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What next for EU Cohesion Policy? Going 'beyond GDP' to deliver greater well-being

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BACKGROUND

The long-running debate on the future of Cohesion Policy is intensifying ahead of the forthcoming negotiations on the post-2013 EU budget.

It is a debate which could have significant long-term implications for the policy, and one which has underlined a growing divergence of views on its role, aims and impact. There are, however, some signs emerging – most notably from the Fifth Cohesion Report published in autumn 2010 and the ensuing consultation process – of the direction the debate is moving in.

So, what is this likely to mean for the future shape and objectives of Cohesion Policy and, crucially, is it likely to fulfil the EU's commitment, enshrined in its Treaties, "to promote the well-being of its peoples"?

EU Cohesion Policy: why such a debate?

The first and most obvious reason why Cohesion Policy matters so much and sparks such fierce debate is financial: the EU is spending an average of almost €50 billion per year on the policy within the current financial framework (2007-2013), making it the second biggest item in the Union's budget, accounting for more than one-third of total EU expenditure.

The second reason reflects the policy's original goals. 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. 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.

Significant disparities between EU regions still exist and have even increased in the aftermath of the most recent waves of enlargement. The geographical distribution of GDP underlines these differences, characterised by significant gaps between the Union's Western and Central and East European Member States. While the top ten regions with higher-than-average levels of GDP are all located in the West, several regions in Bulgaria and Romania have levels of GDP per head below 30% of the EU-27 average.

Disparities between EU regions are not only evident in the economic statistics, but also in social indicators such as the share of population at risk of poverty, and do not always follow the same East-West geographical pattern. For example, in 2008, around 40% of the population of some regions in Spain (e.g. Ceuta or Extremadura) was at risk of poverty, compared with just around 5% of the population in others (e.g. Trento in Italy or Jihozapad in the Czech Republic).

EU Cohesion Policy: conflicting views

The long-running debate over the role, aims and impact of Cohesion Policy has already prompted several rounds of reform. The Fifth Cohesion Report points towards further changes, calling for a strong focus on a limited number of priorities and measures to avoid a proliferation of small-scale projects and to convert the objectives of the Europe 2020 Strategy – with its overarching goal of stimulating "smart, sustainable and inclusive growth" – into investment priorities.

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This approach, combined with a greater focus on results, is an encouraging step towards improving the policy's effectiveness. There is, however, still a significant need for further clarification and many questions remain open. How will the broad objectives of Europe 2020 be translated into a clear selection of programmes for Cohesion Policy? Does the EU have enough evidence to identify which programmes and policies are most likely to contribute to achieving the Europe 2020 objectives? Has it identified the trade-offs implied in policies aimed at achieving smart, sustainable *and* inclusive growth?

In addition to the lack of evidence on the link between policies and their implications on Europe 2020, 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.

Nor is there any consensus on the policy's impact: some regard it as a modern multilevel governance tool for promoting research and innovation and as an indispensable instrument to enhance equal opportunities, while others see it as a cumbersome and bureaucratic mechanism and question its effectiveness. Some even argue that there is no rationale for the EU to have a Cohesion Policy at all and that other mechanisms such as the Internal Market can be much more effective in reducing disparities between regions.

An unfavourable economic context

Attempts to forge a consensus on the role of Cohesion Policy have been further undermined by the economic crisis, which will have significant consequences for the negotiations on the next EU budget.

In the aftermath of the crisis, austerity programmes, including tax increases and spending cuts, have been implemented in most Member States, resulting in social unrest in some countries. In these circumstances, domestic spending has become an extremely sensitive issue for national policy-makers, with many arguing that the EU budget should reflect the efforts being made at the domestic level to reduce expenditure.

Alongside the opposition in some EU countries – such as Germany, France and the UK – to increasing the EU budget (or even maintaining it at the current level), there are also mounting disagreements about what should the money be spent on.

EU budget negotiations are still very much driven by the Member States and their respective finance ministries, which need to justify to their citizens how public money is spent. As a result, each Member State tends to support EU expenditure in policy areas where it traditionally gets what it regards as *juste retour* (fair return). Old Member States, which generally benefit far less from cohesion funding, therefore tend to question its effectiveness, while the newer Central and Eastern Member States argue that support to the regions should continue at the current levels.

In this context, the current debate is now focusing on very sensitive questions such as: Who gets how much? Is the European dimension of each EU policy justified (i.e. does EU spending really 'add value')? And what principles should it be governed by (equity, efficiency, political, visibility)?

STATE OF PLAY

There is a paradox at the heart of the EU's current approach. On the one hand, its Treaties stipulate that the ultimate goal of all EU policies, including Cohesion Policy, should be "to promote the well-being of its peoples". On the other, the debate on Cohesion Policy is increasingly focused solely on the economic factors that have only a partial impact on well-being, rather than taking a holistic approach towards the many determinants of citizens' life satisfaction.

Improving well-being: a multi-dimensional task

Analysis of the determinants of well-being has advanced significantly in recent years and has shown that there is no single factor which determines well-being. An individual's life satisfaction depends on a wide range of factors, which embrace health, labour-market participation, education, housing, security, income, work-life balance, working conditions, social relationships, access to public services, having a role in decision-making, etc. This list of determinants is not exhaustive, but clearly demonstrates that an individual's sense of well-being depends on both economic and social factors.

The 'capability approach' developed by Amartya Sen has shown that the capacity of individuals to translate a given amount of any 'commodity' (such as income) into 'achievements' in other aspects of their life depends on a combination of circumstances, including social conditions and access to other 'commodities', such as healthcare and education. An individual's income and assets are therefore not the only drivers of well-being and are not sufficient to deliver many others.

