

AN AGENDA FOR A REFORMED COHESION POLICY *

by Fabrizio Barca #

* Director General, Ministry of Economy and Finance, Italy

The Report, the transcription of the Hearings conducted with academics, experts and policy-makers and ten complementary papers are available on:
http://ec.europa.eu/regional_policy/policy/future/barca_en.htm.

PROLOGUE 1

- There is a consensus that the European Union should:
 - be more people-oriented and strengthen its social agenda
 - modernize its budget and make it more focused on results

- For cohesion policy, the status quo is no longer an option. But:
 - the direction of change is still very open,
 - there are conflicting views on the rationale, results and need of cohesion policy
 - the budget review has insofar failed to produce a substantive high level debate
 - the consultation paper “EU 2020”, in pinpointing the priorities of Knowledge, Inclusive Society and Greener Economy, does not provide any assessment of the past over all strategy, nor any idea on the specific contribution of the EU budget

PROLOGUE 2

This is the context in which the Report was conceived and is being discussed:

- First, by going back to the original political mission of cohesion policy and taking into account modern theory, the Report provides a policy concept by answering to the following questions:
 - Why does the European Union need a development policy?
 - Why should this policy be place-based?
 - Why should the efficiency and equity objectives be both pursued?
And through distinct interventions?
- Second, it assesses how far/close current cohesion policy is from/to the policy model.
- Third, it outlines a comprehensive and feasible reform of the governance of cohesion policy.

BACK TO THE ORIGIN

- The EU Treaty commits the Union to pursue “harmonious development” both:
 - indirectly, by taking this task into account in designing any policy
 - directly, through dedicated Funds or “Cohesion policy”
- Cohesion policy was strengthened in the '70s and '80s with the aim to give EU citizens “*no cause to doubt the common will of all to help each Member State to better the condition of its people*” (Commissioner George Thomson, 1973), and namely:
 - to make resources “more fully utilised” (economic objective = efficiency = competitiveness)
 - to close the gaps in their “standards of living” (social objective = social inclusion = equity)
- Cohesion policy never was conceived as, and it is not today, a tool for financial redistribution (between Member States and Regions). Although it has *de-facto* played this role. If this was its task, unconditional cheques (an Equalization Fund) would be a much more efficient way to address it, avoiding the costs of multilevel governance and shared management
- The mission of cohesion policy was, since the origin, (or, anyway, should have been) development: a development policy
 - aimed at promoting the utilization of resources and social inclusion
 - through the provision of public goods and services

WHY DOES THE UNION NEED A DEVELOPMENT POLICY?

- The European Union, a “Federation-in-the-making”, represents one of the boldest attempts ever made to pursue peace and prosperity through a gradual loosening of existing national ties and the creation of an “identification” or “feeling of community” among citizens of different nations (*see 1932 Letter from Freud to Einstein in Peace-1960; and Spinelli, Rossi-1941*)
- After successfully achieving market unification and knocking down barriers to the mobility of citizens, goods and capital, the European Union is presently having great difficulties in fulfilling its citizens’ expectations to:
 - take advantage of the opportunities of market unification
 - fight its threats to their standards of living
- The EU is blamed if expectations are not met:
 - citizens oppose labour mobility
 - firms oppose market liberalization
- These effects are even stronger at the time of economic crisis
- In this context, the EU “feeling of community” can be harmed and national (and regional) ties tend to prevail and can undo the Union

WHAT IS THE MODEL OF DEVELOPMENT POLICY SUITABLE FOR THE EU?

- ⇒ **Sectoral-federal model:** EU-wide sectoral Funds for Innovation, Transport, Climate Change, Social Inclusion, Employment, etc., allocated by the Commission to individual projects
MEMOS: This is the development policy addressed to specific regions by the US federal government (with funds amounting to about 2.5% of GDP every year)
- ⇒ **Place-based model:** a multi-sectoral Fund allocated to Member States and Regions through “contracts” whereby their grants to projects are made conditional on a set of EU-wide principles

