Class
Structural and cohesion Policies

IPS

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Introduction

The European economic integration process has focused on the economic dimension relative to the social one.

It is only from the 1980s that European policies rebalance action towards economic and social cohesion

Two dimensions of social and economic cohesion:

1. geographic: reduction in differences in development levels between countries and regions
2. Social: basic model = “social and market economy” defined by the European Commission as simultaneous presence in member states of:

   - a universal system of social protection
   - regulation to correct market failures (labour market)
   - social dialogue system

Cohesion Policy

= European regional policy

= structural policy (up to the 1990s)

(i.e. using European structural funds)

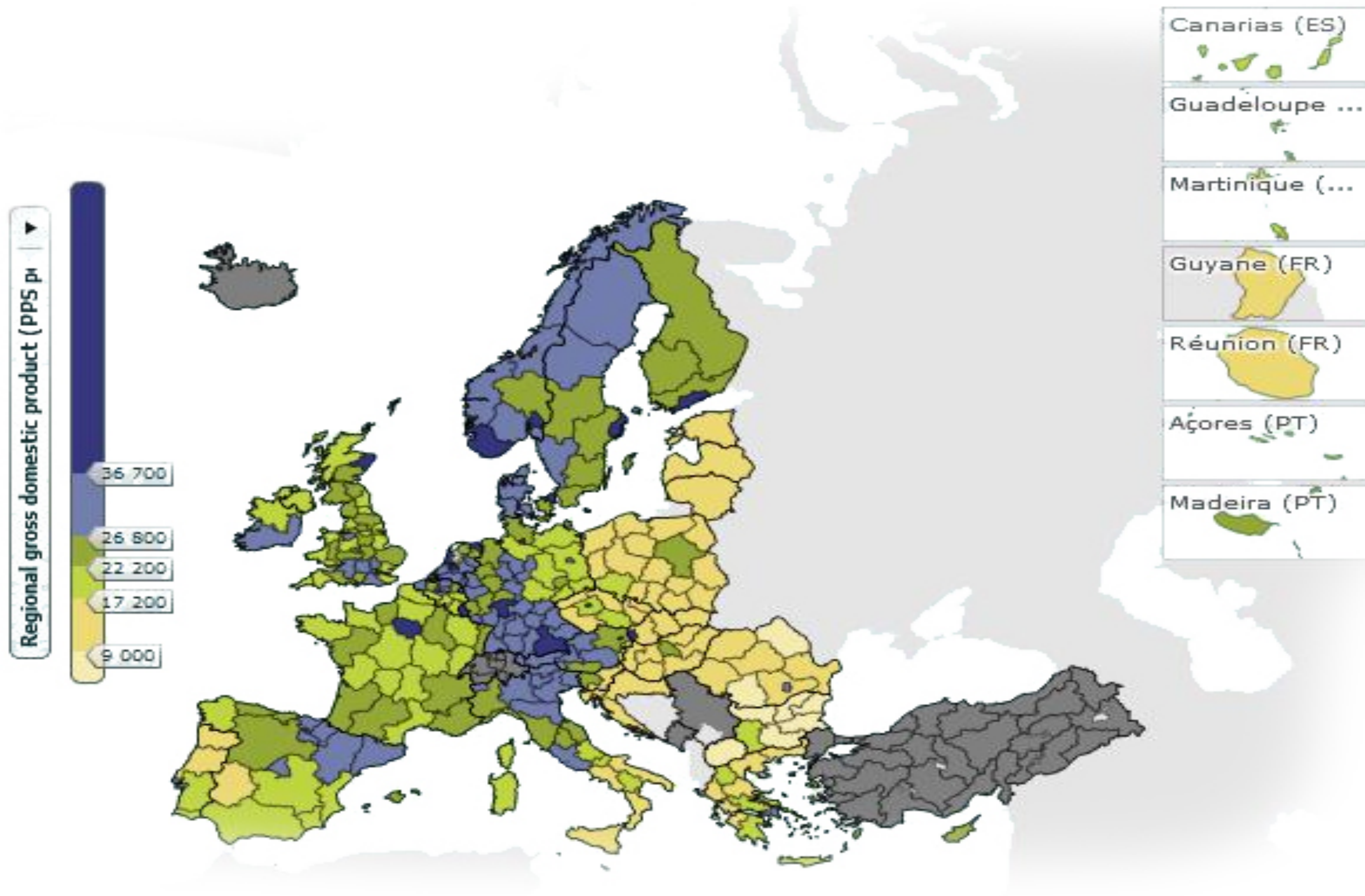
I. Heterogeneity of the European space

- The difference in economic development levels across countries and regions is problematic in particular in EMU because it makes reaction to shocks difficult.
- The 2004 enlargement increases this vulnerability => structural and cohesion policies are even more important.
- Disparities:

