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Future Cohesion Policy Suggestions

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Abstract

The paper provides policy recommendations from the analysis in the main fields of interest, such as economic policy, social policy, and regional policy of the CEECs within a broad framework of Cohesion policy. The recommendations are formulated for the European Commission, national governments, and – where applicable – regional governments. The policy recommendations were directed at achieving greater international competitiveness through increased propensity for innovation. Of special importance were the solutions for social and welfare policies that could convert these policies from being a 'burden' for national economies into positive factors that increase innovativeness and competitiveness. These policy recommendations are in line with modern directions of reforming Cohesion policy towards its pro-growth, pro-sustainability and pro-inclusiveness attitudes and goals.

Content

1 Introduction

The GRINCOH project has delivered a rich set of research findings in several different fields: interrelated development patterns undertaken by CEECs, the role of trade and FDIs, and innovation and entrepreneurship in such trajectories, the social and territorial dimensions of cohesion processes, the degree of institutional convergence and the main achievements – and shortcomings – of cohesion policies.

2 General economic policies in the CEECs

One major message that stems from the research in GRINCOH is that for the CEECs it would pay off fully to modernise their economies. Irrespective of what EU-15 countries (on whose economies of the CEECs still highly depend) would do, the CEECs would benefit from a major process of industrial and institutional restructuring, leading their economies to higher segments, or niches, on international markets. This strategy should ideally be coupled with a thorough process of endogenous development of local markets, since the excessive dependency on international demand slows down long-run growth in such countries.

In the macroeconomic sphere, much like western countries, the CEECs face the need to control the decrease in price competitiveness by keeping wage increases in line with productivity growth. The role of product quality in competition also has to be highlighted as a means of increase competitiveness in more and more demanding global markets.

There is a fundamental need to move towards a new and different stage of development, relying less on FDI and more on endogenous investments, taking advantage of technological multipliers and technological spillovers from multinational companies into the local fabric. Enhancing local entrepreneurship is also crucial, relying on existing industrial relations and existing skills, competencies and specialisations. It also includes promoting the innovation activities of domestically owned exporter companies (and because the observed problem obviously reflects general weaknesses of the innovation culture, also other companies) which seems to be an important task for economic policies.

Economic policy and economic development promotion should not only consider the quantity but also the structure of incoming FDI. Value-adding FDI should be connected to subsidiaries endowed with more decision power over business function and less financial restriction and thus foster not only further investments in the region of location but also positive knowledge and technology spill-overs to the investment site. Also, general economic policies and regulatory frameworks are more important than specific, targeted instruments and measures directed at FDI, and only within a coordinated policy framework could specific FDI policies be successful.

3 Innovation policies in the CEECs

In the CEECs, the creation of innovation cannot be understood or conceptualised within the mainstream model of R&D-based growth or the model which establishes the direct links between R&D, innovation and productivity, i.e. the sequence R&D>Innovation>Productivity which ignores the distinction between production capability and technology capability and ignores production capability as the major source of productivity improvements in CEECs.

Although research and innovation public funding was countercyclical in 2008-2010, maintaining funding levels has become difficult since 2011. Securing funding for research and innovation policies has become one of the most relevant challenges. However, the importance of other sources, especially of domestic firms, should increase. Fiscal policies should be oriented towards encouraging this type of financing of R&D activities and the creation of innovations. More private-public partnerships in implementing research and innovation programmes should be promoted. Also, the number of researchers employed by industry needs to increase significantly in cohesion economies to allow them to catch up with more science-intensive economies in Europe.

Since it appears that interregional knowledge networks can substitute for the critical mass of localised resources for innovation in lagging regions, but also that there are significant policy challenges in realizing synergies between local and foreign patenting activities, these networks should be supported both within the scope of innovation policy and regional policy.

There is need to avoid the risk of losing a strong potential advantage residing in the present scientific excellence of CEECs in many pure and applied science fields. In the absence of a cooperation tradition with the local production fabric and of a market-oriented organisational capability, the scientific milieu of these countries could easily out-migrate towards Western countries.