1. The place-based model is the modern way to tackle economic and social development, because
 - it allows to take into account people’s preferences and knowledge
 - it avoids the “on-size-fits-all” syndrome and it allows public goods and institutions to be tailored to places
2. The place-based model is the only model compatible with the EU’s limited democratic legitimacy (see the recent arguments by Germany’s Constitutional Court)
 - Sectoral top-down interventions would not be coherent with the role of Member States in social and economic development
 - Place-based interventions combine EU’s responsibility for setting tasks and guidelines (conditionality) and Member States’, Regions’ and local agents’ responsibility for implementing policy according to contexts (subsidiarity)

A DEFINITION OF “PLACE-BASED DEVELOPMENT POLICY” AND “PLACE”

- A place-based development policy is:
 - a long-term development strategy aiming at reducing underutilization of resources and social exclusion of specific places, through the production of integrated bundles of public goods and services,
 - determined by extracting and aggregating people's knowledge and preferences in these places and turning them into projects,
 - and exogenously promoted through a system of grants subject to conditionalities and multilevel governance.

- What is place? In a place-based development policy,
 - a place is not identified by administrative boundaries,
 - nor by any other ex-ante “functional” criteria (coincidence of residence and activity, density of population, absence of land connections, existence of water or other natural linkages, altitude, proximity to natural areas, etc.),
 - rather a place is endogenous to the policy process, it is a contiguous area within whose boundaries a set of conditions conducive to development apply more than they do across boundaries.

POLICY RATIONALE: MARKET AND GOVERNMENT FAILURES

- Why can't one leave places to react to internal and external challenges by their own means, possibly only redistributing financial resources to poorer areas? Why both inefficiency traps and social exclusion traps can arise?
- Inefficiency traps can arise because:
 1. institutions have a strong inertia
 2. appropriate institutions fail to be chosen by local elites due to their distributive effects
 3. the indispensable role of public action in any agglomeration pattern *plus* the existence of strong agglomeration, positive and negative, externalities, *plus* our ignorance on policy effects: these factors call for public action to be transparent and openly place-based
- Social exclusion traps can arise because:
 - 1) formal and informal institutions are inadequate and fail to be adjusted due to path dependency;
MEMOS: this case is particularly serious for informal institutions such as trust, agency (the capacity to act effectively in the pursuit of goals), social capital, or democratic participation in decision making;
 - 2) circumstances are transmitted inter-temporally from a generation to the next;
 - 3) outcomes depend on past outcomes;
 - 4) appropriate institutions fail to be chosen by local elites due to their distributive effects (Douglas North).

WHY DO WE NEED SPECIFIC INTERVENTIONS AIMED AT SOCIAL INCLUSION (1) A DEFINITION

- “Ingredients” of the definition of social inclusion are:
 - multidimensional aspects of people’s well-being, including all the capabilities that make a life worth living: health, education, housing, security, labour conditions, self-respect, role in decision-making, income, etc.
MEMOS: “income” is only one (although relevant) dimension, since it cannot be fully converted in all the other dimensions; and so is “employment”;
 - the interdependence and interaction of these dimensions;
 - both a threshold (achieving a socially acceptable standard) and an interpersonal (achieving socially acceptable disparities) concept of inclusion;
 - both individual persons and groups;
 - the process through which inclusion is achieved, with reference also to the degree of democratic participation in public decision-making (i.e. the freedom of citizens and collective bodies to experiment with solutions while exercising mutual monitoring);
 - an attempt to distinguish between those features effecting a person’s well-being that depend on his/her effort, and those that depend on factors beyond his/her will (circumstances).

... SPECIFIC INTERVENTIONS FOR SOCIAL INCLUSION (2)

- It is often argued that equity (or social inclusion) should not be a separate policy objective because a natural correlation exists between equity and efficiency. In particular, it is argued that:
 - gaps in per capita GDP between regions tend to increase in the first stages of development (when growth accelerates), and then to diminish (so-called Williamson inverse-U curve);
 - interpersonal income inequality tends to increase in the first stages of development (when growth accelerates), and then to diminish (so-called Kuznets inverse-U curve).
- Actually no such natural correlation exists.
- First, convergence of per capita GDP says nothing on progress towards equity and social inclusion.
MEMOS: it actually says nothing about the efficiency objective too.
- Second, the analysis of long-term series of income interpersonal inequality and growth shows that “it is misleading to talk of ‘trends’ when describing the evaluation of income inequality” (A. Atkinson, 2008).