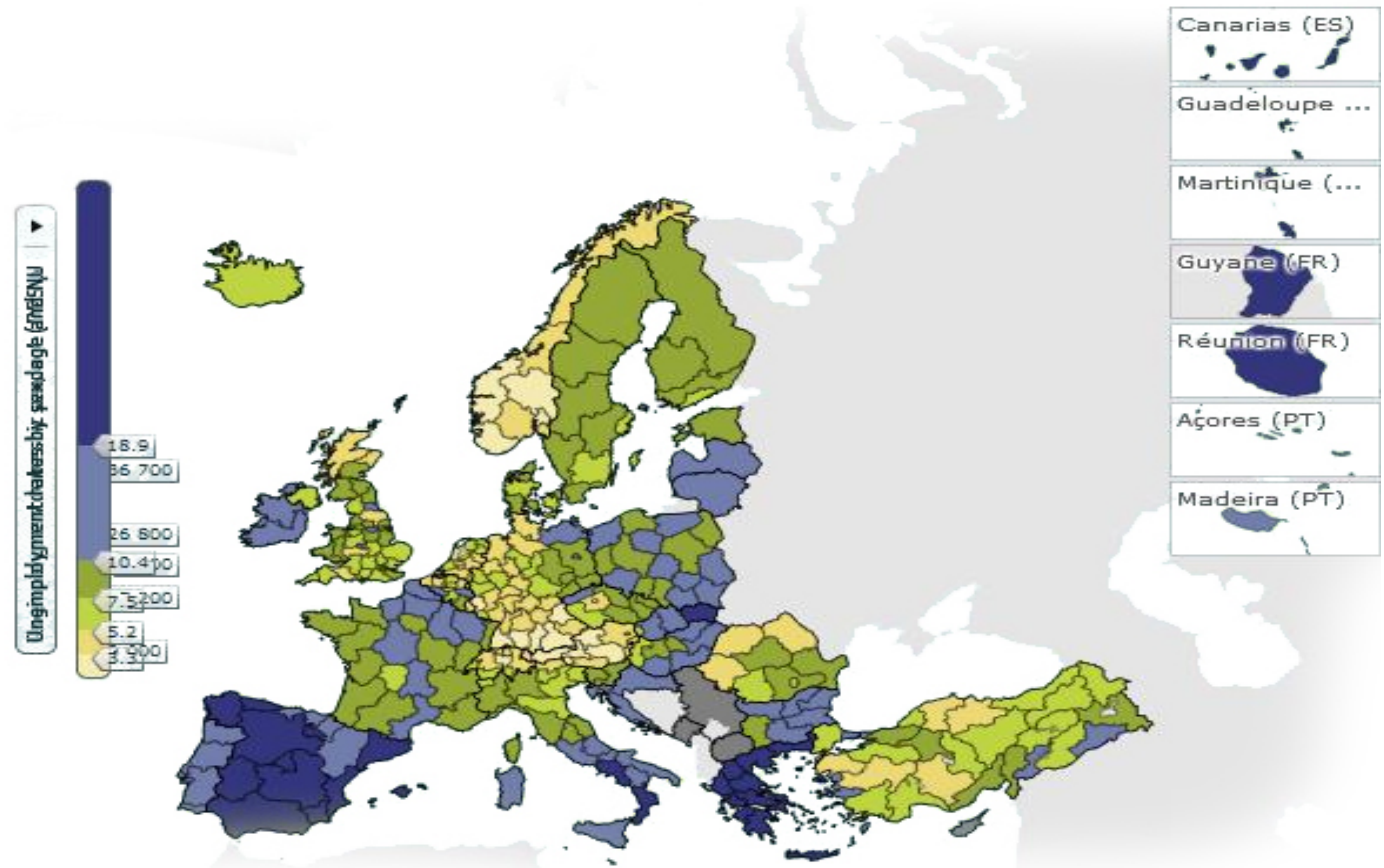
  a. income level

  b. unemployment, labour costs and social protection

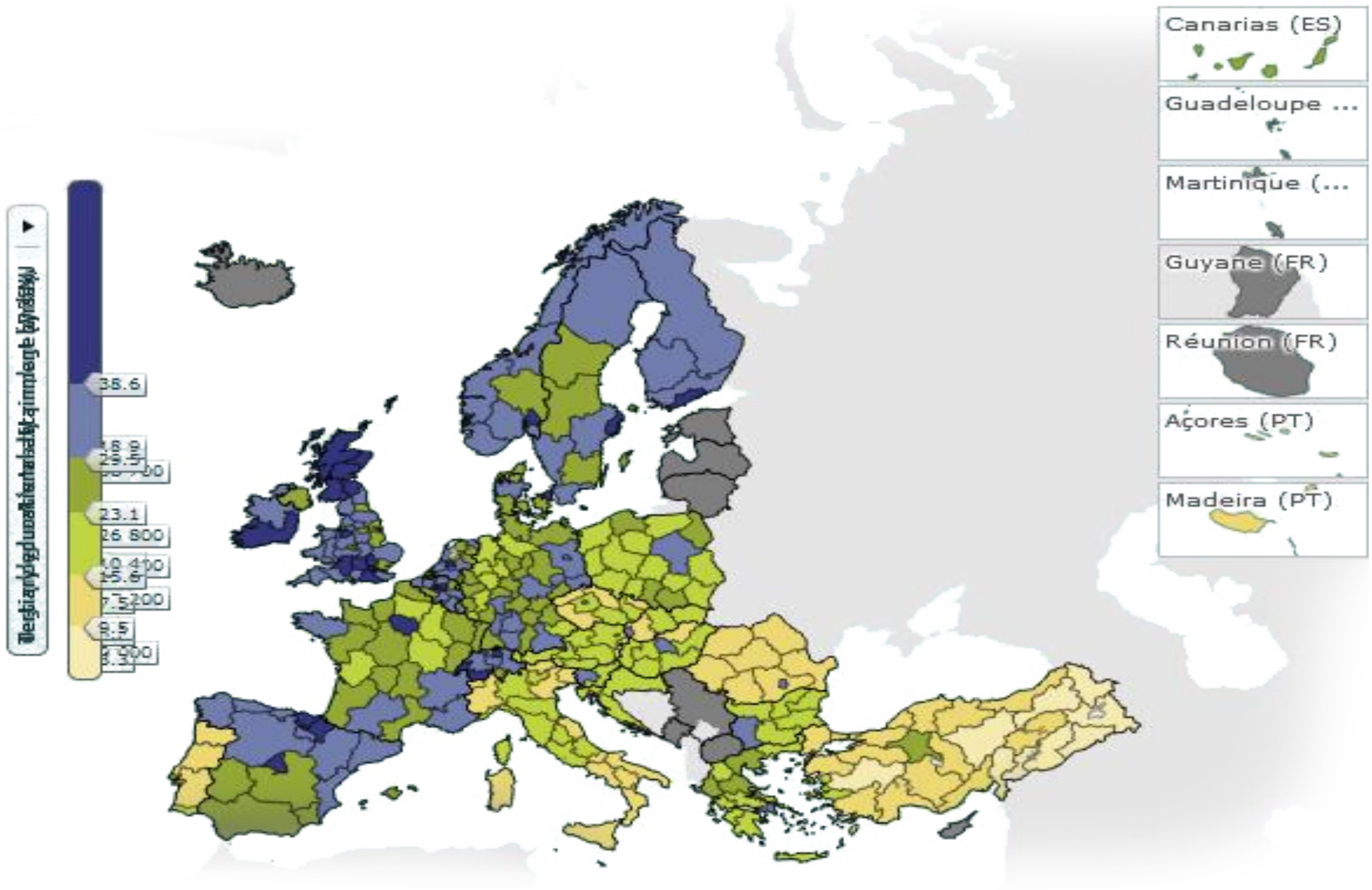
The European Union is heterogenous (GDP per capita)



Unemployment rates



Tertiary education



Why a European regional policy is necessary?

	HIGH	LOW	Ratio
GDP per capita **(% EU average)**	Luxembourg 266%	Bulgaria 47%	5.7*
Unempl rate **(%, age 20-64)**	Sweden 79.8%	Greece 53.2%	1.5

The European regional policy (now called cohesion policy) aims at reducing disparities in the Union

*** The difference is 2.5 in the USA e 2 in Japan**

What is a region?

- **Eurostat has elaborated a classification of territorial units (NUTS).**
- The cohesion policy considers NUTS 2 regions, which include between **800 000 and 3 000 000 inhabitants**.
- There are **274 NUTS2 regions in the EU**.

II. History of European regional policy

At the beginning of the EEC regional policy is not a priority because:

1. The six founding countries have similar levels of development
2. The idea is that the small disparities will be eliminated with the creation of the single market

⇒ In the RT only some principles such as harmonious development, reduction of regional differences: the European Social Fund (ESF) and the European Investment Bank (EIB) + European Agricultural Fund for Orientation and Guarantee)

1970s: debate on the idea that disparities among member states could slow down integration process (Werner Report, 1970; Thompson Report, 1973)

⇒ Creation of the European Fund for Regional Development in 1975: however,

- Limited resources
- Distribution of funds between countries without any considerations of the needs (presence of backward or crisis regions); from 1984 allocation based on regional disparities.

1980: entry of Greece, then Spain and Portugal

⇒ Disparities rise

⇒ **New approach to regional policy**: based on medium term development programming instead of specific projects.

The new approach also introduces 4 principles which have guided European regional policy up to now:

1. **partnership**: of responsibility between involved institutional levels;
2. **Primary responsibility** of the regional level;
3. **Co-financing** of projects (national and European);
4. **Evaluation** of results.

