

## **Regional competitiveness of the EU in the global context: EU developments from regional policy to cohesion policy**

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"The objective assigned to Cohesion Policy in the EU Treaties is thus 'to promote overall harmonious development' and 'reduce disparities between the levels of development of the various regions and the backwardness of the least favoured regions'. 'Territorial cohesion' has also been added to the EU's overarching objectives, alongside economic and social cohesion, under the Lisbon Treaty, with potentially new impetus for the policy's future." (Dhéret, 2011:1).

### *Introduction: from "regional" to "cohesion" policy*

The "cohesion challenge" has been present from the very beginning in "the diverse Europe" (ESPON, 2010:8). The main goal of regional/ cohesion policy has always been to "reduce socio-economic disparities and promote real convergence in the European Union by investing in structural change" (European Commission, 2010j:2). The cohesion challenge came to the fore after the Southern enlargement, thus the year 1986 with the Single European Act is considered as the start of regional/cohesion policy, thus its 25<sup>th</sup> anniversary has been celebrated in May 2011. Certainly, it has become overwhelming in the EU policy universe only after the Big Bang of the Eastern enlargement. By now cohesion policy has turned to be the key policy field in the EU27 and regional policy has been treated as its special application. All in all, regional/cohesion policy is meant for merging the competitiveness and cohesion together in a common public policy with a territorial perspective or territorial development strategy as our motto demonstrates.<sup>1</sup>

This paper deals with the cohesion policy in general and with the regional policy in particular as a comprehensive term and theory, or integrated policy across a wide range of policy areas. The paper starts with the historical evolution of the regional policy indicating how it has become the comprehensive cohesion policy in the EU. As a result, nowadays "everything" is inside cohesion policy, since cohesion policy is already an all-embracing term, both for policy-making and general theory. The consolidation of the term as well as the theory has been completed by the Lisbon Treaty (LT) that has stipulated the policy coherence between the economic, social and territorial cohesion and by the Europe 2020 Strategy (EU2020) that has put cohesion policy in the centre of the EU policy universe. The first full application of this general principle of the extended, "coherent" cohesion policy - embracing the economic, social and territorial cohesion - can be found in the Baltic Sea and Danube Strategies.<sup>2</sup>

There has been a long history in the EU vocabulary from “regional” policy to “cohesion” policy in both a practical-structural and a conceptual-theoretical process. In this process resulting in the unification of the regional/cohesion policy terms and the related theories, so finally almost all “integrated policies” have been qualified as cohesion policy. With the present comprehensive and coherent approach, however, more and more the deep tensions among member states (MS) have also appeared inside of cohesion policy in the EU. The policy networks or organized interests of various policies have cooperated and clashed more and more on this domain of policy design and budgeting, thus by now most of the sharpest conflicts have appeared under the label of cohesion policy.<sup>3</sup>

The regional and cohesion policies have to be distinguished, at the same time they have to be treated together, it is what this paper tries to accomplish. First, cohesion policy, taken in its widest meaning, deals with all possible measures to keep the EU together in all policy fields and dimensions. No doubt that cohesion policy is the main instrument and the dynamic vehicle to keep the MS together to create a Cohesive Europe: “Since its creation, it has been considered a fundamental mechanism to foster EU integration and offset the potential adverse effects of the Internal Market on regional disparities.” (Dhéret, 2011:1). Second, regional policy, taken in its narrowest meaning, focuses on the subnational regions (NUTS2). Both regional and cohesion policy have their own history, and even by focusing on the transformations of cohesion policy in this paper, it is necessary to note briefly that regional policy has also developed its own ramifications. After the widening and deepening in the eighties, the “Europe of the Regions” was the famous slogan in the nineties. The Committee of the Regions (CoR) was established in 1993 that gave a big impulse to the regional-territorial representation in the EU, and since then the CoR – with the DG-Regio - has been the main driver of the cohesion/territorial challenge in the diverse Europe. Although this territorial challenge as the trend of Europe of the Regions has weakened after the late nineties, nonetheless, many analysts have answered the question positively whether the Europe of the Regions has been “Rhetoric or Reality?” Thus, for instance, José Magone has argued in two books that the regions still matter in the EU. First, in the early 2000s he stated in his Introduction that “the ‘Europe of Regions’ is no longer a catchword, but an important reality” (Magone, 2003:1). And second, almost a decade later, he again confirmed in his Conclusion on regional policy that the main direction is “towards a Europe of the regions” (Magone, 2011:339).<sup>4</sup>

Although the debate on the territorial challenge, on the role and importance of the (NUTS2) regions is still open (Elias, 2008), no doubt that the importance of the more comprehensive cohesion challenge has increased. As a result, the particular “regional” policy in this respect, i.e. concerning the role of subnational territorial units, has become

more and more integrated into the general "cohesion" policy. However, the "Europe of the Regions" in the global age has its own extension as well, in the form of the mega-regions like the EU itself in the world system, and the EU has developed "globalization cum regionalization" policy in the international and/or global systems through the European Neighbourhood Policy. Altogether, the regionalization issue has three levels, (1) the *mega-regions* as the emerging continental size units like the EU, (2) the *macro-regions* as the organizations embracing some countries and/or their parts, even within the EU like the Baltic and Danube Strategies, and (3) the *meso-regions* as subnational units like the NUTS2 regions in the EU member states, composed of *micro-regions* of different kinds and sizes.

The New Regionalism as a new approach in the international relations has distinguished between regionalization and regionalism, or between the traditional regionalization and the new region-building based on "strategic design". The EU2020 is in fact the strategic design for the EU27 as a mega-region, in which the regionalization inside and outside that may be qualified as regionalism, since both are strategically planned and carefully monitored process. The EU2020 Strategy is also the fully blown "particular" regional policy with its all levels (mega-regions, macro-regions and meso-regions), since it embraces not only the "general" cohesion policy as the key integrated policy of the EU global competitiveness but it tries to build on the mobilization of the regions and localities at all levels. Hence, the latest development of the regionalization issue is the organization of the macro-regions in the Baltic and the Danube Strategy, which are indeed obvious cases of "regionalism", that is macro-regions with strategic design.

*Finally, neither the member states, nor the subnational regions (NUTS2) but these macro-regions between the EU level and member state level can offer a new organizing principle for the EU2020, since these Strategies may be the breakthrough in the renewed cohesion policy with the new drivers of territorial cohesion as "the Europe of Macro-Regions".*

In the long history of the regional/cohesion policy there have been four marked turning points as to their functions and budgeting allocations that has redesigned the cohesion challenge in the EU institutional architecture and policy universe as a whole. The major periods of cohesion policy evolving from its original "classical" version to the unfolding "extended" version are the following:

1. Low profile period between 1957 and 1986, until the Southern enlargement;
2. The marked emergence of the "classical" regional/cohesion policy with the consolidation of the related Funds between 1986 and 2000;
3. The efforts for the coherence of economic and social cohesion between 2000 and 2010 in the Lisbon Strategy (LS) through the "reform" of cohesion policy;

4. The “extended” regional/cohesion policy with the coherence of economic, social and territorial cohesion in the EU2020 Strategy as a new mega-project, based on the institutional architecture of the Lisbon Treaty (LT).<sup>5</sup>

This paper deals only with the third and fourth periods (see Annex). It focuses on policy coherence between the economic, social and territorial cohesion and investigates their synergy as “integrative balancing”. Integrative balancing on one side has to be interpreted *horizontally* (1) between/among policies to reach synergy in the EU policy universe (i.e. sectorally), and (2) within the EU between/among its member states and their regions (i.e. territorially). On the other side it appears *vertically* (1) between the EU and the prospective or acceding new members, or (2) between the EU and its ENP partners. The horizontal approach to integrative balancing is in the forefront of this paper, although the contacting points to the vertical approach are also briefly outlined.