... SPECIFIC INTERVENTIONS FOR SOCIAL INCLUSION (3)

- Synergies between the equity and the efficiency objective are at work:
 - social exclusion traps and inefficiency traps often share the weakness of formal and informal institutions as their common cause: addressing those weaknesses can effect both (education policy is a classical example);
 - a social exclusion trap, by causing social and political instability or preventing innovation, can negatively effect efficiency: tackling the former can help addressing the latter (*market-compensating view of social policy*).
- Trade-offs can also arise between the equity and the efficiency objective:
 - greater social inclusion changes the balance of negotiating power among parties (for example in favour of workers and against entrepreneurs) and it then rises the incentive, and the effort, of some, while reducing the incentive, and the effort, of others: the balance can be negative;
 - policies for increasing social inclusion by attempting to address the effects of circumstances can end up addressing the effects of efforts: that would reduce the incentive to make efforts;
 - social inclusion policies, by reducing the pressure for labour mobility (even if the reduction of labour mobility is not their goal) can, in conditions of imperfect information, reduce the opportunity for agglomeration elsewhere.
- In the short-medium term, the balance of synergies and trade offs is an empirical matter. No ex-ante general assumption can be made on this balance.

... SPECIFIC INTERVENTIONS FOR SOCIAL INCLUSION (4)

- Furthermore, it is often the case that the most satisfactory intervention from the point of view of tackling social inclusion is not the most satisfactory intervention from the point of view of tackling efficiency (even if both interventions have a positive impact on both objectives).

- Finally, focusing an intervention on either social inclusion or efficiency increases the verifiability of results and the forcefulness of public debate and democratic participation.

MEMOS: the opposite has taken place in recent years when the ideological concern not to stress social objectives has often resulted in social inclusion policies to be "smuggled" as competitiveness policies, with bad result for both equity and efficiency.

- In summary:
 - a place-based development policy must surely aim at both efficiency and social inclusion,
 - but the interventions (mostly) aimed at efficiency should be kept distinct from the interventions (mostly) aimed at social inclusion,
 - while an effort must be made to exploit all complementarities.

MISCONCEPTIONS AND CLARIFICATIONS

A place-based strategy is not:

1. A policy for “financial redistribution”
 - the fallacy of the renationalization critique
 - the need for intervening in all regions
2. A policy aimed at “convergence” of per capita income
 - for the efficiency objective, what matters is “capacity utilization”
 - for the social inclusion objective, the standards of living should refer to all dimensions of well-being

MEMOS: the case of Spain

3. A policy restricting people's mobility
4. A policy constraining “natural” agglomerations
 - the fallacy of self-proclaimed “spatially-blind policies”

THE STATE OF THE EMPIRICAL EVIDENCE ON THE IMPACT OF COHESION POLICY IS UNSATISFACTORY

- Cohesion policy enjoys high accountability in terms of financial and physical output, but not in terms of outcome:
 - econometric studies do not offer and cannot offer conclusive general answers on policy impact,
 - there is no systematic impact evaluation of interventions,
 - the system of outcome indicators and targets is of very poor quality,
 - methodological problems exist in the “metric of results”.

HOWEVER, THE AVAILABLE EVIDENCE LEADS TO TWO CONCLUSIONS

1. Cohesion policy provides the appropriate basis for an EU place-based strategy, thanks to:
 - a system of multi-level governance, “contracts” and cooperation of high value
 - a track record of achieving targets in specific contexts
 - a contribution to institution-building in many regions
 - an EU-wide network for cooperation and disseminating experience
2. A comprehensive reform is needed, because:
 - the policy concept is very weak and cohesion policy results are neither strongly perceived by citizens, nor at the centre of policy debate
 - no critical mass exists on priorities, while economic (efficiency) and social (equity) objectives are confused
 - contracts between the Commission and Member States/Regions fail to focus on results and to create adequate incentives to use resources effectively
 - the present strong pressure on timely spending has a negative feed back on regular and effective spending

