitute the basis for the regional policy of the EU has spread widely among the commission, the governments, regions and localities within the European Union.

Empirical worldwide evidence demonstrates, however, a strong persistence of historical regional patterns, even if these patterns were to be changed by massive external assistance rendered to less well-off regions. Central Appalachia is still the internal periphery of the U.S. in spite of the fact that it enjoyed the greatest share of the Appalachian Program. Mezzogiorno has not entered a path of fast growth, nor has it demonstrated characteristics of a 'Third Italy', emerging all of a sudden without any help from the Italian government and the EU. The most recent example of the former GDR dramatically shows that massive inflow of financial and technical help from the outside leads nowhere, and in many cases may be counterproductive by killing individual motivation and attitudes of self-reliance and self-responsibility (Lenz, 2007).

There are several positive cases of sudden advancement of some less developed countries and regions. Ireland is the one most often quoted – though the recent crisis has challenged some of the economic strengths of this country that appeared to be more "virtual" than real. But it is often forgotten that external assistance from the EU did not appear until 1994, and that it was coupled with massive inflow of foreign (U.S.) investment in computer and pharmaceutical industries. Moreover, Ireland achieved national success at the expense of growing internal regional differentiation, since most of its growth was concentrated in the South, leaving the North behind.

Ireland is a clear example of the polarisation process that is a product of slow growth of lagging peripheral regions and rapid advancement of metropolitan cores. *"Metropolises govern the world"*, as Manuel Castells says. This is because they have become the nodes of the "space of flows", to use another term by this author, which replaced the "space of places". The role the "place" plays in international (usually global) networks and interrelations is more important for its development than the features of the "place" itself, as regarded in isolation.

These processes are clearly pronounced in the countries that undergo accelerated transformation, for example Central and East European new Member States (Gorzelak, Smętkowski, 2010). It should be remembered that their fast growth was achieved before they became EU members, and that membership accelerated this growth not because EU funds began to flow to these countries, but due to the new possibilities of international cooperation, capital and technology transfers and the opening of the European labour market. However, a dramatic collapse of some of these economies (the Baltic States, but also Hungary) during the recent financial crisis (see Gorzelak, Goh, 2009) has proved that external positive influences cannot override domestic socio-economic processes, which, whether positive or negative, are the main drivers for development.

Moreover, in all Central and East European countries there is a positive relationship between the initial level of regional development and its dynamics. Capital city regions "escape" the rest of the country, and the regions that contain big cities follow them. The border regions – those located at the external borders of the EU as well as those located along a country's internal borders – do display slow growth. Yet, these are usually less developed regions in all CEE countries. Thus a regional divergence is a fact that may be attributed to the relatively fast growth that is mostly concentrated in capital and big city regions.

The picture for the regions of the EU is more complicated. As indicated in the 4th Cohesion Report (CEC 2007), there is a negative correlation between the level of GDP per inhabitant and its dynamic of growth. However, the national and regional processes were not separated, and the overall pattern is a cross-product of these two dimensions. Convergence is observed on the national level, and divergence on the regional level. It is doubtful that these two levels will parallel each other. One may even risk a thesis that regional divergence is a condition of national convergence, since poorer countries grow faster the stronger their metropolitan cores are and the better they are linked with other metropolises within the global metropolitan network.

Thus, it appears that we cannot overcome the "equity-efficiency" dilemma, fundamental for the traditionally oriented regional policy.

The body of literature indicating that divergence within the EU seems to be stronger than the convergences is growing. Let me quote two pieces:

> *"Much of the language of European cohesion policy eschews the idea of tradeoffs between efficiency and equity, suggesting it is possible to maximise overall growth whilst also achieving continuous convergence in outcomes and productivity across Europe's regions. Yet, given the rise in inter-regional disparities, it is unclear that cohesion policy has altered significantly the pathway of development from what would have occurred in the absence of intervention"* (Farole et. Al,, 2009, p. 3).