=> Regional policy becomes important in the EEC in the 1980s

⇒ Introduction in the SEA of the principle of “economic and social cohesion”.

⇒ 1987: the European Commission proposes a reform of structural funds.

Reform: 4 princles

1. **concentration**: on specific objectives (objective 1: progress of backward regions; objective 2: restructuring of declining regions; objective 3 (action against long-term unemployment); objective 4 (promotion of employment for young people); and objective 5 (upgrading of agricultural structures)
2. **Programming**: definition of multi-annual strategies for development, with dialogue with stakeholders.

3. **partnership**: permanent dialogue between the European Commission and competent authorities in the Member States.
4. **Additionality**: avoid subsitution of national resources with European ones; European funds must add to the national effort, not substitute it.

=> Rising importance of regional policy shown by rising share of structural funds in the European budget: from 18% in 1987 to 29% in 1993.

Structural funds will experience two subsequent reforms (in the MT and in 2000 when the EU is about to enlarge to CEEC countries)

The MT strengthens the role of the European regional policy by making it a pillar of the European economic integration process.

Objectives are reduced to 3:

Objective 1: backward regions where GDP per capita is less than 75% of the European average

Objective 2: restructuring regions (rural, declining industries)

Objective 3: upgrading of the labour market and increasing employment

After 2000, for the first time, the resources for “old” members reduce and concentrate on new members.

2007-2013, new package (€ 348 billion for regional policy, of which € 278 billion for structural funds and € 79 billion for cohesion fund).

3 new objectives:

- “Convergence”: convergence of less developed MS and regions;
- “Regional competitiveness and employment”: innovation, entrepreneurship, environmental upgrading;
- “European territorial cooperation”: cross-border and interregional cooperation

European regional policy is also realised through specific programmes:

INTERREG (cross-border cooperation);

URBAN (urban development);

LEADER + (rural development)

Equal (elimination of discriminations on the labour market)

III. Social Europe

Social Europe starts with 4 pillars: Community law, social dialogue, intergovernmental coordination on employment and the European Social Agenda.

In the RT, social Europe is represented only by the European Social Fund.

Some Directives integrate social apsects in the economic integration process from the 1970s onwards: for instance,

- Directive on the equality of wages between men and women (1975)
- Directive on collective firing (1975)
- Workers’ rights in case of mergers (1977)

=> However, no social policy strategy

SEA: extension of the qualified majority voting on issues of health and security at work

and introduction of the social dialogue (art. 118b requires promotion of social dialogue)

European Social Charter: 9 December 1989, adopted by 11 member states out of (UK out): it is a declaration of general principles essentially regarding the single labour market

Social programmes subsequently adopted also stress labour aspects

Let’s see 2 aspects:

- European Strategy for employment
- The European Social Agenda (2000)

1. European Stategy for Employment

- 1993: White Paper on “Growth, Competitiveness and Employment”

After that the first European Strategy for employment is adopted in Essen in 1994

≠ European labour policy

= attempt to coordinate national policies

- Amsterdam Treaty: for the first time contains an article entirely dedicated to Employment (title VIII)

=> At last, 40 years after the Rome Treaty had established high levels of employment and social protection as an objective of the European Community!

Why so late?

EMU makes coordination of national labour policies necessary, because wages determine inflation and competitiveness.

The objective of European policy is high level of employment.

How? National competence but coordination: each year the European Council looks at the labour market situation in the EU and defines broad lines for the definition of national labour policies.

2. The European Social Agenda

The European Council of Nice adopts the European Social Agenda in 2000.

It promotes upgrading of the European social model through a strong link between economic performance and social progress:

Example: social protection is not only seen as protection of individuals and societies, but also as a factor for competitiveness

6 monitored objectives:

1. Increase in labour participation
2. Equilibrium between flexibility and security
3. No exclusion nor discrimination
4. Upgrading of social protection
5. Promotion of gender equality
6. Social aspects of Eastern enlargement

⇒ Problem: social diversity in the EU and functioning of the single market and of EMU (lower social protection in some countries lead to cheaper goods but unfair competition in the single market)

IV. Convergence and economic integration

- Heterogeneity is also a source of wealth: socio-cultural diversity allows to enlarge the knowledge base, know-how and product variety.
- However, the EU cannot have too high disparities (competition on the single market and effects of asymmetric shocks)
- Hence structural and cohesion policies.

The Union has used the term structural funds instead of regional funds in order to stress the objective of removing structural factors for backwardness rather than just removing geographic imbalances

Convergence is also important from a political point of view: if economic integration creates big structural adjustment problems in some regions then politicians will have to face big social problems.

Evolution of structural and cohesion policy through time:

Shift from a French-type top-down policy-making approach to a bottom-up, German-type policy approach.

In fact the principles of partnership and programming (planning) from the 1980s just provide evidence of this evolution.

⇒ The role of local authorities has increased in importance. The underlying hypothesis is that industrial development starts from the local level to extend to wider levels; also that local and regional authorities are better able to define appropriate policies because they are closer to information about resources needed for development.

V. Link between regional, national and European policies

Regional policies defined in each member states are influenced by the European policy, both in their evolution and in their contents.

1. Evolution

All MS have regional policies.

These policies have developed essentially from the 1970s onwards: why?

- large growth of urban centres
- infrastructural development in backward regions
- unemployment problems in areas with declining industries

Instruments:

- building of infrastructure
- localisation of state-owned firms in backward regions
- financial aid for investments

⬄ Top-down Approach (centralised)

Italy: regional policy starts with the creation of the Cassa per il Mezzogiorno, 1951

Problem of top-down approach in Italy: the Southern economy becomes very dependent on financial transfers from Rome

1980s: liberal wave, privatisations, questioning of regional policy

From 1985: European policies

⇒ Change in the national regional policies:

1. objectives and instruments become more similar across MS:

Preference to subsidies relative to fiscal incentives; some countries use FDI attraction policy (Ireland)

2. approach: change in approach at European level (from top-down to bottom-up) is also adopted in regional policies, with preference for actions which favour a competitive environment (training, R&D, networking) rather than direct intervention in markets

2. Decentralisation

Change in the implementation of regional policy: growing involvement of local stakeholders and decentralisation of local development policies

Most decentralised countries: A, B, DK (local authorities are responsible for planning and financing)

Germany: planning at the länder level, co-financing with the federal state

Spain: local planning, central financing

Irl, F, NL, P, GR: more centralised governance

3. Italy

Law 488/92 = big change in regional policy

= end of extraordinary intervention in the South

New intervention model implemented since 1998:

- Financing not only to the South, but also other regions
- Responsibility for regional policy given to regional governments and not to special agencies (such as Cassa per il Mezzogiorno)
- National level: coordination, planning and monitoring

Law n. 112 of 31/03/1998 (implementing the Bassanini Law 59/1997) empowers regions to define and implement industrial policy

Constitutional reform of 1999: higher autonomy of regions, which can decide the form of their government and the relationships with local authorities

Constitutional Law of 2001 (n.3): completes the reform of Title V of the Constitution with the extension of competencies to regions in terms of legislation, particularly in the definition of development policies (including industrial policy)