OUTLINE OF THE REFORM (1)

First. A more clear and visible policy concept:

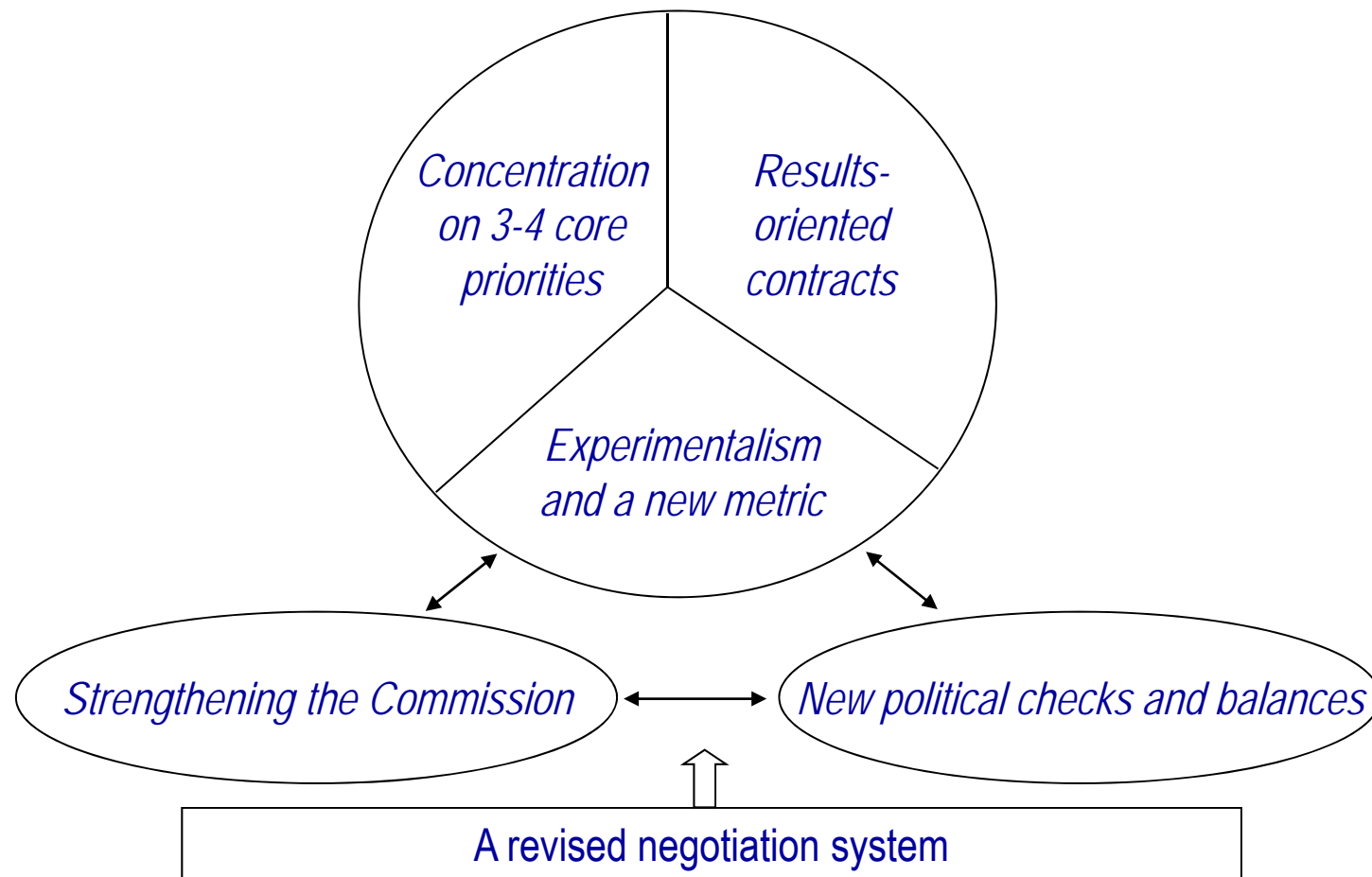
- a policy for development,
- aimed at “people in contexts”, “people in places” (the territorial dimension)
- combining but not confusing
 - the economic dimension (efficiency objective)
 - the social dimension (social inclusion objective)