Clearly, this need to focus on both economic and social factors from a well-being perspective runs counter to the current trend in the Cohesion Policy debate moving away from the policy's original objectives.

Efficiency and equity: two seemingly equal objectives

Cohesion Policy was originally based on two main objectives, efficiency and equity, which are both clearly identified in the EU Treaties. In its communication on the budget review published in October 2010, the European Commission again underlined the importance of both objectives, highlighting both the need to tackle social exclusion and to help poorer regions catch up (equity), and to further develop Cohesion Policy into an important enabler of growth across the EU as a whole (efficiency).

But while both the efficiency and equity objectives are seemingly given equal importance in the Treaties, the current debate is overwhelmingly driven by efficiency-related considerations.

In the wake of the economic crisis, policy-makers' priority now is to focus on how best to enhance growth and boost competitiveness, with the first aspect of the equity objective – to tackle social exclusion in the whole EU – relegated to a secondary role. The second aspect – to help lagging regions catch up – is also losing its prominence, which is again clearly reflected in the debate between net contributors to, and net beneficiaries of, the EU budget. While net beneficiaries insist that EU cohesion spending is vital to support the development of poorer regions, net contributors argue that 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).

Focusing only on efficiency: what impact on well-being?

The efficiency objective of EU Cohesion Policy, which basically aims at improving Europeans' standard of living through growth, is not sufficient to achieve the Union's aim of promoting "the well-being of its peoples". As explained earlier, economic factors are indeed only one side of the coin.

In addition, focusing only on efficiency can also lead to unequal distribution of wealth. Some argue that progress in enhancing growth and boosting competitiveness in the EU as a whole helps to achieve the equity objective.

This is simply not true for two reasons. 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 levels of inequality *within* regions.

For instance, a narrowing of the gap between regions can go hand-in-hand with increased income inequalities at the sub-regional level, and the degree of income inequality is not captured by indicators such as GDP or aggregate income per head. That is why some prosperous regions also have very high levels of inequality: for example, Mazowieckie – one of the most prosperous regions in Poland – has the third largest internal disparities in *per capita* GDP among Organisation for Economic Co-operation and Development (OECD) regions.

However, it is also true that there can be synergies between measures designed to achieve each of the two objectives. Policies designed to foster social inclusion, such as investment in education, can increase human capital and have positive effects on growth. Greater competitiveness can also lead to greater equality if the benefits of growth are shared equally.

So whether trade-offs or synergies arise between the two objectives very much depends on the specific circumstances, what policies are introduced and how they are implemented.

PROSPECTS

It is understandable that, in the current context of low economic growth rates and budget restrictions, the debate on the future of Cohesion Policy is being driven by cost-effectiveness and a results-based culture. However, if the policy really is to deliver a high-level of well-being for all EU citizens, the Union should first define what it means by 'better performance' and lay the ground for a robust political agreement.

The need to establish common ground for debate

The debate on the EU's Financial Perspectives has shed light on the several misconceptions and divergent views of Cohesion Policy which have arisen over time. Conflicting pressures for reform have, in the past, tended to be accommodated by low-key compromises that lack reference to a shared vision. The EU and its Member States need therefore to establish common ground to allow for a meaningful debate which leads to a consensus on a common definition of performance agreed by both net contributors to, and net beneficiaries of, the EU budget.

The budget review could still offer the opportunity for common reflection. This time should be used as an opportunity to step back and search for common ground in the form of a policy model around which a high-level political compromise could be rebuilt. A new common understanding of Cohesion Policy is not only a prerequisite for its success, but will also play a major role in determining whether it contributes significantly to achieving the objectives of the Europe 2020 Strategy.

The need for a strong economic rationale

Given the impact of the economic crisis and the increased pressure on EU spending, it has now become essential to underpin Cohesion Policy with a strong economic rationale, backed up by empirical evidence. Providing evidence of its capacity not only to generate growth for the EU as a whole, but also to deliver other economic benefits resulting from a reduction in inequalities between and within regions, is vital to build a new political compromise and provide an ongoing justification for the policy.

Further analysis and more comprehensive data collection are required to make assessments of the policy's impact more credible. However, 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. The economic argument for social inclusion therefore urgently needs to be developed.

Efficiency and equity: how to implement two equal objectives?

As mentioned earlier, an individual's well-being depends on both economic and social factors which EU Cohesion Policy can influence, if both objectives – efficiency and equity – are pursued effectively.

As explained above, it is a mistake to think that social inclusion will inevitably be enhanced through policies aimed at reinforcing growth and competitiveness. The goals of "smart, sustainable and inclusive" growth can indeed be mutually reinforcing, but this is not always the case. It is therefore essential to identify what interventions 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.

Developing a comprehensive European strategy for the next decade, where Cohesion Policy and the Europe 2020 Strategy genuinely work towards the same goals, will require a more sophisticated implementation mechanism.

EU cohesion funds are currently still shared out on the basis of the level of economic development in each region; i.e. on their level of GDP. This is clearly an outdated system and the basis for allocating cohesion funding should not be limited solely to GDP indicators. Appropriate social indicators, taking into account the level of inequality and social development within regions, are urgently needed.

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. Only in this way can the EU develop a Cohesion Policy for the future that contributes to achieving the Europe 2020 Strategy's inclusiveness objective and that will enable the Union to fulfil its commitment to promote its citizens' well-being in the long run.

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