TOWARDS A NEW APPROACH TO EUROPEAN REGIONAL POLICY…

BARCA REPORT 2010

The report is the result of the analysis made by an expert group on cohesion policy

Suggests a change of approach and priority: regional policy should not only be aimed at reducing divergences but also at promoting economic development (hence not only for backward regions, but also for growth of advanced regions which can lead the development of less developed ones)

The report proposes, for ALL European regions, a *Place-based development strategy*

Territories (not necessarily administrative regions, areas within regions or grouping regions) identify resources and competencies necessary for economic and social development

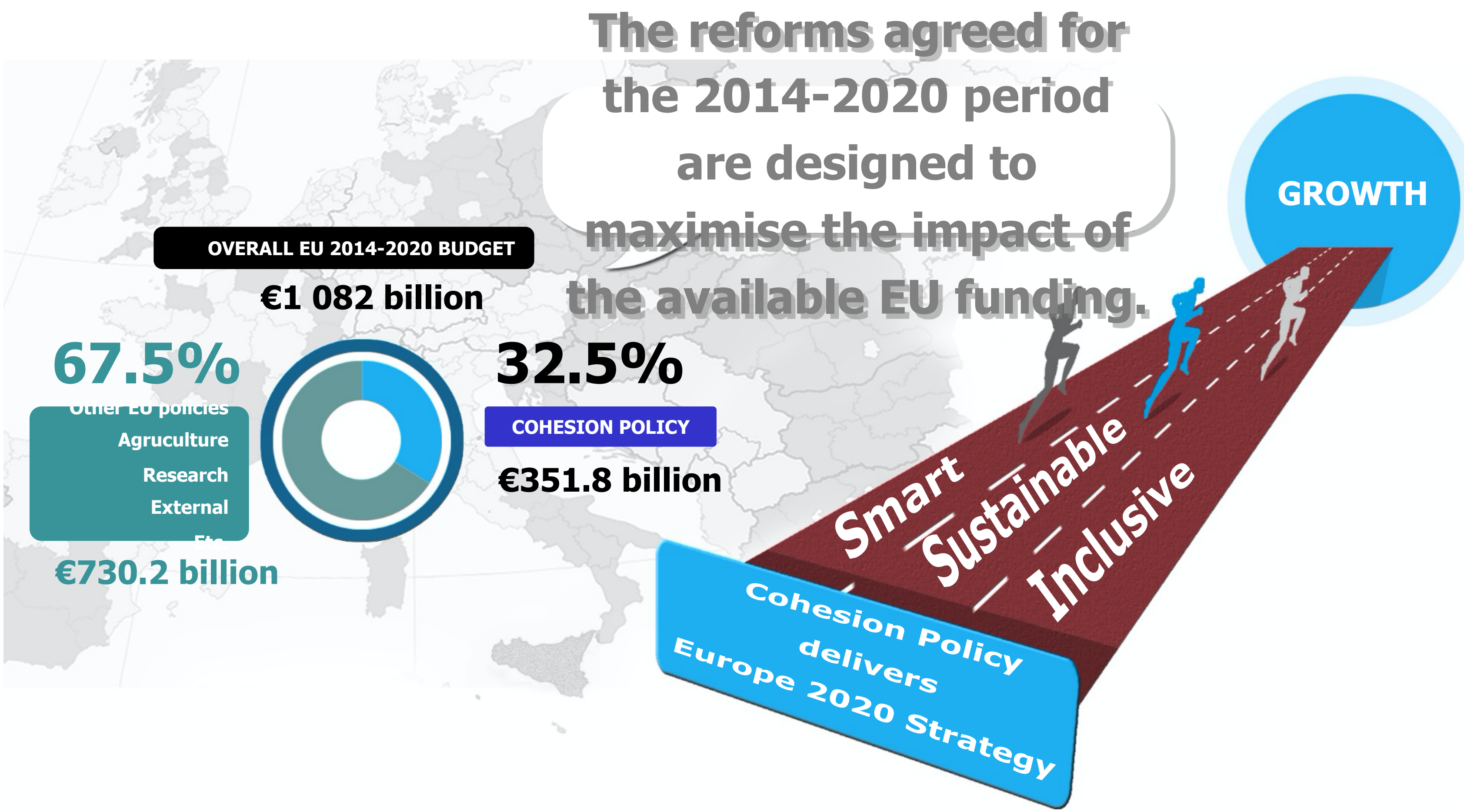
Cohesion funds are used to:

- Mobilise people and resources;
- Favour learning processes
- Favour synergies

(less developed regions try to upgrade while most developed regions pull the whole EU towards higher development levels)

Investing in regions:
The reformed EU Cohesion Policy 2014-2020

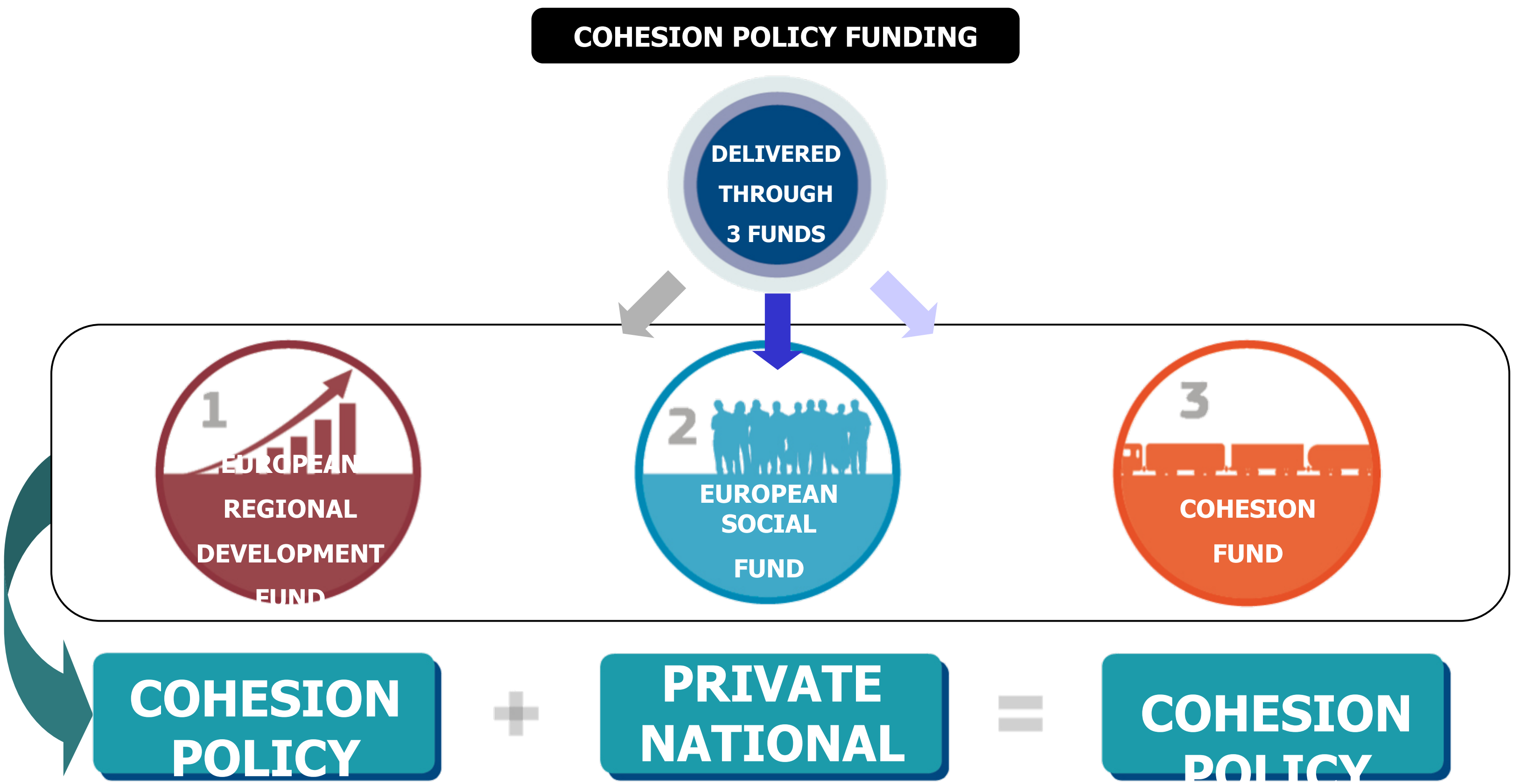
EU Cohesion Policy 2014-2020: 1/3 of the EU budget