Finally, both national and EU R&D and innovation policies should be much more country-specific and should recognise differences in the compensatory effects of EU Structural and Investment Funds. Also, this would require much better understanding of the different roles of RDI in different regions.

4 Demographic, labour market and social policies in the CEECs

Declining population due to both low natural increase caused by extremely low fertility rates and high outmigration call for immediate policies encouraging more children. This requires family support and the entire complex of social services assisting families (child-care services, nurseries, kindergartens etc., as well as flexible employment schemes for parents taking care of the children) in having and bringing up children. The exclusion of women from the labour market that creates the "child penalty" effect should be reduced through family policy support for wider employment participation of young mothers and for more skill upgrading of older women. This would ease the stress of aging societies and the growing burden on pension systems. The demographic challenge seems to be one of the greatest problems of the CEECs.

What is crucial is to establish an integrated system of social policies that would create a policy mix in different fields of social protection (in family policies, rehabilitation policies, labour market inclusion and activation, childcare, etc.) which could combat the immediate effects poverty and of complex services that help people to solve their problems and become integrated members of their societies in the long run. The still-weak capacities of the different social services and their unequal accessibility and quality – from employment services to childcare, from rehabilitation services to education and training – make complex policy mixes incomplete and inefficient. The NGO sector should be also supported to find its role and share in building more cohesive societies.

Labour market policies should be oriented to focus on the point where the region's countries jointly fail. The problem of massive numbers of unskilled workers needs to be addressed. Better schools, more adult training, deepening civil integration and efforts to create a feedback loop from work to skills should become the targets of programmes and subsidies which may help to ease unskilled unemployment. The quality of education is of special importance. Primary and vocational schools should equip their students with basic competencies that enable them to participate in formal adult training and learn informally after leaving the school system. Carefully designed and implemented training programmes for the unemployed can have positive effects both on the employment prospects and social inclusion of the low skilled.

Improvement of disability policies would bring considerable potential gains for employment and economic growth in the CEECs. Shifting funds from ineffective sheltered workshops towards personalised rehabilitation services should be undertaken. A combination of subsidies for employers and a tightening of access to benefits could lead to a significant increase in employment among people with disabilities.

The CEECs need to invest more in the quality of primary and secondary education, which in turn implies that they must also invest more in tertiary, especially undergraduate, education so as to improve teacher quality and the evaluation and monitoring of the overall education system. Comprehensive reforms of the educational system and avoiding early student selection may have a positive impact on students' performance.

A higher capacity, better selected, better trained, better motivated civil service can be expected to contribute to improving policy-making in the field of labour market policy.

5 Governance and institutions in the CEECs

Taking into account national peculiarities (path dependence), different clubs of the CEECs might need different institutional solutions and/or different pace of institutional set-up to progress along the road to growth, prosperity and economic integration. Hence, institutional harmonisation has to be adapted to the institutional framework of each country. Further, this assumption might also require a strong modification of the prevailing model of economic growth and development.

Economic policy should encourage foreign investors in the case of foreign acquisition of local enterprises to leave decision-making power within the enterprise and in the case of greenfield investment to provide the newly established subsidiaries with as much power over corporate governance structures as possible.

There is a need to improve national and local government activity in the promotion, financing and management of regional development projects. This means exploiting untapped local resources through strategic industrial plans, avoiding lock-in strategies reinforcing existing local monopolies, limiting rent-seeking behavior by local stakeholders, and fighting corruption.

Political stability is a precondition for stable and efficient institutions. Although different political orientations may be forming consecutive governments, a course of reforms should be maintained, and the "pendulum pattern" in formulating long-term development strategies should be avoided (membership of the EU no doubt plays a clear stabilising role).

6 Regional policy in the CEECs

There is a necessity to enlarge development areas beyond the small group of core areas (metropolises, capital regions), towards second (and third)-rank cities. This strategy reduces inflationary pressures, enlarges the economic base of countries and allows a better exploitation of existing, diffused territorial capital. The second-order cities should develop their metropolitan functions, thus supplementing the capital cities that have already reached relatively high levels of development. Such a territorial pattern could slow down the growth of regional differentiation and would allow for better accessibility of high-order services.