## **I. The policy rivals: “economic” competitiveness and “social” cohesion**

### *1. Reinventing regional/cohesion policy as an instrument of the LS “reform”*

From the very beginning of the EU history the biggest effort has been to combine economic competitiveness and social cohesion, or Competitive Europe and Social Europe as the distinctive features of the EU among the mega-regions of the global world. This program, in fact, has meant to widen both key policies in order to creating synergy through their interpenetration: to widen competitiveness towards the soft, human factors to foster social progress, and to widen social cohesion towards human investment to promote competitiveness. These efforts have relatively been successful but the old policy rivals have basically remained so far more confrontative than cooperative. Actually, there have been two opposite processes that have altered this rivalry and cooperation inside the EU policy universe. On one side, even without any EU efforts there has been a policy widening in both competitiveness and cohesion in the real life, in the socio-economic developments that have led to their increasing interpenetration and the allowed more and more for their partial synergy, although the EU “reforms” have also played an important role. But on the other side, the recurring crisis situations have destroyed to a great extent the results of these “widening” processes gained either by the “spontaneous” socio-economic developments or by the EU strategic designs. The crisis phenomena have produced “family quarrels” or even “divorce” between competitiveness and cohesion new and again, as we witness also nowadays.

Accordingly, there have been two conflicting theoretical approaches or conceptualizations that may be called “reductionist” and “productivist”. The *reductionist* approach relies on the basic economic data – the GDP and likes – and argues with the “hard” data for the economic growth and/or competitiveness as the main – or the

exclusive – goal of the EU activity, thus it considers any investment beyond the narrow economic process as waste. The *productivist* approach, in turn, embraces the “soft” data of socio-economic, institutional and human developments, and it argues that the investment into this complex phenomenon increases the productivity, i.e. leads to the higher economic growth and/or competitiveness. Of course, there have been many mixed approaches, but the basic dilemma for the EU still between the competitiveness of the Core in the spirit of the reductionist approach and the Cohesive Europe in the spirit of the productivist approach (Ágh, 2010b:124-129). The EU membership has changed the conditions of the competition for the acceding states beyond recognition. On one side these conditions have improved to a great extent with the membership as being part of the bigger unit – although above all for the countries and not so much for their regions, but on the other side the membership has meant a big pressure inside the EU and it has accelerated the regional disparities, since most regions of the NMS have not been competitive enough with the regions of the developed member states. Under the same conditions the more developed regions have a big comparative advantage over the less developed regions. It has been clear from the very beginning that after the Southern and Eastern enlargements their regions need a special support and facilitating device being able to withstand the competitive pressure inside the EU. The EU membership has produced indeed this dilemma in the Southern and Eastern periphery of the Core Europe that the new member states have had much bigger capacity than their regions to catch up. Moreover, while in the NMS the catching up process can be observed for the countries, many of their regions have still been lagging more and more behind. The rivalry between competitiveness and cohesion has to be seen also from this side, and this problem has gone through the entire history of the widening in the EU. The more developed states have always advocated the reductionist approach, since the spontaneous policy integration has been more intensive in their countries between economic growth and human investment. The less developed states have preferred the productivist approach that has urged more planned intervention to the “soft” social and human factors of productions.<sup>6</sup>

The first big effort of the EU was in the Lisbon Strategy (LS), above all in its mid-term crisis period in 2005 that can be qualified as reinventing cohesion policy as an effective instrument of the LS (“Lisbonization of cohesion policy”, Baun and Marek, 2008:4-10). The main message of the LS was that the two pillars of the EU policy, (economic) competitiveness and (social) cohesion could be reconciled, and this “joint venture” would drastically increase the global competitiveness of the EU. This message was clearly and definitely formulated in the LS founding document (European Council, 2000:2). The repeated message of the Barcelona Summit in 2002 was that “The Lisbon goals can only be brought about by balanced efforts on both economic and social fronts.”

(European Council, 2002:7). Since then the biggest effort of the EU mega-projects can be summarized as finding a solution for reconciling these two old policy rivals. Hence, this rivalry and synergy is the central topic of this paper, focusing on the regional/cohesion policy in the context of the removing disparities by comparing the LS and the EU2020. In general, "Although it can be politically difficult for Member States to accept different targets, countries should not be given the same goals if they start from very different levels. (...) This mistake should not be repeated in the new strategy." (Ahtonen and Dhéret, 2010:69).

The LS had three sub-periods, since after the start in 2000 (LS-I) there was a negative turning point in 2004 that produced a relaunching of the LS in 2005 (LS-II), and there was also a new start again in 2008 (LS-III), already in view of the transition to the next strategy under the pressure of the global crisis. In the LS period one can define the "classical" cohesion policy with a clear priority of the assistance to the poorest regions. During the lifetime of the LS this cohesion policy changed a lot but even the "reformed" cohesion policy kept its basic features. In the EU2020 period one can see already the outlines of the "renewed" cohesion policy with its extension to all regions and to the new policy fields. In my view, the EU2020 will also have three sub-periods, namely between 2011-2013, 2014-2017 and 2018-2020. In the first sub-period the main issue is the exit strategy, in the second one the new type of economic growth with "social progress" and finally, in the third one the elaboration a new global role for the EU. This paper tries to outline the renewed or extended cohesion policy in the first period of the EU2020.<sup>7</sup>

In general, there is a striking contrast between the "Byzantine" language of the LS documents, emphasizing usually the continuity even amongst the great changes, and the "revolutionary" language of the EU2020 documents, even overemphasizing the radical changes under the pressure of the protracted global crisis. The big exception is the basic reform of the LS in 2005 that changed both the philosophy and the language of cohesion policy. Without discussing here the history of the LS in details, as I did in a former long paper (Ágh, 2010b), it is important to note that with the relaunching the LS in 2005 an important turning point took place in both cohesion policy in general and regional development policy in particular that deeply influenced both the policy and governance lines in the EU. Namely, both the LS and the EU2020 have to face the dilemma of "policy reducing" and "policy widening". While under the pressure of crisis the LS suffered of a drastic policy reducing to "growth and jobs" in 2005, at the same time it had a very important policy widening to the regional/cohesion policy as well. The same can be noticed in the first period of the EU2020 with the efforts of concentrating on the key issues of crisis management, at the same time starting the fierce discussions on extending of cohesion policy to new and new policy fields like infrastructure and innovation.

Preparing the turning point in 2005, the Commission in July 2004 launched its legislative proposals, adopted in December 2004, on cohesion policy reform to make it more targeted on the EU's strategic priorities (European Commission, 2004). In January 2005 the European Parliament issued a long "Study on the adaptation of cohesion policy to the LS objectives" (European Parliament, 2005). On 3 March 2005 a conference in Brussels - "Cohesion and the Lisbon Agenda: The Role of the Regions" - was convened by Danuta Hübner, the Commissioner responsible for regional policy before the Spring Summit to outline the new cohesion policy. The turning point in cohesion policy was formulated most markedly in the *Third Progress Report* (May 2005), since it stated that "Structural Funds and the Lisbon strategy: overlapping objectives" (2005:7). The *Third Progress Report* emphasized the close relationship between cohesion policy and Lisbon Strategy by declaring that there was a "congruity" between them, although it accepted that this congruity was higher in the more prosperous regions of the old member states, than in the less developed regions of the NMS. This is the crux of the matter, since it was evident that one of the main reasons of the 2005 turning point was the Eastern enlargement (see Baun and Marek, 2008).

The NMS belonged to the less developed part of the EU and they did not get in this framework any special facilitating assistance for the Lisbon Agenda, although the 2005 Spring European Council concluded that "To achieve these objectives, the Union must mobilise all appropriate national and Community resources - including the cohesion policy - in the Strategy's three pillars (economic, social and environmental) so as better to tap into their synergies in a general context of sustainable development." (European Council, 2005:2). Hence, the LS-II brought also a shift of focus to "regional" policy with the principles of subsidiarity and to the partnership combined with cohesion policy. In this new philosophy the task and responsibility of the region is to integrate all factors of competitiveness physically and geographically, and to link this *territorial capital* with the consciously planned measures and interventions of regional government in organizing a network for enhancing the *social capital* as a development capacity. But the "growth and jobs" philosophy in that crisis situation devoted more attention to the (economic) competitiveness in its narrow meaning than to the (social) cohesion in its larger meaning, including the integrative balancing for the NMS.

## 2. *The turning point in 2005 towards regional competitiveness*

Although in principle from the very beginning the regional competitiveness figured high among the major goals in the LS, it was still pushed to the background in the early 2000s. In spite of the "Europe of the Regions" philosophy, the member states considered the countries as basic units of competitiveness instead of the regions, since the

"economic patriotism" was looming large. The serious crisis in the LS, that provoked the transition from its first stage to the second one (LS-I to LS-II), however, brought about the return to cohesion policy and to the rediscovery the importance of the regions in the crisis-ridden member states. In the mid-2000s regional competitiveness became a fashionable concept, accordingly the Third Cohesion Report (2004:viii) emphasized the need for "strengthening regional competitiveness throughout the Union". The regional competitiveness came to the foreground in 2005 forcefully when the two former kinds of cohesion – economic and social – were widened for the first time to the territorial cohesion as well.