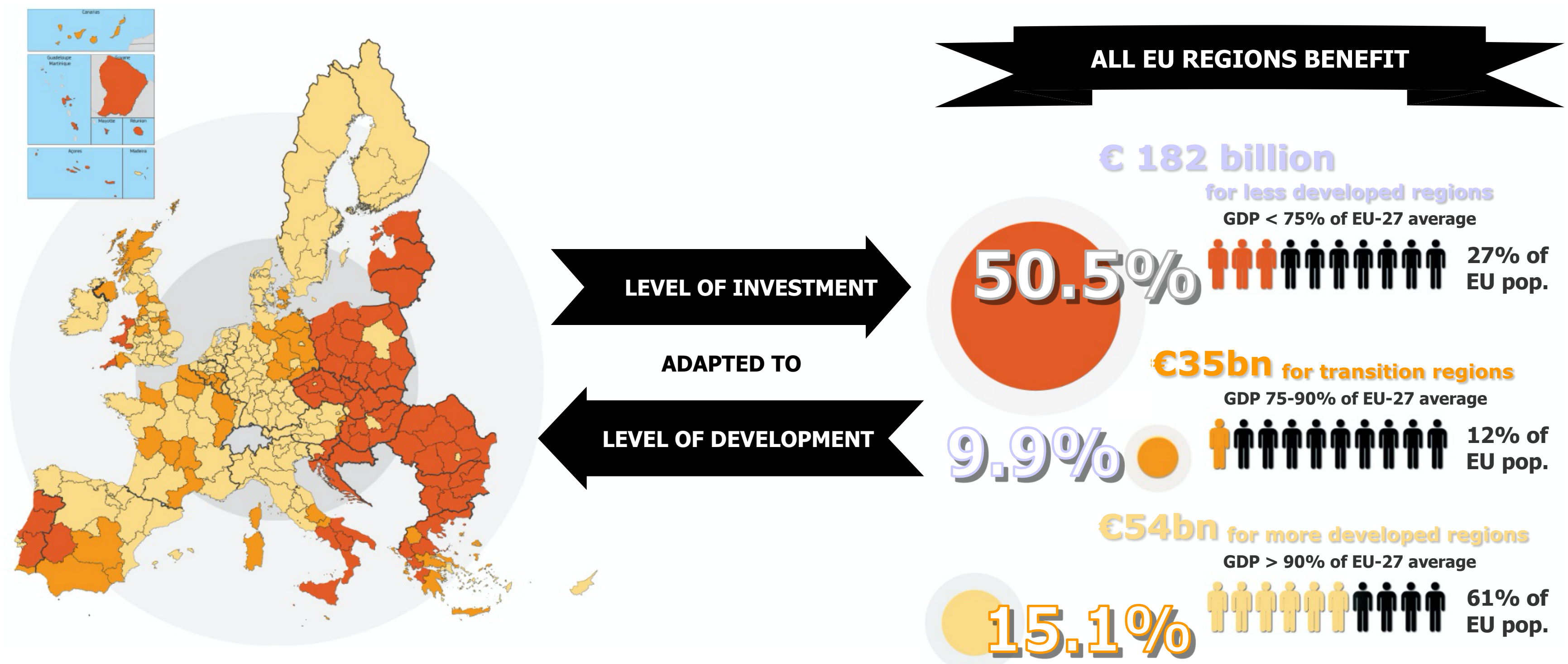
Cohesion Policy delivers the Europe 2020 strategy

- Launched in March 2010: Follow-up to the Lisbon Agenda (2000 and 2005).
- A strategy from the European Commission ‘for smart, sustainable and inclusive growth’ over the next 10 years
- Smart agenda: innovation; education; digital society.
- Sustainability agenda: climate, energy, and mobility.
- Inclusive agenda: employment and skills; fighting poverty and social exclusion.