The social dimension: a particularly strong political return for Europe

- The division of labour between the EU taking care of markets and MS taking care of social issues is becoming untenable, and neither the Open Method of Coordination, nor EU judiciary interventions are enough to address it.
- President Barroso in his Agenda for the new Presidency argued that EU citizens should “make use of their rights as EU citizens in the same way as they use their rights as national citizens”.
- The Commission’s consultation paper “EU 2020”, referring the both MS and EU actions, argues that “new policies must demonstrably contribute to social cohesion, tackling unemployment and fostering social inclusion”.
- But how to achieve that, given the limited effectiveness of the Open Method of Coordination? Any attempt to Europeanise social policies is constrained by the diversity of national normative aspirations and by EU budgetary limits.
- *A territorialised social agenda* pursued through cohesion policy in 1 or 2 priority areas can help addressing the promise of a “people’s Europe” while respecting national social contracts.

OUTLINE OF THE REFORM (2)

Second. Radical but pragmatic changes of the governance to make the policy results-oriented



1. CONCENTRATION OF RESOURCES ON 3-4 CORE PRIORITIES

- Concentration of up to 2/3 of funding on 3-4 “core priorities”
- Selection of “core priorities” based on three criteria:
 - EU-wide relevance
 - place-based nature
 - verifiability
- The priorities must be selected through a high-level strategic debate. However, the Report puts forward six examples, that are very much in line with the three broad priorities of the “EU 2020” paper:
 - 2 options with a predominantly “economic” objective: *Innovation* and/or *Adaptation to climate change*
 - 2 options with a predominantly “social inclusion” objective: *Migration* and/or *Children*
 - and 2 options aimed at both objectives: *Skills* and *Ageing*.

While

- *No substantial change (except for a 75% + X status) would be introduced in the criteria for distribution of funds between lagging and non-lagging Regions and Member States and to territorial cooperation. (A pragmatical decision given the lack of feasible alternatives)*

A PLACE-BASED STRATEGY CALLS FOR A FINE BALANCE BETWEEN SUBSIDIARITY AND CONDITIONALITY

- On the one hand, a place-based strategy requires effective subsidiarity:
 - policy and institutions must be tailored to contexts, by entrusting project design and implementation to the level of government which is as close as possible to the “place”
- On the other hand, a place-based strategy requires effective conditionality:
 - the exogenous intervention needs enough leverage to break local institutional traps and to promote innovators, by establishing institutional principles for the implementation and ensuring that measurable objectives are set
- ⇒ If subsidiarity is over-played, a place-based policy is more likely to be captured by local rent-seekers ⇒ the very rationale of an exogenous intervention gets lost
- ⇒ If conditionality is over-played, the mobilization of local knowledge and preferences is weakened and paternalism prevails ⇒ exogenous interventions become ineffective (or even counter-productive)

THE RIGHT BALANCE BETWEEN SUBSIDIARITY AND CONDITIONALITY CAN BE ACHIEVED THROUGH A GOVERNANCE BASED ON THREE INTERCONNECTED PILLARS

1. A system of flexible and effective contracts between the institutions running the exogenous intervention and the “places”

A combination of complete and incomplete contracts is needed between levels of government and with private actors that allows:

- space for conditionalities
- space for learning

2. Experimentalism and openness, to create incentives for actors at place level to experiment with solutions and exercise mutual monitoring

Learning and negotiating methods must be employed so as to create an incentive for actors at place level to reveal and exchange knowledge and to experiment with solutions and exercise mutual monitoring, while being exposed to external knowledge

3. A system of measures tailored to contexts

A system aimed at “orienting policy to results” by playing two distinct cords:

- giving room to policy-makers at place level to set specific outcomes, context by context, in a participatory way,
- ensuring cross-place comparability of results and remedial action by the institutions promoting the exogenous intervention