This situation generated also an intensive academic debate on the regional competitiveness. It started from the definition of competitiveness on both macro- and micro-levels, i.e. on the country and enterprise levels, and this produced a theory of regional competitiveness as a combined concept from both sides. In the nineties the starting point for competitiveness was just the productivity but in the 2000s it was significantly widened from this narrow economic understanding to a more complex approach, since the main effort was to unify it with social cohesion and the other soft – social and human – factors. Although significant achievements were made, regional competitiveness still proved to be "a key but elusive concept" (see Kitson et al., 2004). The competitiveness approach still remained in the custody of the narrow economic theories contrasted with the other social factors instead of merging them into the common concept of territorial and/or social capital. In the mid-2000s "Competitiveness is portrayed as the means by which regional economies are externally validated in an era of globalization" (Bristow, 2005:285), nonetheless its complex approach did not emerge. The global competitiveness of the regions and their countries was the main goal in the 2005 reform but with a modest success because it was accompanied with a policy reducing to the narrow horizon of economic growth.<sup>8</sup>

From the early 2000s onwards the Directorate for Public Governance and Territorial Development of the OECD has dealt very intensively with the regional competitiveness in a rather large and complex conceptual framework, combining the approaches of good governance and economic competitiveness. The OECD experts still see that "increasingly, the concept of competitiveness is extended to the regional level. (...) The extension of the competitiveness concept to the regional level is recent but is having a major influence on the direction of regional development policy. (...) This had led to an emphasis on regional 'assets' as the source of firm competitiveness, not only physical infrastructure but also other 'soft' or less tangible factors." (OECD, 2011a,b). Both the OECD and the EU have developed long-time series on the subnational regions. These data sets have proved to be decisive factors in planning of the regional development and in the discussions about the future of cohesion policy (see

Eurochambres, 2008 and recently, Annoni and Kozovska, 2011). The global competitiveness issue as a central concept has recently also re-emerged, in the present stage as the glocality approach, i.e. the direct concern and specific role of the regions – and other localities - in the global system have been much more emphasized (Ágh, 2010a).<sup>9</sup>

In the 2000s the economic and social pillars of LS and the original “classical” cohesion policy diverged to some extent. Nonetheless, the environmental policy and the territorial cohesion as the new pillars of the reformed cohesion policy potentially met already in the concept of *territorial capital* as a regional capacity or “assets” to keep and develop. The main factors of development capacity at the regional level were identified as follows: the industrial clusters, the university knowledge centres, the investment into human capital, the involvement of businesses in planning, the establishment and running of the Information and Communication Technology (ICT) centres which provided business-related or secretarial services, the management of the cycle of planning, programming, monitoring, financing and other administrative and government services. Policy integration consequently had to be implemented first of all at the NUTS2 regional level, since this territorial integration was the essence and precondition of sustainable competitiveness. Thus, the issues of territorial capital and social capital at the regional level as a new policy profile became an organic part of the LS only in the LS-II period with the “Lisbonization” of cohesion policy.

Accordingly, based on the turning point in 2005, some legislative proposals were issued by the European Commission in the 2007-2013 budgeting period for the reform of cohesion policy. The Commission document indicated that the LS tried to return to the regions, and it suggested experiments and efforts to adapt cohesion policy to the LS agenda by raising the topic of territorial cohesion. Basically, for the 2007-2013 period cohesion policy was mobilized for the implementation of the Lisbon Strategy. This action was regulated at length in a document *Cohesion Policy in Support of Growth and Jobs* that provided Strategic Guidelines (Commission, 2005, see also European Parliament, 2005, Annex 3). The similarity is striking between the 2004-2005 events leading to the integration of cohesion policy into the LS and the 2010-2011 events leading to that of the extended cohesion policy into the EU2020. In both cases the EU had a deep reform as a controversial development that provoked a plea for Cohesive Europe, both in 2004-2005 for the acceding new member states, and in 2010-2011 for the less competitive “peripheral” member states. The Report on “The role and achievements of Europe’s regional policy, 2004-2009” claims also that the “improving the competitiveness of EU regions in the world economy” is the first and most important “key achievement” of regional policy: “regional policy is no longer seen as only means to help regions catch up with the Union’s average, important as it is. Competition is increasing taking place along

regional lines in the world market. Regional economies are becoming nodes in global production networks. The aim must be to assist regions to find their place in these global markets, and ensure the equality of opportunity right across the entire Union in order to achieve the principal ambition of promoting *economic and social cohesion*." (European Commission, 2009c:5).

### *3. The failure of integrative balancing in the LS period*

In spite of many serious efforts, nonetheless, the fundamental tension between "economy" and "society" or between competitiveness and cohesion has been inherited from the LS to the Europe 2020 Strategy. The integrative balancing in this key respect has basically failed. This rivalry between the economy and society oriented policies can also be formulated as a contradiction between the short term and long term views or between the narrow economic crisis management measures and the holistic structural reform strategies. It is not by chance that this issue has returned with the recent global crisis in a very marked way. For instance, the budgeting concept of the Bruegel Institute has proposed the strict separation of the "EU public goods" and "redistributive expenditures" with a suggestion of financing more the EU public goods and less the redistributive expenditures: "The Lisbon Strategy is a case in point. In spite of extensive relabeling, currently only one tenth of the EU budget is spent on the items directly related to Lisbon (...). Three quarters of EU spending in the past 20 years has been consistently directed towards agriculture and structural policy, leaving little room for new priorities." (Santos and Neheider, 2009:2).<sup>10</sup>

This separation is a good idea in order to increase the competitiveness of the EU with proper budgeting. But this proposal reflects also the "enlargement fatigue" of the old member states to support the new member states in their catching up efforts. Therefore the "redistributive expenditures" have often been stigmatized from a narrow technocratic point as wasted money, since "cohesion" has not been considered by them as one of the EU public goods. It is also true that the EU commitments for "redistribution" have been connected with the various milestones of the EU integration process, namely as the "responses" to the given historical situation e.g. in the cases of the CAP and cohesion policy. If the present trend continues, the CAP will be less, and cohesion policy will be relatively more financed by the EU by 2013 within the present financial framework. The real question is, however, whether all these "responses" of the EU have become outdated or the catching up support is still needed. Basically, this effort of restructuring the EU budget and focusing more on the Europe 2020 targets is very positive, although it is harmful, if it is overdriven by focusing on competitiveness in its narrowest meaning and by neglecting cohesion, even in its developmental function. This narrow technocratic view

as a reductionist approach would be highly counterproductive, since it could split the EU and it would create serious long term tensions that could derail also the incoming Europe 2020 Strategy. In the transition period between the LS and the EU2020 the President of the European Parliament Jerzy Buzek also made it clear in his March 2010 message to the European Council that cohesion policy should be put at the heart of the Europe 2020 Strategy: "In this time of crisis, we need to unlock the potential of our regions. We need to keep developing our cohesion policy. To be successful on a global scale, the EU needs to bring along all its member states and all its regions. This is not a question of solidarity. It is a question of economic rationality."<sup>11</sup>

The answer to this dilemma was the Commission declaration in May 2010: "Cohesion policy should have a clearer role to play in supporting Member States actions to address structural weaknesses and competitive challenges. The forthcoming 5<sup>th</sup> Cohesion Report will present proposals in this respect, particularly with a view to strengthening institutional capacity and efficiency of public administrations." (European Commission, 2010g:5). The relationships between competitiveness and cohesion were also central in the argumentation of the Monti Report for the further development of the economic cohesion in the single market as well. It referred to the efforts "to correct structural imbalances at subnational level (...) that otherwise would not be able to participate in full to the single market and would prevent lagging behind regional economies from seeing their gap from the most performing increase". The Monti Report presupposed that "The Commission Europe 2020 Strategy confirms that cohesion policy is anchored into the broader long term policy priorities for the Union and that the structural funds are one of the main delivery channels for the strategy goals, including social inclusion." (2010:84). This is an optimistic approach to the basic Europe 2020 document, and at the same time a strong argument for the territorial and social cohesion as a necessary precondition for the economic cohesion in the EU. Moreover, the Monti Report envisaged also the extension of cohesion policy, thus in some way it attributed even more significance to the cohesion policy in its renewed version, by embracing "the territorial implications of the planned relaunch of the single market" in general and "upgrading the infrastructure of the new Member States" in particular (2010:84). Similarly, the *European Competitiveness Report 2010* emphasized that the 2000s were a period of "growing imbalances" which had "an impact on competitiveness", namely "via distortion" of the factors of production, including territorial allocations of resources (European Commission, 2010k:1-3).<sup>12</sup>