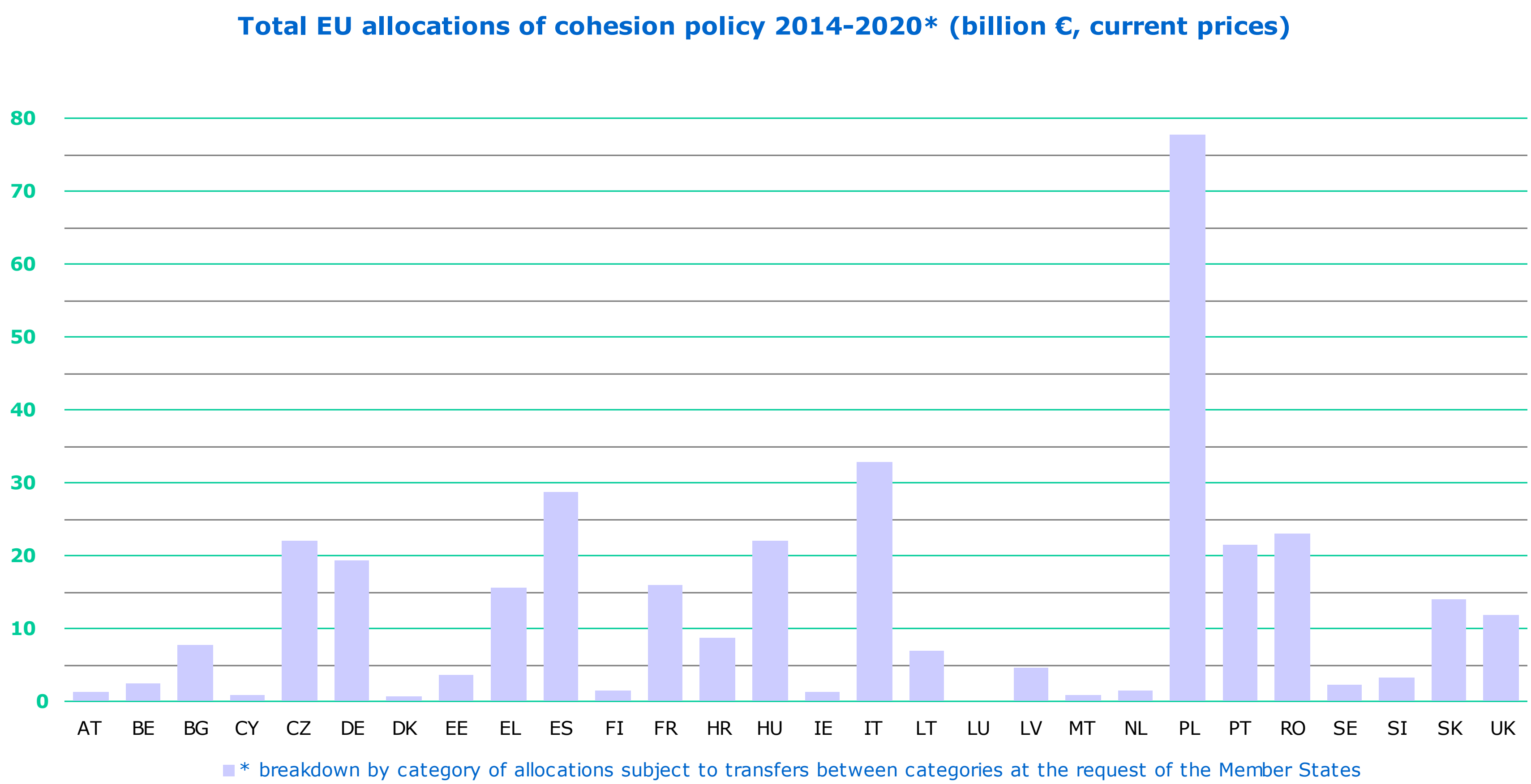
3 funds to invest in growth and jobs



Investing in all EU regions



Budget allocations per Member State (2014-2020)



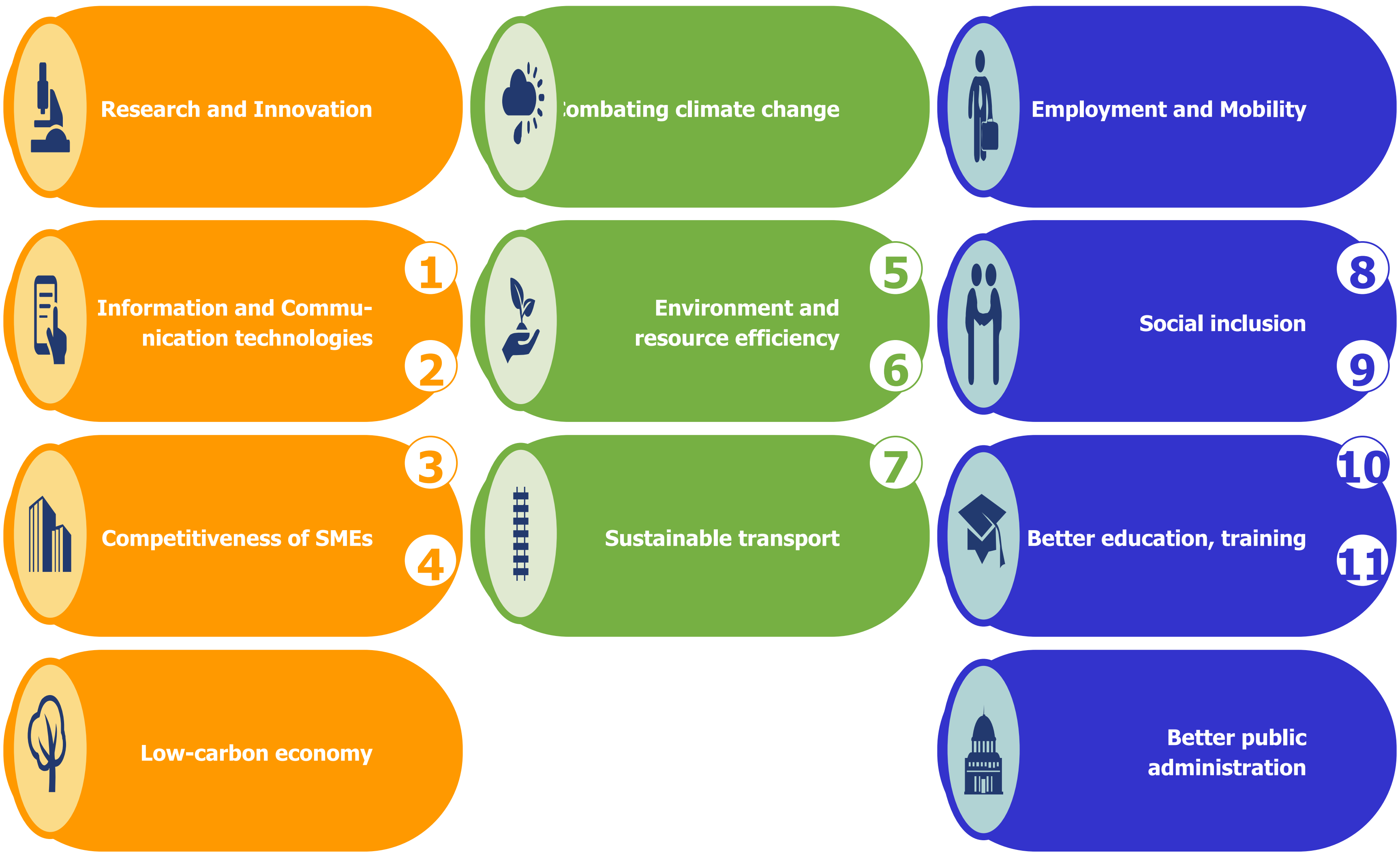
The method: Programming, Partnership and Shared Management

Five European Structural & Investment Funds (ESIF) working together

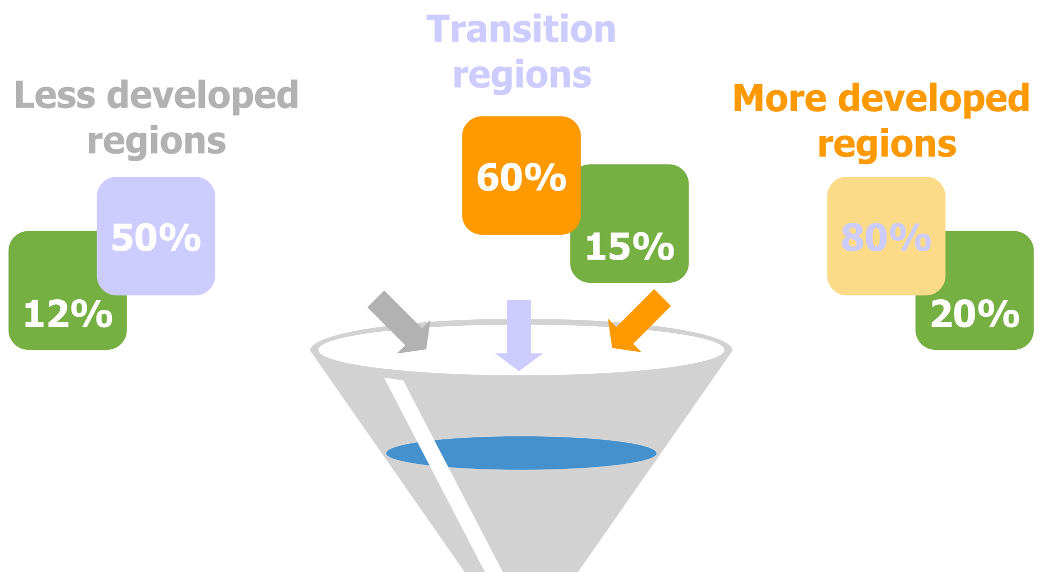
PARTNERSHIP AGREEMENT

- European Agriculture Fund for Rural Development
- Cohesion Fund
- European Social Fund
- European Regional Development Fund
- European Maritime and Fisheries Fund