Also, if sufficient funds can be put behind the investment support schemes, FDI inflow to less-developed regions can be enhanced, although in the recognition that some of the FDI will be transient. This will allow governments to support the catching up process (or slowing down the losing-pace process). They will need to find ways to implement these policies also in line with the horizontal targets of smart specialization. Even beyond macro-economic policies, regional and local projects to improve competitiveness in specific regions (e.g. by clustering and business support) can bring good results.

Activating and keeping young people in shrinking regions cannot be achieved when regions become isolated or when local ties are cut. Regional development is dependent on the vitality networks and/or communities. Existing community structures should be reinforced and reshaped into the direction of openness and towards strengthening the local ties.

Regional development policies should act through integrated territorial projects and “territorial platforms”, keeping in mind the multi-dimensional nature of development and the necessity to lever on the specificities and potentials of territories.

Based on the results of the scenario-building exercise, the most appropriate design for regional policies has been formulated. They should neither focus on championing places and regions in search of the highest efficiency, nor on lagging areas in search for equity; the right policies are those designed to suit each region’s specificities, competitive advantage and needs, since they would be better able to engage all possible assets and widen the scope of local excellence. This pathway would, at the same time, avoid the social and economic costs of a concentrated development and guarantee the highest returns in terms of both competitiveness and cohesion.

A new target for regional policies should thus involve the largest possible mobilisation of existing territorial capital assets, and in particular of local excellence, presently dispersed in almost all regions, though a bottom-up ‘discovery’ process led by local élites and intermediate bodies, tailored to the potentials and specificities of the single places. More specifically, CEECs should deal with their specific macroeconomic competitiveness issues (for instance, controlling the trend of unit labour costs and real effective exchange rates) and with spatial issues (e.g. the necessity to enlarge development areas towards second-rank cities and to control real estate bubbles and land rent). In CEECs, industrial and social issues converge in the necessity to enhance local entrepreneurship and to mobilize better the present excellence in many scientific fields with the goal to enter a new development stage, relying less on foreign investments alone and exploiting all the potential synergies, both economic and cognitive, between foreign investments and local culture.

7 Cohesion policy in the CEECs

Several changes in application of Cohesion policy in the CEECs – by far the biggest beneficiaries of this policy in the EU – should be introduced in order to increase its pro-development meaning in these countries and securing a stable and smooth development in the future.

First, EU funding needs to put into perspective. Cohesion policy brings direct and easily measurable funds which translate into spending and incomes, and results in visible material effects. Not surprisingly it is widely considered to be the main, if not the only, benefit of EU membership. In public and political discourse, benefits such as political stability and openness, accessibility to the largest market in the world, increased inflow of FDI and new technologies, openness of labour markets across the entire EU, exchange of students and researchers etc. are often, if not usually, missing from public consciousness. A major effort is required by both the academic and policy communities to put the role of the Cohesion policy in its right – important but not unique - place among all positive (and sometimes negative) impulses that come from the membership of the CEECs in the European Union. The alternative is that EU membership is associated exclusively with funding and that, when the budgetary transfers diminish, so does support for the EU (as has occurred in some EU15 countries).

Second, the 2014-20 period may be the last phase of major transfers to the CEECs under Cohesion policy. It is critical for the CEECs – and for the policy – that the funding is exploited effectively for sustainable growth and cohesion. The experience of some EU15 countries is that the ‘added value’ of Structural and Cohesion Funds was highest in the second or third period of funding, once stakeholders were experienced in the management and implementation of the policy and – at the same time – were prepared to use the Funds to promote innovation and change in economic development. For the CEECs, the main requirements is to shift away from the focus on absorption (important though this is to meet the decommitment rule) and concentrate on investing funds in economically and socially viable projects which have been developed through sound project planning and meet the strategic objectives of the programmes and needs of the regions. Genuine own strategic reflection should be strongly encouraged at all levels of governance - national, regional and local - which would create a basis for adapting the EU programmes and projects to the real needs of the recipient subjects.