Thus, territorial cohesion is one of the headline targets in the Europe 2020 Strategy. The global crisis has demonstrated that there have been widening territorial disparities within the EU that can seriously hinder the exit strategy in the short term, and even more the implementation of the Europe 2020 Strategy itself in the mid- and long

term. The widening disparities will cause serious social tensions and decreased support for the EU integration in general, and for the policy cooperation of the Europe 2020 in the least developed areas in particular. The EU wide social crisis has also a territorial dimension, i.e. concentrated more in some regions with low employment and high poverty. Consequently, one of the headline targets for the Europe 2020 may be, indeed, the decrease of the share of the regions with 75 per cent below the EU average. Its aim can be ensuring more territorial cohesion and in this way providing also more support for the implementation of the Strategy.

All in all, in the widening EU policy universe cohesion policy appeared first in 1986 in the Single European Act and its 25<sup>th</sup> birthday was celebrated in 2011. Cohesion policy as economic cohesion was widened step by step to embrace the dimensions of social cohesion as the coordination of the "Common Market", strictly regulated in the Maastricht Treaty in 1992. It was followed by the inclusion of the employment policy in 1997 in the Amsterdam Treaty indicating the long term effort to integrate economic and social cohesion. Finally, according to the LT, cohesion policy has to be completed in its economic, social and territorial dimensions under a common regulation. This trajectory of policy widening can also be observed in energy policy and in the external dimension of all policies. The international trade policy was extended already by the Nice Treaty in 2000 in many aspects of the cooperation with the non-member states as to the regulations for the economic, financial and technical cooperation. No doubt that further widening is needed in the new union policies like the knowledge triangle, energy and climate policies. They have to be put into a new institutional and budgeting structure in their shared competences between the union and national levels, but with an ongoing extension of the union competence. However, this widening EU policy universe with more and more difficult policy cooperation and coherence has raised the serious issue of the complexity management. All turning points of policy widening have produced the need for the corresponding governance turns. Thus, in the early 2010s the entry of a new generation of the EG system has also become unavoidable. In this first period of the EU2020 the EU needs fresh ideas for both coherence and cohesion, again.

## **II. The start of the EU2020 and the renewed regional/cohesion policy**

### *1. The ongoing fight around the "definition" of cohesion policy*

The main direction of the development of the EU policy universe has been that regional policy has turned more and more to cohesion policy in its widest meaning, as it has been described above. At the same time, the regional policy in its narrow meaning has been more and more defined in the context of this extended cohesion policy. Although in 2011 the "external" discussion has still been going on about the need of

cohesion policy and its financing compared to the other EU policies, yet the turning point can be clearly noticed in the direction of the "internal" discussion about the role of the renewed cohesion policy. Simply said, the opponents of the cohesion policy have given up to a great extent arguing against its size in the EU budget for the next financial period, instead they have begun putting their own claims inside the cohesion policy by drastically changing its role and character. There have recently been increasingly conflicting views on cohesion policy, since "Old Member States, which generally benefit less from cohesion funding, therefore tend to question its effectiveness, the newer Central and Eastern Member States argue that support to the regions should continue at the current levels. (...) there is no consensus as yet on what role Cohesion Policy should play in the coming years, with some regarding it as an equalisation fund for regions, while others see it as a source of finance for EU sectoral policies" (Dhéret, 2011:2).

In such a way, the rhetoric against cohesion policy has decreased but the fights for the definition of the new cohesion policy have increased. This battle will be going on until the decision about the next financial perspectives, since cohesion policy has become the focal point of all cleavages within the EU, between the more and less developed, or between old and new member states as well as between/among the key EU policies. The future of cohesion policy has also been discussed from several directions, and this discussion has not only been the usual struggle around the next financial perspectives. It has also been closely connected with the aftermath of global crisis management and with the newly emerging conflicts around the introduction of the strong economic governance. Both sides have argued with the impact of the global crisis, since the "significant disparities between EU regions still exist and have even increased" on one side, but on the other side "in the wake of the economic crisis (...) net contributors argue that the impact assessments need to take greater account of value-for-money considerations – an approach which could see the EU move away from the initial goals of Cohesion Policy by reducing the concept of effectiveness solely to the economic objective (efficiency)." (Dhéret, 2011:1,3).<sup>13</sup>

The debate around the renewed cohesion policy has also been connected with the new tension emerging between the European Council (EUCO) and the Council of Ministers concerning the role of General Affairs Council (GAC). In the Council system GAC is responsible for dealing with enlargement and cohesion policy as well as for proposing the budget. So far EUCO has been so overwhelming that these functions of GAC have been pushed aside. The global crisis management can necessitate the urgent and concentrated actions by EUCO, but the time has arrived to balance the top-down approach at the EU level policy making with the bottom-up approaches. It means that in cohesion policy the GAC, or the Council formations in general, have to get activated with their bottom-up approaches based on the discussions in the various sectoral policies. This bottom-up

approach as a complexity management has to represent the ideas and interests coming from all sides in the EU, since the main principles have been elaborated and decided at the highest level by EUCO, so now this framework has to be filled with concrete content coming from below. In the preparation of the next financial perspectives the status quo game is expected with the usual package deal practice. But it is not enough to define the "public goods" at the EU level by EUCO, the next step is also urgently needed to discover and implement the leverage effect of cohesion policy through the synergy of the concrete policy areas and suggested by the individual projects from "below".

The starting point for the renewed cohesion policy is the "midterm healthcheck" of EU regional policy (2007-2013) in the March 2010 Report launched by the Commissioners Johannes Hahn and László Andor (European Commission, 2010d). This Report has assessed the activities of the member states, and has prepared the incoming strategic Fifth Report. The future of cohesion policy depends on the effectiveness of the linkage between the renewed cohesion policy, the EU2020 as a mega-project and the LT extended with strong economic governance. This statement was formulated in their common press conference by Johannes Hahn (Regional Policy Commissioner) and László Andor (Social Affairs Commissioner) on 11 November 2010 following the adoption of the *Fifth Report* by the Commission on 10 November 2010. The same was echoed by the two Commissioners on 22-23 November 2010 in Liege at the Informal Council on Cohesion Policy. It has been confirmed by the Conclusions of this meeting in the statement that the Ministers "agreed on the maintenance of the current architecture of the Cohesion Policy, with some changes, especially for the regions in transition and urban areas" ([www.eutrio.be](http://www.eutrio.be)).<sup>14</sup>

In the EU parlance the main messages of the *Fifth Report on Economic, Social and Territorial Cohesion* - "Linking allocation of funds to the Europe 2020 objectives" and "Reinforcing the territorial dimension" - have usually been presented as the two major pillars of the "reform of cohesion policy". First, indeed, the *Fifth Report* the European Commission (2010:XXXIII) sets out the "key ideas for the reform of cohesion policy" as "Investing in Europe's Future". The *Fifth Report* makes it clear that cohesion policy has been closely aligned with the objectives of the Europe 2020 strategy, and this link must be even stronger in the future. Second, the EU has designed a new strategic vision and the EU2020 has emerged as a strategic framework for all EU policies that has to be supported by the cohesion/regional policies in the MLG spirit. Therefore the regionalization or regional development policy is very important in the next decade. The future-oriented summary of the *Fifth Report* in its Conclusion has emphasized that the "explicit linkage of cohesion policy and Europe 2020 provides a real opportunity: to continue helping the poorer regions of the EU to catch up, to facilitate coordination between EU policies, and to develop cohesion policy into a leading enabler of growth, also

in qualitative terms, for the whole of the EU, while addressing social challenges such as ageing and climate change." This linkage has been the base for the renewed cohesion policy, including the further link with "the new economic governance system" in order "to strengthen the links between cohesion policy and the economic policy framework of the Union" (European Commission, 2010d:2,4). This *iron triangle* between LT with stronger governance, the EU2020 and the renewed cohesion policy is the main organizing principle for the EU policy universe. The EU2020 strategy for the Cohesive Europe includes a strong territorial dimension, so cohesion policy involves regional policy as its main effort: "Reinforcing a third dimension: territorial cohesion – The Lisbon Treaty has added territorial cohesion to the goals of economic and social cohesion" with particular emphasis also on the role of macro-regional strategies (European Commission, 2010d:7).