11 thematic objectives



Concentration of investments on 4 thematic priorities (ERDF)



1. Resear Innovation.
2. Information and Communication Technology (ICT).
3. Competitiveness of Small & Medium Sized Entreprises (SME)-greater use of Financial Instruments.
4. Transition to a low CO_2 emissions economy (energy efficiency & renewable energies).

Reinforced cooperation across borders

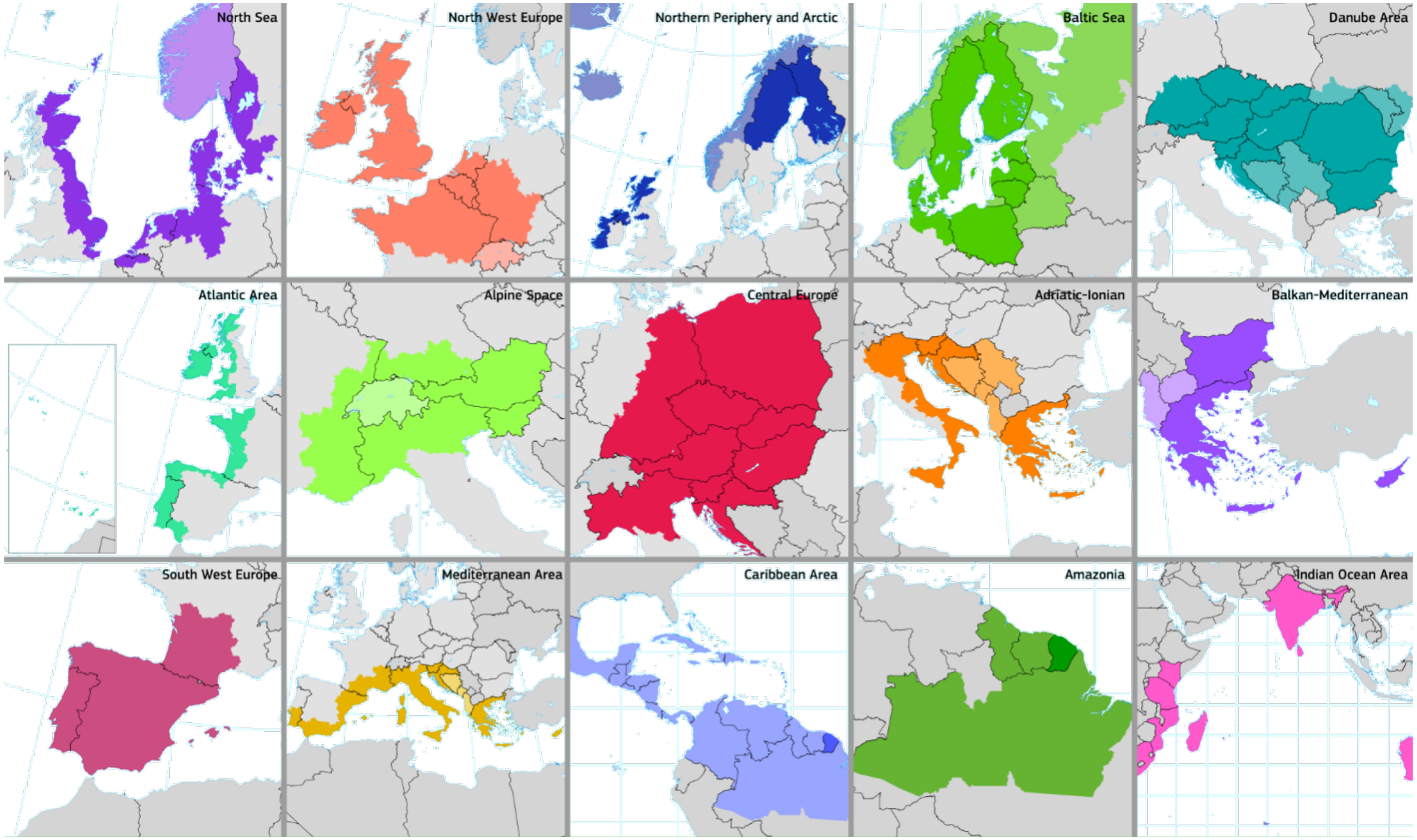
3 strands:

- Cross-border.
- Transnational.
- Interregional.

Budget for 2014-20: €10.2bn

- 2.9% of Cohesion Policy budget.

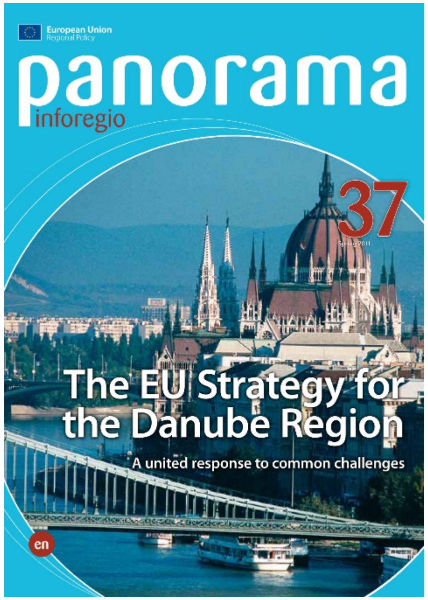
Transnational Cooperation



Macro-regional strategies

EU Strategy for

- the Baltic Sea Region;
- the Danube Region;
- the Adriatic & Ionian Region (proposed by the EC in June 2014).