And:

> *"The relative distance in terms of regions "lagging behind" between the new member states (e.g. Hungary, Czech Republic, Poland) and the old member states which have been classified accordingly (e.g. Greece, Spain, Portugal) does not seem to be very significant. A possible conclusion could be that this might be an alarming sign for more than a decade of structural funds spending in these regions which did not apparently achieve their goal in respect of strengthening territorial cohesion. Nevertheless, for some examples this effect seems to be visible – e.g. for Ireland and some regions in Spain* (ESPON 2006, p. 5).

So what's wrong with a cohesion policy that aims at achieving convergence? Several answers were given to this question, and the most important we can find in classical papers by Boldrin and Canova (2001), the Sapir report (2003), Rodriguez-Poze and Fratesi (2004) and the lesser known, but stronger in criticism of the cohesion policy by Ederveen, de Groot and Nahuis (2006). Their arguments may be summarized as follows (compare Bachtler, Gorzelak, 2007):

- cohesion policy is mostly of social meaning, and in fact does not contribute to growth (Boldrin, Canova);
- traditional cohesion policy that concentrates on "hard" infrastructure and assistance to firms does not increase the competitiveness of lagging regions, and, in the long run, may even decrease their competitive advantages (Rodriguez-Pose and Fratesi);
- this policy may even decrease growth in countries with poor institutions, high corruption and that are not open enough (Ederveen, de Groot and Nahuis);
- only assisting education (Rodriguez-Pose and Fratesi) and institution building (Ederveen, de Groot and Nahuis) may create grounds for long-lasting development of such regions;
- to achieve these goals, EU policies have to be remodelled to increase the outlays for competitiveness and innovation, at the expense of the Common Agricultural Policy and traditional regional policy (the Sapir report).

For much of the past 20 years, the use of Cohesion policy resources has been governed by the assumptions of 'traditional' regional policies of the post-war period originating in Keynesian doctrine and state interventionism in a resource-based economy. Traditional regional policy was both formulated and pursued in what Castells (1997) dubbed the 'economy of places' – an economic reality where specialised economic and urban systems functioned in a way in which they were much more isolated from one another than is now the case. As a result of the shift to an open, knowledge-based economy, and from quantitative to qualitative development factors, traditional approaches have become much less effective. As previously indicated, M. Castells calls the current model the 'economy of flows', as it is a mutually interdependent system with a dominant role for the flow of goods, people, capital and, especially, information. In the current era, countries and regions will only gain a lasting competitive advantage if they can produce innovation on a steady basis. Exerting influence on this new economic model must take different forms than was the case under the previous paradigm.

The paradigm shift has been partly recognized by the Commission in their development of new assumptions for Cohesion policy for 2007–13. Drawing on the Lisbon strategy (Council, 2006): *These strategic guidelines should give priority to ... investment in innovation, the knowledge economy, the new information and communication technologies, employment, human capital, entrepreneurship, support for SMEs or access to risk capital financing'*. It is instructive to note that the Commission's original version of the Guidelines (CEC, 2005) was considerably more definitive in the need for a shift in policy focus but was 'diluted' at Member State insistence.

Maintaining such a direction in reforming Cohesion policy also calls for a reconsideration of the concept of cohesion. Arguably, *cohesion* should be understood in functional terms, and not as an effort to reach *convergence*. Convergence is an approximation of static states, whereas cohesion is dynamic by nature, being the opposite of entropy. Moreover, convergence is difficult to achieve, certainly with the limited resources available at the EU level. Cohesion should be liberated from its 'equalisation' underpinnings and should be understood rather as harmony and collaboration (economy of flows), lack of destructive pressures and irresolvable conflicts, and the possibility for co-existence and cooperation between individual components. Following this line of argument, an alternative understanding of the individual aspects of cohesion would involve a policy focus on three elements: *economic cohesion*, denoting the possibility for effective cooperation between economic agents, lowering transaction costs, and harmonizing relationships between businesses and their institutional environment; *social cohesion*, eliminating barriers to horizontal and vertical mobility through helping to overcome differences in levels of education, career advancement and material status; and *territorial cohesion*, removing constraints on spatial development which restrict the achievement of social and economic cohesion, such as eliminating barriers to transport, connecting the major nodes of European and national space, and developing research and business networks.