On 21 February 2011 the Ministers concerned discussed the Fifth Report and issued a Conclusion by emphasizing that "cohesion policy is the European Union's main instrument for promoting overall harmonious development across the Union, in particular by reducing disparities between the levels of development of the various regions". At the same time, "cohesion policy shall take due account of the main drivers of growth as set out in Europe 2020 Strategy", it has to be utilized a "cost-effective manner" and "more visible for the European citizens". Finally, it has to include the "integrated macro-regional approach" and the "functional urban areas" as engines of growth (Council of Ministers, 2011a:1-5). It is clear from this wish-list that it is a compromise and the EU has not yet found the consensus on the priorities, i.e. on the "conditionalities" and "indicators", as well as on the new transitory category of regions, although in general they have supported the idea placing more emphasis on territorial cohesion (22 February 2010, [www.euractiv.com](http://www.euractiv.com)). Namely, these Council Conclusions has already indicated the claim of the developed states for their bigger share from the cohesion policy by extending cohesion policy for promoting competitiveness in general and by financing the "intermediary" regions in particular. They have wanted to create a third, "transitory" category of the regions that would enable to finance these regions in the developed member states. This debate on the definition of cohesion policy and the categorization of regions has gone through the following period. On the other side, there has been a strong support for the former cohesion policy in the NMS, which have insisted on the need to maintain the size of the budget for cohesion policy and to keep its main direction for addressing the needs of the catching up process.<sup>15</sup>

The EU27 has 271 NUTS2 regions, and under the current system there are two categories, the *convergence* regions (the GDP per person is less than 75% of the EU average), and all the other regions are *competitiveness* regions. Most of the convergence regions are in the NMS with 170 million people and in the current programming period the hundred poorest regions get 80% of the cohesion policy budget. The suggestion from

the developed member states is to create a three-tiered system with a new category of *transitory* regions (75-90% of EU average) with 60 million inhabitants for two dozen regions in the developed member states, joined by three regions in the NMS. It means that there will be a transfer of resources from the less developed to the more developed member states and the number of convergence regions will fall to 70 regions with only 120 million people (15 February 2011, [www.euractiv.com](http://www.euractiv.com)). This is still an open issue, which demonstrates clearly the nature of the ongoing debate about the "definition" of cohesion policy. In addition, there is an effort of the developed member states for policy widening inside cohesion policy towards embracing and financing infrastructure and innovation policies to secure more competitiveness. Obviously, the new member states have wanted not only the maintenance of cohesion policy with its former size in the next financial period (2014-2020) but also keeping its main profile of promoting social and territorial cohesion throughout the 27 member states for supporting the catching up process, while the developed member states have urged again – with a repeated reference to crisis management – to use it more for economic competitiveness or even for supporting exclusively the economic targets of the EU2020.

The culmination of these controversial developments was the new Territorial Agenda (TA2020) on 19 May 2011 in Gödöllő (Hungary). The Ministers responsible for "Spatial Planning and Territorial Development" outlined the first Territorial Agenda in 2007 at their Leipzig meeting, and invited Hungary to elaborate the Territorial Agenda during its presidency in 2011 (Council of Ministers, 2007). The TA2020 has been formulated amongst these tough debates and compromise seeking efforts described above. The developed member states have exerted heavy pressure on the EU to allocate more of the available resources for accelerate economic growth instead of supporting exclusively or mostly the less developed regions. They have wanted to establish a tighter link between cohesion policy and stimulating economic growth through the EU2020 Strategy. Thus, the tension between the ideas of the Competitive Core Europe and the Cohesive Europe has increased and this tension has been markedly reflected in the statements of the TA2020 document.

The contrast is very big with the First Territorial Agenda in May 2007 (Council of Ministers, 2007) in which the Cohesive Europe was in the centre of the interests and even the first sub-title indicated: "Future Task: Strengthening Territorial Cohesion". Obviously, the strong tendency for policy widening in cohesion policy towards competitiveness existed already in the mid-2000s but this approach has only become so overwhelming after the global crisis, and by 2011 this effort has been clearly formulated in the Second Territorial Agenda. The title of TA2020 contains all directions of cohesion policy: "Towards an Inclusive, Smart and Sustainable Europe of Diverse Regions". On one side the document starts with the subtitle "Territorial cohesion is a common goal: For a

more harmonious and balanced state of Europe" and welcomes the *Fifth Report* "to better integrate territorial cohesion into Cohesion Policy", which is "a key framework" for the EU policy universe. It confirms that the "place-based approach" contributes to territorial cohesion and to the territorial coordination of policies, adding that "We stress that polycentric and balanced territorial development of the EU is key element of achieving territorial cohesion." (Council of Ministers, 2011b:4,7). On the other side, however, it emphasizes that "We consider that the integration of territories through territorial cooperation can be an important factor in fostering global competitiveness." (Council of Ministers, 2011b:8). This statement could also be the motto of this paper because it properly underlines the synergy between territorial cohesion and competitiveness. Nonetheless, the real issue is the method of budgeting allocation, since if the poorest regions get less support in the next financial perspective, then their competitiveness will be ruined to a great extent.

Altogether, this important document is a big achievement, since it demonstrates that territorial cohesion, as the dimension of territorial development in all policy fields, has become an essential part of the EU policy universe. With this document the Territorial Agenda has been institutionalized, so the TA2020 invites now the incoming presidencies of Latvia and Luxembourg to return to this issue with a review of Territorial Agenda in 2015 (Council of Ministers, 2011b:12) by creating in such a way the system of the regular Territorial Agendas (2007-2011-2015). Regarding the TA2020, one can conclude that the first period of the EU2020 has been relatively successful so far by putting the renewed cohesion policy high on the agenda. There are also good chances to elaborate the proper size of budgeting with a fair percentage for the catching up exercise to create a more Cohesive Europe. Still there are worries. In 2005 the EU turned to cohesion/regional policy because of the NMS, now it has to turn again in 2011-2012 because of the less developed member states. The top-down arrangements necessitate the bottom-up arrangements because there can be no long term economic consolidation without the double track strategy as facilitating devices designed from below by the stakeholders. Territorial capital has to be promoted by the intensified social capital in general, and in Danube Strategy in particular.<sup>16</sup>

## *2. The CoR represents the stakeholders' argument for cohesion policy*

In the ongoing fight on the definition of the future of cohesion policy the CoR has been the main representative of the stakeholders' approach for the renewed cohesion policy. Accordingly, Mercedes Bresso, the President of the Committee of the Regions, regretted in March 2010 that Europe 2020 did not really learn the lessons from the failure of the Lisbon Strategy: "The Europe 2020 Strategy does not go far enough in

mobilising the driving forces of our society, and it would be much more effective if it enabled local and regional authorities to take an active part in framing national reform programmes and flagship initiatives rather than simply being limited to implementing them. (...) This is rather disappointing". Nonetheless, the CoR President noted that "we should be pleased that *Europe 2020* is first putting forward a strategy for overcoming the crisis, followed by guidelines for the future, by building on rather than breaking with the European social model".<sup>17</sup>

In the preparation process of the Fifth Report the starting point for the "future of cohesion policy" was set by the Committee of the Regions by arguing that the EU2020 and cohesion policy were interdependent: "Cohesion policy, with its devolved approach and system of multilevel governance, is the only European policy to link the goals of the EUROPE 2020 strategy and the new challenges with local and regional authorities." (CoR, 2010a:14). Thus, in April 2010 CoR produced a balanced statement between competitiveness and cohesion in the following way: "Under cohesion policy, the major share of available resources must continue to go to the neediest and most problem-ridden Member States and regions of the European Union in order to help reduce the development gaps (...) The Regional *competitiveness and employment* objective must also continue to support all the other EU regions, not least in order to boost innovation, social cohesion and competitiveness (...) European cohesion policy also makes a contribution to meeting the new challenges by strengthening the competitiveness and attractiveness of the regions." (CoR, 2010a:1,3).