Macroregions

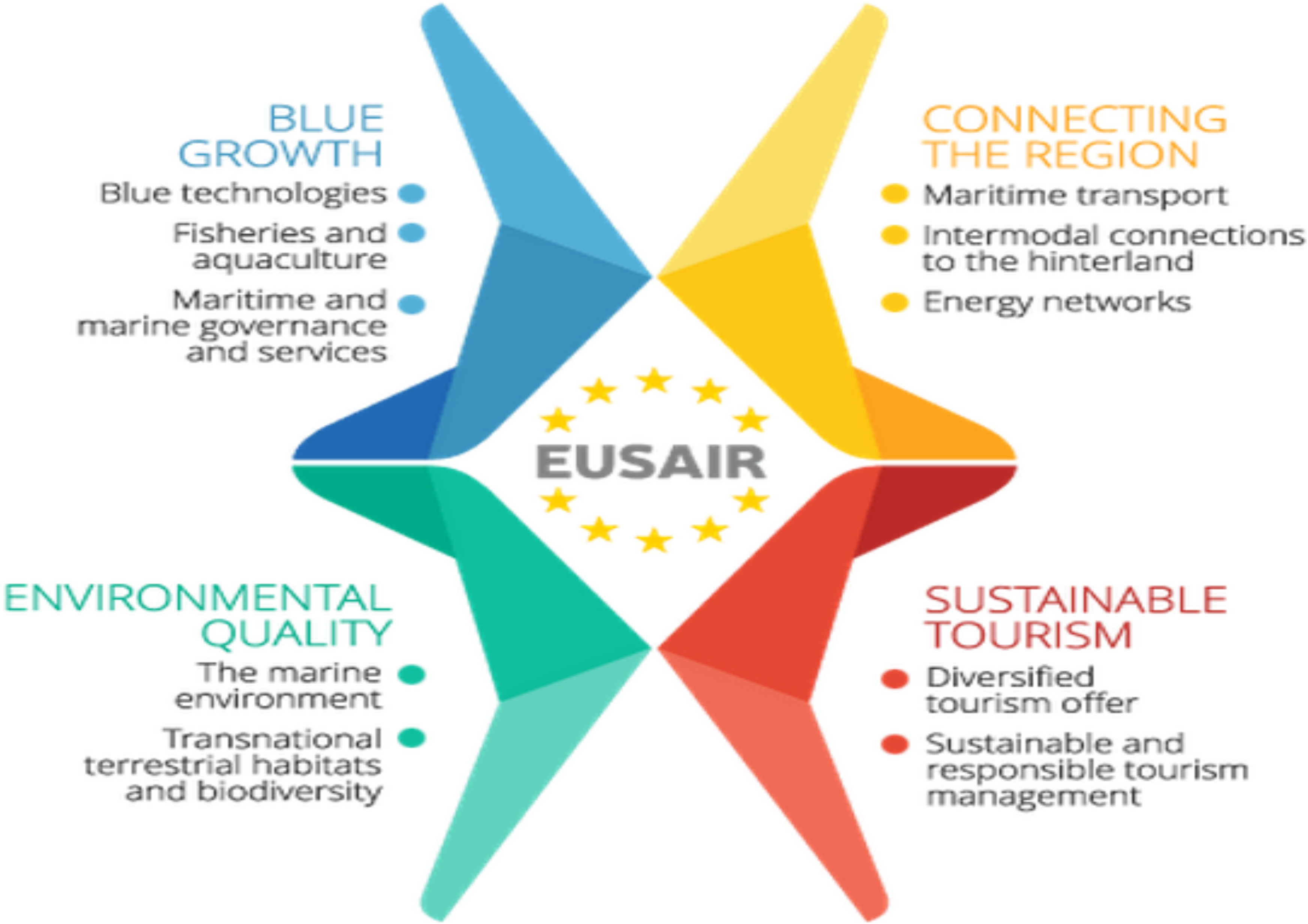
Definition by European Commission: “integrated framework endorsed by the European Council, which may be supported by the European Structural and Investment Funds among others, to address common challenges faced by a defined geographical area relating to Member States and third countries located in the same geographical area which thereby benefit from strengthened cooperation contributing to achievement of economic, social and territorial cohesion”

The action must use already existing European policies rather than new norms, new institutions or new funds.

Example: the Macroregional strategy “EUSAIR”

Objective: generate prosperity in an area mainly defined by Adriatic and Ionian sea and comprising about 70 million people.

Various collaborative projects have been adopted, between different institutions (firms, universities, local authorities) from the different countries and dealing with issues related to environmental and tourism issues, as well as “blue growth”


BLUE GROWTH
Blue technologies
Fisheries and aquaculture
Maritime and marine governance and services
CONNECTING THE REGION
Maritime transport
Intermodal connections to the hinterland
Energy networks
EUSAIR
ENVIRONMENTAL QUALITY
The marine environment
Transnational terrestrial habitats and biodiversity
SUSTAINABLE TOURISM
Diversified tourism offer
Sustainable and responsible tourism management

EU Cohesion Policy: The key elements of the reform

- Link with **EU 2020 Stategy.**
- **Coordinated use** of five European Structural & Investment Funds.
- **Target** resources at key growth sectors.
- Set clear **objectives** and measure **results.**
- Ensure the right **conditions for investment.**
- Enhanced role for the **European Social Fund.**
- Stronger role for **partners** in planning, implementation and control.
- **Integrated approach** to territorial development.
- Reinforce **cooperation across borders.**

Thanks to Cohesion Policy…

So far, in the period 2007-2013:

- 600.000 jobs created – at least 1/3 in SMEs.
- 200.000 SMEs supported.
- 1.800 km of new or reconstructed railways.
- 25.000 km of new or reconstructed roads.
- Broadband access for 5 million citizens.
- Access to clean drinking water for 3 million citizens.
- ESF: 15 million participants per year.
- 940 financial instruments in 25 Member States raising €8.36 bn. funding for equity, loans and guarantees.

European regional policy

= essential to regions in the Union, especially in countries where the national industrial policy is not so strong

Italy: regions implement industrial policy thanks to the use of these European Funds

We will see the example of the Emilia Romagna Region

This is particularly important for SMEs, which can obtain financing and support from their Region if they pay attention to the call that are published and to which they can apply

European regional policy in the new programming period 2021 - 2027

A focus on six investment priorities, where the EU is best placed to deliver

Five main objectives will drive EU investments in 2021-2027:

1. Regional development investments will strongly focus on objectives 1 and 2. 65% to 85% of ERDF and Cohesion Fund resources will be allocated to these priorities, depending on Member States' relative wealth.
2. Smarter Europe, through innovation, digitisation, economic transformation and support to small and medium-sized businesses

3. a Greener, carbon free Europe, implementing the Paris Agreement and investing in energy transition, renewables and the fight against climate change
4. a more Connected Europe, with strategic transport and digital networks
5. a more Social Europe, delivering on the European Pillar of Social Rights and supporting quality employment, education, skills, social inclusion and equal access to healthcare
6. a Europe closer to citizens, by supporting locally-led development strategies and sustainable urban development across the EU.

The bulk of European Regional Development Fund and Cohesion Fund investments will go towards innovation, **support to small businesses**, digital technologies and industrial modernisation.

It will also go to the shift towards a **low-carbon, circular economy and the fight against climate change**, delivering on the Paris Agreement.

A more tailored approach to regional development

Cohesion Policy keeps on investing in all regions, still on the basis of 3 categories (less-developed; transition; more-developed).

The allocation method for the funds is still largely based on GDP per capita + youth unemployment, low education level, climate change, and the reception and integration of migrants

Cohesion Policy further supports locally-led development strategies and empowers local authorities in the management of the funds. Urban dimension: 6% of the ERDF dedicated to sustainable urban development, and a new networking and capacity-building programme for urban authorities, the European Urban Initiative.

Next classes:

More on Industrial policy for SMEs at national and regional levels

Particular focus on clusters of SMEs

Before that, we have to talk about another megatrend (of the business environment) which has been addressed by industrial policy for SMEs: globalisation (and internationalisation)