2. RESULTS-ORIENTED CONTRACTS

- *A National Strategic Development Contract (Contract) and Operational Programmes* (presented simultaneously) commit each Member State and Regions to:
 - objectives and targets, expressed in terms of outcome indicators
 - institutional requisites, expressed in terms of broad but binding principles
- Furthermore:
 - financial additionality is simplified and linked to the Stability and Growth Pact
 - the de-commitment rule is applied at the level of whole countries, as a way to reduce the pressure on timely spending which today reduces quality of spending and increasing irregularities (both directly and via Commission's lower incentives to suspend programs)
- The Commission can:
 - adopt the whole Contract
 - adopt some parts of the Contract "subject to condition"
 - reject some parts of the Contract
- *Implementation Report* by MS and *Implementation Assessment* by the Commission strengthen orientation to results and differentiation among Member States
- Annual Member States' *Report on Results* (after 3rd year) and Commission's opinions and *Summary Report* open public debate

3. EXPERIMENTALISM AND A NEW METRIC

- Experimentalism at place level should be promoted, i.e. stronger incentives must be created for actors at place level to reveal and exchange knowledge and to experiment with solutions while exercising mutual monitoring and being exposed to external knowledge. This result can be achieved by:
 - committing Member States and Regions to place-based (territorial) strategies
 - putting at Commission's disposal a small share (0,1%) of all funds for *Innovative territorial actions*
 - promoting the learning process (see below)
- A new policy metric must be developed in two distinct directions:
 1. promoting policy-makers' focus on final policy outcomes in terms of people's (multi-dimensional) well-being by:
 - indicators and targets must play a central role in the contracts and they must satisfy ordinary statistical requisites,
 - a small set of EU-wide comparable indicators must be agreed at the start (following Open Method of Coordination practice),
 - community-based indicators must be promoted,
 - progress towards targets must be reported and motivated, while not linking financial incentives to targets' achievement
 2. promoting the use of "prospective counterfactual impact evaluation" – where impact is estimated by comparing outcomes for beneficiaries of the intervention with outcomes for a *similar* population of non-beneficiaries - designed while interventions are being designed, which can have strong disciplinary effects

4. STRENGTHENING THE COMMISSION

- *Refocusing and strengthening the role of the Commission as a centre of competence. A more ambitious and demanding role for the Commission and more discretion call for its Directorates in charge of cohesion policy:*
 - to make a significant investment in human resources:
 - establishing core-priority task forces
 - upgrading the evaluation department
 - creating a research department
 - to achieve inter-Directorates coordination (between themselves and with sectoral Directorates) under the guidance of the Secretary general
- *Addressing financial management and control*
 - keeping the accountability of “regular policy implementation” separate from measuring progress towards outcome
 - reducing the control and audit burden for the Commission, either through the proposals being currently debated or through an appropriate implementation of the new Treaty

5. NEW POLITICAL CHECKS AND BALANCES

- Improved information on results and greater Commission discretion make a more active role of the two other European Institutions feasible and necessary
- A new formal *Council for Cohesion Policy* would:
 - assess Contracts and Reports on Results
 - assess special decisions by the Commission:
 - approval of contracts subject to conditions
 - decision to run an Implementation Assessment and its effects
 - financial sanctions for unmotivated failure to achieve financial additionality
 - financial sanctions for unmotivated failure to achieve targets
 - issue recommendations
- The European Parliament would:
 - fully use its budgetary power as a way to demand ex-ante a clear voice in choosing among different solutions and policies
 - contribute opinions on Contracts and Reports
 - receive and debate the Commission's Summary Report (as part of the "Evaluation Report" of the amended art. 275 of the Treaty)

A REVISED NEGOTIATION CALENDAR AND A SIMULTANEOUS AGREEMENT ON RESOURCES, GOVERNANCE AND GOALS

- 2010: a high level political compromise on the future of cohesion policy
- Autumn 2010–Spring 2012: strategic dialogue between Member State and European institutions facilitated by a Policy Group and leading to a draft of a *European Strategic Development Framework*,
- Spring 2012–Spring 2013: final negotiation on resources, governance and goals
- Spring 2013: simultaneous agreement on resources (Financial framework), governance (Regulation) and goals (European Strategic Development Framework)