Altogether, the CoR accepts the request of the developed states in both ways: (1) cohesion policy could cover all European regions and an intermediary category of the regions can be created, and (2) cohesion policy has to be more effective and efficient with "result-based financial conditionality" as a "performance reserve" or a bonus for the best performing regions. But the CoR document underlines that the further progress has to be made in reducing disparities, since significant imbalances have remained between and within European regions, and they have been exacerbated by the varying impact of the global crisis. Hence the disparities and imbalances are bigger than ever before, so the main profile of cohesion policy has to be continued and the introduction of the intermediary regions "should not penalise" the poorest regions. The CoR has realized the dangers of abandoning of the main mission of cohesion policy by drastically cutting the resources for diminishing regional disparities. The CoR insists on drawing up the list of territorial and environmental development indicators by the Eurostat and OECD as measuring progress with these all-encompassing indicators to assess the genuine and proper social progress of the regions (CoR, 2011:1-4).

Thus, the CoR has expressed serious worries from the very beginning of the recent cohesion debate. Hence, it has developed an ambivalent attitude to the Fifth

Report that has diverged too much from the main goal of cohesion policy and from its historical trajectory of accepting policy widening but keeping the major profile of integrative balancing for the poorest localities. In the preparation process of the Fifth Report the CoR already indicated under the title "measuring progress" that the GDP was not an accurate measure of a society, thus the support for regions cannot and should not be based solely on per capita GDP (CoR, 2010b). The CoR, in turn has just followed the change of paradigm in the EU that has usually been called "beyond the GDP to social progress". It has returned to this issue of measuring progress very forcefully after the release of the Fifth Report. The *Opinion* of CoR on the Fifth Report has emphasized much more that "additional indicators to GDP" are needed in implementing and assessing cohesion policy so that the development of each region is better reflected (CoR, 2011:1-2). The CoR "regrets" that the data of the Fifth Report are taken from this old-type statistics and suggest that new type of statistics has to be used for the next programming period. This statement is closely connected with the general concept that cohesion policy has to keep its main profile of assisting the poorest regions.

Actually, the conceptualization of social progress has emerged as a reaction to the global crisis. It has recently been elaborated in the EPC publications propagating social progress as a new paradigm as well as the proper base for statistics. The EPC analysts have tried to combine the conflicting approaches of competitiveness and cohesion by qualifying cohesion as one of the European common or public goods. In such a way, there is a strong rationale for the EU action aimed at supporting the poorest regions, since it is an effort to safeguard European common goods. In this concept they refer to both economy – cohesion is needed for the well-functioning Single Market - and solidarity, since the member states' cohesion can be produced more effectively by the EU than the member states alone: "Cohesion policy is an example of overlapping and changing rationales. Besides solidarity considerations, there are also economic reasons for this spending". In this spirit they quote Danuta Hübner that "The aim of a modern cohesion policy is to provide 'public goods' aimed at improving skills, innovation capacity, entrepreneurship, sustainability, employment and accessibility, to enable all European territories to realise their full potential." (Morlino and Zuleeg, 2011:10). This policy widening embraces indeed the "common" goods or values, in such a way it expresses best the nature of public goods.<sup>18</sup>

The best summary of the EPC analyses comes from Claire Dhéret, thus it is worth of reproducing her argument in great outlines. It starts from the description of the new situation that the economic growth would not create cohesion automatically, the spontaneous effects of growth may even produce less social cohesion: "Firstly, the benefits of growth and increased competitiveness at EU level are not shared equally between regions. Secondly, reducing disparities in *per capita* GDP between regions does

not necessarily correlate with more social inclusion and reduced level of inequality *within* regions." Therefore, "it is a mistake to think that social inclusion will inevitably be enhanced through policies aimed at reinforcing growth and competitiveness". At this point she returns to the effort of reconciling competitiveness and cohesion, so the "productivist" approach has come back: "first and foremost a political shift of paradigm will be required to recognise that the equity objective can be an economic asset and a productive factor". This time, however, the productivist approach appears on the base of the new paradigm "going beyond GDP" to social progress: "the degree of inequality is not captured by indicators such as GDP or aggregate income per head (...) This is clearly an outdated system and the basis for allocating cohesion funding should not be limited solely to GDP indicators" (...) Just as the debate on the measurement of social progress has underlined the need to go beyond GDP and include other factors that contribute to well-being, it is now time for EU Cohesion Policy to take these factors into consideration." (Dhéret, 2011:3-4).

Thus, the "EU competitiveness" and "EU cohesion" have to be put on equal footing through the principle of *social productivity*. As the Lisbon Treaty stipulates, the EU has to move ahead in the global competition as one compact unit in the spirit of the economic, social and territorial cohesion with new union policies and new budgeting philosophy. I have argued several times, that the EU has to elaborate a *double track* approach for competitiveness and cohesion with special emphasis on catching up policy for a flexible integration. This means that the competitiveness program has to be completed by a catching up program, both in quantitative and qualitative terms. There is a need for this kind of Road Map with the renewed efforts for fully integrating the less developed and/or new member states into the Europe 2020 agenda. This double track approach has to be planned both for the governance and the policy dimensions, i.e. both different governance models and various policy approaches have to be elaborated for the catching up process.

#### *Conclusion: The global crisis and recent conflict around the Cohesive Europe*

The current debate on cohesion policy is in fact about the Cohesive Europe, since it concerns all vital issues in the EU regarding the tensions in the Core-Periphery relations between/among the countries or between rich and poor regions. The main divide between the Core and the Periphery has originated from the missing *economic cohesion* in the reactions to the global crisis that has also generated deep cleavages in *social cohesion*, with a widening gap between the winners and losers in all member states. These two dimensions can be summarized in the disparities of *territorial cohesion*, since economic heterogeneity and social exclusion have produced poverty islands in the EU,

mostly in the Southern and Eastern "peripheral" member states but also, exceptionally, in the developed member states. Altogether, the big question is about the future of the EU27 as about the future of the East and South in the EU, "Will the East become South?"

The regional/cohesion policy has been a great success, despite all actual weaknesses, since it has acted as "a common pattern leading to a significant reduction of regional disparities in EU27" (Villaverde and Mara, 2011:34). However, this instrument for integrative balancing has also been seriously wounded in the rush to the global crisis management, in both internal and external aspects and both have to be recovered. Beyond the "internal" tensions, the first period of the EU2020 has been so far rather unsuccessful in the "external" aspect of the EU territorial development as well. Namely, because of the concentration on the EU crisis management, and on the erupting tensions in the Southern Rim due to the Arab Spring, the enlargement/widening dimension has been neglected. This "external" aspect of integrative balancing is also very important, since the EU can only be globally competitive and successful, when and if it organizes special relationships with the neighbouring regions. This regionalization appears also as a "vertical" integrative balancing, namely by empowering the unequal external partners in its own regionalized neighbourhood of the EU. It concerns the EU neighbours as partners, first of all in the West Balkans, but also in the neighbouring Eastern and Southern "mega-regions". The September 2010 Presidency Conclusions have noted that "The smooth implementation of projects launched within the Eastern Partnership constitutes an outreach of EU values and promotes the legal, economic and social approximation of the concerned countries to the EU." (European Council, 2010c:5). The catching up process of the NMS has also been largely connected with the intensive regionalization of the "East". Both the enlargement process in the West Balkans and the widening process in the Eastern Partnership are a vital issue also for the new member states, and the study of the Danube Strategy leads to this direction.

Neither States, nor regions, but macro-regions as the meso-level of the EU can be the solution for many problems in the EU developments. The divergences in the EU may be "regional" or "sectoral", depending on whether a group of neighbouring countries takes together the escape road of "enhanced cooperation" or some countries from different regions use this method in a particular policy field. The efforts for the big states dominance may be leading to the regulated internal "macro-regionalization" within the EU, following the model of the Nordic countries that can still be the positive side of differentiated membership. A new checks and balances system may emerge, i.e. balancing the EU not only in its central institutions but also macro-regionally, by distancing the big macro-regional units from each other. This might actually generate some partial decomposition of the EU to the five worlds of the regional - Nordic, West-Continental, Mediterranean, Central European and Balkan - regimes, although EU

institutions might still hover above them as relatively well regulated functional meta-system. This is not a disintegration situation but a transparent, balanced, institutionalized and legitimate process, through which the relationships within the regions would be intensified as stable coalitions, and among them some common interests would be formulated and represented at the EU level.