In the Green Paper (CEC 2008) on the new, third pillar of territorial Cohesion, some references to such a functional approach can be seen in the chapter entitled: *Connecting territories: overcoming distance*. Here we find statements suggesting that the functional alignment of individual territorial systems is one of the goals of territorial cohesion, e.g.:

> *"Connecting territories today means more than ensuring good intermodal transport connections. It also requires adequate access to services such as health care, education and sustainable energy, broadband internet access, reliable connections to energy networks and strong links between business and research centres. This is also essential to address the special needs of disadvantaged groups….*
>
> *In remote areas especially, the potential of IT to provide access to health care and education through telemedicine and remote learning remains to be developed".*

Unfortunately, these postulates are restricted only to what basically can be regarded as local systems, and leaves out the European dimension.

In addition to the above, the document propounds highly traditional approaches, evidenced whenever such phrases as *balanced development or diseconomies of very large agglomerations* are mentioned (so far, however, disadvantages of agglomerations are much less than the advantages of developing metropolitan functions, which can only be achieved in large cities). Likewise, it is pointed out that *the* *pattern of economic activity, however, is far more uneven than settlements* (which is only natural as differences in the productivity of individual sectors are considerable). These assertions are based on a rather old-fashioned (and fallacious) assumption that *bringing economic gains from less congestion and reduced pressure on costs, [which should produce] benefits for both the environment and the quality of life* should still be the order of the day. Such relocation of activity from better to less developed places is only possible for the low and medium segments of the economy, whereas the top segment, which generates innovation and new technologies and has the highest added value, is only concentrated in certain places. So, as these concurrent processes take place, Friedman (2005) is right in his assertion that 'the world is flat' (where M. Porter's "comparative advantage" stemming from low costs of production is the leading driving force of growth), and so is Florida (2008) who conversely claims that 'the world is spiky' (where territorial units enjoy a "competitive advantage" achieved through creativity and innovativeness).

The EU document on territorial cohesion even uses the phrase: *more balanced and sustainable development, implicit in the notion of territorial cohesion*. As we can see, this is a tribute paid to old habits and beliefs, necessary as it may seem in order to move on towards a new and more appropriate approach to cohesion. Nonetheless, these passages smack of the traditional, now historical, approach to cohesion, usually identified with convergence, which – as we see in statistics – seems impossible to achieve, whether we like it or not.

Discussions undertaken during last years have brought new documents, of which the Barca Report (Barca, 2009) certainly is the most significant. The Report is a continuation of the traditional approach to the Cohesion policy, as it analyzes the distribution side (i.e., where and how EU funds should be allocated) and not on the delivery side (which was emphasised in the 2004 Sapir Report). The Barca Report also puts emphasis on "place-based policies" (that is, interventions in specific locations) and makes only a fleeting reflection about linkages, flows, cooperation and territorial interactions in the development processes. Additionally, it does not present a broad picture of the EU-wide dimension of the Cohesion policy, including initiatives spanning the entire EU territory.

The above considerations suggest that should the Barca Report be adopted as the leading guideline for reforming the Cohesion policy, the ideas presented herein are rather unlikely to be put into practice. Apparently, the time is perhaps not yet ripe for more original approaches, which is also corroborated by the repudiation of the Sapir Report in all its practical aspects and by the lack of tangible success in implementing the Lisbon Strategy.

As can be seen, the process of reforming the Cohesion Policy along the requirements of the present and – more importantly – of the future – have begun, but are still weak and need strengthening. The Commission will not introduce these changes by itself, since it depends on the voices of the Member States. Are they

– and mainly the least developed ones – ready to abandon traditional approaches, where “money” is often regarded as the main benefit of membership, and not other “softer” factors? This is a question that cannot yet be answered, since the time of real decisions, which will also be influenced by the current crisis, has yet to come.

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