Third, the EU has agreed ambitious goals for Cohesion policy in the 2014-20 especially in the area of performance and the contribution of the policy to the objectives of the Europe 2020 strategy. Indeed, the volume of funding allocated to the policy in this period is predicated on the policy’s ability to deliver. As the current programming phase demonstrates, the European Commission is demanding that objectives are specified with reference to results, that realistic targets are set, that ex ante conditionalities are in place and that the performance of the programmes is properly monitored. The first review of performance by the Council and Parliament will be in 2017, with a particular focus on Poland and other Member States receiving major shares of funding. This reinforces the need for managing authorities and implementing bodies to allocate funding in line with strategic priorities and to demonstrate the results being achieved.

Looking beyond 2020, the European institutions have already begun to reflect on possible changes. Although an active debate has not yet begun in earnest, the Commission will need to present proposals for reform by 2018. For the CEECs, post-2020 funding will almost certainly be smaller and there is a need to consider the following issues.

- Domestic regional development strategies. CEECs should actively take forward the recent work undertaken to develop national development strategies, in particular the desirable strategic goals of social and economic development and the strategies, means and sources of domestic funding for realising these goals. There is a need to prepare a shift in psychological attitude – away from the assumption that the effort of developing the public sphere is externally financed, and towards a readiness to apply own financing - which should be promoted already during the current financial perspective.

- Development models. Part of the strategic assessment – and one of the messages of this study is the need to formulate a new development model. More stress should be put on the creation of innovative economic structures and entities at the expense of funding infrastructure, also in the R&D sphere. Infrastructure should be created only where and when its underdevelopment is a barrier for economic efficiency and social cohesion, and not where and when it satisfies the ambitions of the national, regional and local elites.

- Differentiation. One of the major questions for the reform debate is whether the current multi-level governance approach remains appropriate. Differentiation in the regulatory framework has so far been limited and relies on the Commission services and Member States being willing to adapt the regulatory requirements to the needs of individual countries/regions through negotiation. The question is whether a different model of managing the allocation of resources from the EU is required, with alternative division of responsibilities and greater scope for differentiation between Member States depending on their development needs, challenges and strategies and the state of administrative capacity. These are particularly pertinent questions for the CEECs which have tended to resist a differentiated approach in the past.

• External learning. The lessons from other research is that openness to ideas, knowledge exchange and a willingness to adapt are key factors in promoting effective regional development strategies. Consequently, more engagement in interregional cooperation should be encouraged in the spheres co-financed by Cohesion policy, especially in areas such as R&D and innovation creation and dissemination where networking is critical. For example, the regional innovation strategies that follow the RIS3 pattern should be mutually co-ordinated - at least among the regions of a given country - in order to avoid replication of simple patterns of profiling regional R&D structures (as is already being done, in part, by DG Regio through initiatives such as the Smart Specialisation Platform).

• More and better evaluation, and its use. Lastly, evaluation should become more strategic and substantial and less formal. In several countries, Cohesion policy has introduced evaluation as a part of the entire system of public policies - one of the most positive impacts of CEEC membership of the EU – not least because of the activities of the European Commission. However, evaluation often becomes an activity which does not translate into action directed towards improvement of future actions. Moreover, the fragmentation of Cohesion policy into several Directorates General within the European Commission (and its separation form another important policy of the EU: the Common Agricultural Policy) translates into fragmented evaluation studies conducted in the Member states. An integration of evaluation studies is an important need, as part of wider evaluation strategies, and its implementation would allow for more comprehensive assessment of EU interventions. It should allow for assessment of the combined/cumulative impact of particular EU polices (Cohesion, Agriculture, Innovation etc.) on territories of the CEECs and their regions and localities.