The macro-regionalized EU could be even more successful in competing in the global arena. But it could also be a looser organization if it leads to a fragmentation without proper regional organizations, in which the solidarity principle might be applied more and more within a region, to a smaller circle of neighbouring countries than in the EU as a whole. Consequently, the desire of the strong states to continue or even strengthen the dominant role of the Core may be a serious threat for the common future of the EU27. Nevertheless, it has appeared in the Europact, and as a result, there might be a Europe of the increasing divergence and diversity, above all with the growing economic-financial tensions between North and South in the EU, instead of overcoming the economic differences through conscious political actions and having tolerance for the socio-political and cultural differences. The genuine idea of the EU has been based on overcoming the short term national interests by accepting the well-considered long term transnational interests. The fragmented EU will still be competitive with the BRICs, but in this case with half-made reforms the EU will produce less than a real creative crisis. It shows that the rash and angry reaction against the growing diversity that has been emerging in the big states can be counterproductive, since this reaction can partly derail the EU.<sup>19</sup>

The global crisis has been a cruel stress test for the EU as a whole. The crisis has hit the economies which have been structurally weak, the societies which have been institutionally poor, and the cultures-mentalities which have been old fashioned and not dynamic enough. This pre-crisis economic, social and cultural situation is not sustainable any longer. Therefore a new model for the post-crisis consolidation is needed, since sustainability can only be the real combination of competitiveness and cohesion. The González Report is optimistic in this respect: "Looking at the 2030 horizon, Europeans will need a highly competitive and sustainable social market economy in order to maintain social cohesion and fight against climate change. (...) Fundamentally, the EU's common agenda boils down to two overarching and integrated challenges: ensuring the sustainability of our social and economic model; and developing the means to support and defend this model, along with our common values and interests, in the global arena. The Commission's new 'Europe2020' agenda should therefore be supported, yet ultimately will need to be embedded in a broader perspective." (2010:4,12). Thus, there is an urgent need for the new integrative balancing mechanism to create a Cohesive Europe: "It is therefore essential to identify what intervention within Cohesion Policy can

contribute to achieving each of the goals of the Europe 2020 Strategy if the Union wants to avoid a repeat of the failure of the Lisbon Agenda.” (Dhéret, 2011:4).<sup>20</sup>

## **Annex**

I can offer here only a short overview of the first and second periods of the cohesion/regional policy, although I indicate here the whole list of the cohesion and progress reports in the references, with all other relevant EU documents (the “prehistory” see in detail in the book of Baun and Marek, 2008, also with country chapters). It belongs also to the “prehistory” that in the Council of Europe a special organ, CEMAT (European Conference of Ministers responsible for Regional/Spatial Planning) was established in 1983. The EU became more active in this cooperation since 1999 when in Potsdam the European Spatial Development Perspective (ESDP) was launched. In July 2001 the EU Ministers for Regional Policy and Cohesion met in Namur (Belgium), in May 2003 at an informal ministerial meeting in Halkidiki (Greece). In October 2003 they met again in Rome when the Third Cohesion Report (published on 18 February 2004) was in the negotiating phase. At the Rome meeting they issued the *Conclusions of the Presidency* underlining the importance of the regional competitiveness and emphasizing that, in order to implement the Lisbon Agenda, the cohesion policy should be agreed at Community level. The European Spatial Development Program was further developed in 2004 by the Rotterdam Declaration. In 2007 the Leipzig Declaration and Leipzig Charter were meant already for promoting the LS-III. This effort has led to the Fifth Cohesion Report and to the TA2020 in the recent period. On 22/23 November 2010 the ministers concerned had a meeting in Liege to discuss the Fifth Report. As a follow up event, on 9 December 2010 the EP also dealt with the issue based on the information of the president of its REGI committee, Danuta Hübner on the Liege meeting.

The EU cohesion policy was regulated in a series of *Cohesion Reports* and *Progress Reports* as a special form of the European Governance (EG). The series of *Cohesion Reports* was issued in principle in every three years (1996, 2001, 2004, 2007 and 2010). It has been combined with a series of *Progress Reports*, first of which was published in 2002, the second in 2003, the third in 2005 and the fourth in 2006. The *Fifth progress report* was published on 12 June 2008 and the *Sixth progress report on economic and social cohesion* on 25 May 2009. The first summary of regional/cohesion policy in LS is available at Commission-Regional Policy (2009) *Working towards a New Europe: The role and achievements of Europe’s regional policy, 2004-2009*.

The *First Cohesion Report* was published at the end of 1996 following the decision of the Maastricht Treaty that the Commission had to report on the economic and social cohesion in the EU in every three years. It had laid the basis for a thorough reform of EU regional policy that was discussed at the (First) Cohesion Forum in April 1997 and formalized then in Agenda 2000 for a stronger and wider Union. This Agenda was adopted by the June 1999 European Council and entered into force in 2000. Based on this decision, already within the LS-I period, the *Second report on economic and social cohesion* was published on 31 January 2001 that claimed, again, containing a “reform of cohesion policy”. Accordingly, on 21 and 22 May 2001 the Second Cohesion Forum was convened in Brussels. The *Third Cohesion Report* was adopted by the Commission on 18 February 2004 followed by the Third Cohesion Forum on 10 and 11 May 2004 in Brussels, which was linked with the 2005 turning point for the transition to the LS-II. Given the fact that on 10 February 2004 the Commission issued a proposal for the financial perspective of the period 2007-2013 with a new approach to the regional policy, the Third Cohesion Forum discussed not only the *Third Cohesion Report* but also the new budgeting outlines. In the LS-II period, the *Fourth Report on Economic and Social Cohesion* was published on 30 May 2007, again indicating the transition to the LS-III. The *Fifth Report on Economic, Social and Territorial Cohesion – Investing in Europe’s Future*, published on 9 November 2010, belongs already to the transition process between the LS-III and the first period of the EU2020, or between the two strategic megaprojects.

Concerning the theoretical background, it is important to follow the publications of the Ateliers of the CoR, and the expert conferences. The latest expert conference on regional developments was in Bled (*The Bled Conference: What Future for Cohesion Policy?* Date: 16.03.2011 to 18.03.2011, Where: Bled, Slovenia, Type: Events/Conf/Fairs, <http://www.regional-studies-assoc.ac.uk/events/2011/mar-slovenia-papers.asp>). Description: The Fifth Cohesion Report's broad orientations on the future architecture of cohesion policy will be discussed at a conference in Slovenia on 16-18 March 2011. The conference is co-organised by the European Commission's Directorate General for Regional Policy (DG REGIO), the Regional Studies Association and the Slovenian Government Office for Local Self-Government and Regional Policy. The conference provides a forum for the first international academic debate on the Fifth Cohesion Report between regional studies researchers and senior officials from the European institutions. The key topics of the conference: (1) the contribution of cohesion policy to Europe 2020, (2) the territorial coverage of the policy, (3) policy performance and effectiveness, (4) efficiency of governance structures and implementation arrangements, (5) the relationship between cohesion policy and the other EU structural policies. The main issues covered are: (1), analysis of regional disparities (2) the contribution of the EU, national and regional governments to cohesion (3) the impact of cohesion policy and (4) cohesion policy after 2013.

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### Notes:

<sup>1</sup> The paper has been prepared in the framework of the Hungarian National Research Foundation, OTKA ID: 77659). This paper tries to give a large literature review in a structured way, i.e. separating the scholarly literature and the EU documents, indicating also the latest big conference. I have dealt with these issues in several papers, see e.g. Ágh, 2010a,b,c and 2011a,b).

<sup>2</sup> This paper is the second part of the larger work. This paper offers an "internal" analysis, the "external" dimension, as the efforts for the Cohesive Europe against the fatal split between Core and Periphery, has been discussed parallel in another paper in this volume. In fact, the first two papers deal with the same issue of cohesion policy as the two sides of the same coin, first from a top-down approach and second from a bottom-up approach. The third paper offers a case study of this issue, namely cohesion policy in the case of an emerging macro-region with strategic design (Danube Strategy). Thus, the next volume of this book series focuses on the Danube Strategy, as already the second edited volume on this topic by the same editorial team of Attila Ágh, Tamás Kaiser and Boglárka Koller.

<sup>3</sup> The policy widening of cohesion policy was remarkable already in the mid-2000s as David Allen notes: "Cohesion policy, in turn, has been progressively associated with a growing number of broader EU objectives as economic growth, competitiveness, employment, sustainable development, subsidiarity, regionalism and good government, including the participation of civil society." At the same time, he predicts that this enlarged cohesion policy will be more important than the classical one that supports the less developed regions (Allen, 2008:15,33). The editors of this book share his view as well (Baun and Marek, 2008:269). It shows that the present debate on the future of cohesion policy began much earlier.

<sup>4</sup> This edited volume builds on the chapter of Magone on the comparison between the Southern and Central European developments in the EU27. The second part of the book has been composed from the chapter of Pálné on the regional development in general and in the NMS in particular as a very complex and controversial issue; the chapter of Schönlaue about the CoR, and the history of "Europe of the Regions" with the subsidiarity principle; and of the chapter of Gänzle and Kern on the macro-regionalization in the EU. Hence, this concluding chapter concentrates on the mainstream trend of cohesion/regional policy.

<sup>5</sup> This paper does not deal with the first and second periods of the cohesion/regional policy, which are briefly summarized in the Annex. On the emergence of the issue of territorial cohesion and its transformation from "implicit" to "explicit" policy see Faludi, 2009:6,11. On macro-regions see Antola (2009), Bengsston (2009) and Samecki (2009), on cohesion policy Batory and Cartwright (2011) and Farole et al. (2011). I refer here briefly to the relationships of mega-regions in the global world, see Bretherton and Vogler (2010), Farrell et al. (2005), Telo (2006,2007) and Vasilache et al. (2011). The systematic overview of regionalization-regionalism theories has been offered by Behr and Jokela (2011) and Herrschel and Tallberg (2011). I can here only briefly

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refer to the recent MLG theories as Heinelt and Knodt (2011), Piattoni (2010) and Stahl and Spinaci (2010).

<sup>6</sup> On this process of growing regional disparities in the NMS see the Bled papers.

<sup>7</sup> Three principles of the classical cohesion policy are the *regionalization* – funds are administered at regional level within states, usually at NUTS2 level -, the *partnership* – administered by the state and non-state actors of different organizations and different levels working together -, and the *programming* – working together for a sustained period developing and implementing regional strategies (Bache et al, 2011:126). See also Borghetto and Franchino (2010).

<sup>8</sup> The Kitson paper was an Introduction to a special issue of Regional Studies on regional competitiveness. I give here just a short summary of discussions based on the introductory paper. In the UK a composite index for the regional competitiveness was invented and introduced (Bristow, 2005). See also the Boschma paper (2004), focusing on “knowledge” as the main driver of competitiveness from “an evolutionary perspective”.

<sup>9</sup> Eurochambres (2008) have offered the following indicators for regional competitiveness: economic performance (GDP), employment, training and life-long learning, research and development/innovation, transport and energy, internationalization. The latest and most sophisticated approach is Villaverde and Mara (2011) who have analyzed both the GDP and the composite indices in regional disparities and regional competitiveness. The concept of competitiveness in the NMS has usually kept its narrow economic horizon (see Chikán et al., 2002). Nevertheless in the NMS there has also been a complex approach on regional competitiveness (Lengyel, 2010) and important contributions to the regionalization debate (see, first of all the edited volume of Ágh, Kaiser and Koller (eds) 1010, or e.g. Kaiser, 2009, Pálné, 2011, and also the Bled papers).

<sup>10</sup> Against this narrow minded reductionist approach one can refer to Gros and Roth argument (2008:1-2) as follows: “It is also apparent that the next Lisbon strategy will have to be valid for all 27+ member states, including the goal of reducing the still-substantial disparities in income per capita between old and new member states.”

<sup>11</sup> See *Address by the President of the European Parliament Jerzy Buzek to the European Council*, Brussels, Thursday, 25 March 2010, p.3.).

<sup>12</sup> This essential link between the Europe 2020 type of long term strategy and cohesion policy has been carefully documented by the Directorate General for Regional Policy, including the overview of the “economic crisis – the response from European Cohesion Policy” ([http://ec.europa.eu/regional\\_policy/funds/recovery](http://ec.europa.eu/regional_policy/funds/recovery)).

<sup>13</sup> Even from the side of economic cohesion, the Fifth Cohesion Report tries “to convert the objectives of the Europe 2020 Strategy – with its overarching goal of stimulating ‘smart, sustainable and inclusive growth’ – into investment priorities.” (Dhéret, 2011:1). In the conceptual debate some argue that cohesion policy is effective and it leads to a convergence (Villaverde and Mara, 2011), on the contrary, some others argue that “it is unclear that cohesion policy has altered the pathway of development from what would have occurred in the absence of intervention” (Farole et al., 2011:1089).

<sup>14</sup> The “urban” approach stresses the global competitiveness: “Europe’s competitiveness depends greatly on its global cities and metropolitan regions, where enterprises can benefit from agglomeration economies and networks linking global market places (...) The largest capital cities and economic centres are the key hubs in these innovation networks. (...) (the remaining cities and regions of Europe) are to a large extent controlled by headquarters in other countries”. (ESPON, 2010:6-7). The “agglomeration” is also key term in the analysis of Farole et al. (2011). The TA2020 document has also underlined the significance of the urban regions. This issue, however, needs a separate analysis that has to be done in the case of Danube Strategy as an urban network.

<sup>15</sup> The performance reward was mentioned already in 2010: “Johannes Hahn, the European commissioner for regional policy wants to create a treasure-chest of as much

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as € 15 billion to reward those member states that are most effective in using regional development funds." (*European Voice*, Merit points could win extra EU regional aid, 11-17 November 2010, p. 1). The claims of the developed states have been announced directly by the German MEP Markus Pieper (EPP), who has been charged with the drafting the EP's opinion on the future of EU cohesion policy (22 March 2011, [www.euractiv.com](http://www.euractiv.com)).

<sup>16</sup> In cohesion policy a special policy mix is needed for the NMS and for the less developed member states in general. In all developed countries the global crisis has led to the drastic declassification of middle strata (See Chris Giles, "Spectre of stagnating incomes stalks globe", *Financial Times*, 28 June 2011, p.6), but it has been more tragic in the NMS. Wade Jacoby has focused in his paper (Jacoby, 2010) on the Central and Eastern Europe as a threat and opportunity for the EU in managing globalization. His argument has reinforced the central effort of this paper in arguing for the double track approach as facilitating device for the catching up of the new member states in the Europe 2020 framework.

<sup>17</sup> The CoR would do everything in its power to ensure that the "inclusive growth" objective became a reality and that it would put forward its own proposals for a flagship initiative bringing together the territorial dimension and social cohesion, for instance on the quality and accessibility of public services. Bresso was keen to stress that the Committee of the Regions would closely monitor the links between the Europe 2020 strategy, cohesion policy and the future EU budget. See *The Europe 2020 Strategy needs local and regional authorities if it is to fully achieve its goals* (5 March 2010) <http://www.cor.europa.eu/pages/PressTemplate.aspx?view=detail&id=54482bd2-dc2d-41e4-8301-5cd5dacb69fa>.

<sup>18</sup> The EPC experts discussed this issue first in Theodoropoulou with Zuleeg (2009), later in Martens, 2010. See also Theodoropoulou, *Addressing Europe's employment crisis: what policies for recovery and reform?*, *EPC Policy Brief*, February 2010, [www.epc.eu](http://www.epc.eu). The Morlino and Zuleeg paper (2011) has been written as an expert analysis for the CoR. I rely in this paper above all on the summary given by Dhéret, 2011.

<sup>19</sup> Magone's paper in this volume presents convincing arguments that the most important issue to overcome the present crisis is to promote the structural-institutional changes in the peripheral states in order to facilitate their catching up process.

<sup>20</sup> About the new vision see also the concept of "Leitbilder" (discussed in Ágh, 2011c, in this volume), since it leads to the same direction as the new social progress paradigm that has been the "Leitbilder", or the leading idea of this paper.