8 Cohesion Policy's prospects: a scenario approach

Beyond the specific policy or governance issues, the future of Cohesion policy will be determined significantly by the 'grand bargains' struck between the Member States and European institutions on the Multiannual Financial Framework, and the allocation of resources to policy budget headings and countries. With respect to the major scenarios for Cohesion policy that could be anticipated based on previous reform negotiations, each has implications for the Central and Eastern European countries.

• Focusing Cohesion policy mainly/only on poor countries or regions would provide possible short-term gains from funding flowing only to poorer parts of the EU, mainly in Central and Eastern Europe (though also parts of southern and western Europe hit badly by the crisis). However, fast-growing CEE regions could lose out (such as Mazowieckie, Budapest, Prague, etc). Also, the medium-term implications are likely to be negative, given the probability of less funding being committed by Member States overall to the EU budget, and potentially less interest in net payer countries on how the funding is spent. There would also be the possibility of Cohesion policy funds being diverted to other budget headings, which are not pre-allocated.

• Retaining Cohesion policy across all regions, including richer areas (i.e. a variant of the status quo) would ensure that all Member State remain part of the Cohesion policy system with an interest in, and commitment to, the policy. It would avoid Cohesion policy becoming seen as a 'welfare policy', and it would maintain a common framework for sharing experience and knowledge exchange on regional development, both of which are important for Central and Eastern European countries. The universality of spatial coverage would ensure that faster-growing CEE regions continue to benefit from the policy even though they no longer qualify for LDR funding. On the other hand, if Cohesion policy continues to account for a sizeable share of the EU budget, there would undoubtedly be pressure for a continued shift of spending away from redistributive and regional development goals to using the policy for the thematic investment objectives of the EU (as has happened with respect to the Lisbon Agenda in 2000-06 and 2007-13, and Europe 2020 in 2014-20) that may not suit CEE interests. In the MFF negotiations, Cohesion policy would continue to play the part of 'adjustment variable' with Member States using the allocation formula to improve their net balances. Lastly, the negotiation of the regulations would continue to have an element of the 'lowest common denominator' acceptable to all Member States, blocking in particular necessary changes such as greater differentiation and proportionality in the way that the regulations are designed.

- Allocating Cohesion policy funding at national level to countries, whether for all regions or only poorer regions, would represent a significant change for the policy. It would focus policy on convergence between Member States, assuming that national governments are best placed to undertake subnational distribution and achieve regional cohesion. It would provide scope for a stronger link with National Reform Programmes and the European Semester, but would change fundamentally the role of the Commission, which would potentially focus more on setting common objectives, coordination, strengthening national capacity for regional development, peer review and selective intervention, as with the former Community Initiatives. The implications for Central and Eastern European countries are that Cohesion policy would become a more growth/investment focused policy, downgrading regional cohesion objectives – which might be welcomed by some national governments, but less by the regions which often have limited self-governance in many CEE countries. Such a policy approach would accelerate the thematisation of Cohesion policy or the transfer of Cohesion policy resources to other policy areas. Some would argue that it runs contrary to the Treaty commitments to economic, social and territorial cohesion, and the degree to which sub-national development problems were addressed would depend on the strength of CEE national regional development strategies.

The nature of Cohesion policy reform, requiring consensus among all Member States, embodies considerable inertia and resistance to radical change. The most likely outcome is a variant of the status quo.

However, there are uncertain economic and political times ahead; recovery from the economic crisis is slow, halting and variable, especially in the Eurozone (which already includes half of the CEECs). The future of economic governance is being debated, and a comprehensive Genuine Economic and Monetary Union could involve creating a new stabilisation mechanism that influences the funding or priorities of Cohesion policy. The review of EU competences undertaken in the United Kingdom as a prelude to a possible referendum on EU membership has sympathies in several other Member States and could affect how Cohesion policy is undertaken. Finally, a critical factor is how well Cohesion policy performs in the 2014-20 – most notably in the Central and Eastern European countries which account for over half the funding – and whether it is capable of delivering the goals and expectations (especially Europe 2020 goals) that have been set to justify such a large share of the EU budget.