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ECONOMIC AND SOCIAL COHESION – THE CORNERSTONE OF EUROPEAN INTEGRATION

Seminar organised by the Groupement d'études et de recherches "Notre Europe" and the Fundación Banco Bilbao Vizcaya

Madrid, 27-28 November 1998

Report by Jean-Louis Arnaud

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FOREWORD

On 27-28 November 1998, our Research and Policy Unit, in collaboration with the Fundación Banco Bilbao Vizcaya, held a high-level seminar on the theme of economic and social cohesion in Madrid.

At a time when the European Union is embarked upon a difficult debate on the future of the common policies, as shown by the recent European Council in Vienna, our objective is to promote a better understanding of and give a new meaning to the concept of cohesion in the context of the aims and values of European integration.

Around 30 personalities – current and former ministers, European and national-level politicians, regional representatives, civil servants and academics – mainly from Spain, Portugal, Italy and Greece, with representatives from Ireland and France, gathered together not only to reflect on the origins of economic and social cohesion and assess its impact, but also to consider the future of cohesion policy.

In his presentation Mr Aníbal Cavaco Silva, former Prime Minister of Portugal, outlined the foundations of economic and social cohesion. Mr Ruairi Quinn, former finance minister of Ireland, then gave an upbeat assessment of the progress achieved to date. Mr Pierre Moscovici, French minister for European affairs, highlighted the challenges for the future. These three introductory reports stimulated a wide-ranging discussion and fruitful exchange of ideas on cohesion policy.

As this summary report makes clear, economic and social cohesion goes far beyond the economic and financial impact of the EU Structural Funds. With the European Union facing the dual challenge of economic and monetary union and enlargement, the policy of economic and social cohesion aims to help each Member State to play its role and make every individual citizen feel a part of this collective adventure.

To conclude, in the short term, we hope that our work will have made a useful contribution to the debate between the actors concerned in the context of the current Agenda 2000 negotiations. In the longer term, we hope to stimulate a more in-depth debate on the future shape of the Union: what are our common challenges and shared ambitions? Put simply: what are we fighting for and why do we want to live together?

Jacques Delors

Paris, December 1998

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ECONOMIC AND SOCIAL COHESION
THE CORNERSTONE OF EUROPEAN INTEGRATION

Madrid, 27-28 November 1998

Participants

Mr George **Alogoskoufis**	MP, "New Democracy" spokesperson on European Affairs and Professor (GR)
Mr Miguel **Arias Cañete**	MEP, President of the European Parliament Committee on Regional Policy (ESP)
Mr Fabrizio **Barca**	Head of Department for Development and Cohesion Policies at the Treasury (IT)
Mr Patrizio **Bianchi**	Professor, University of Ferrara (IT)
Mr Jean-Louis **Bourlanges**	Member of the European Parliament (FR)
Mr Aníbal **Cavaco Silva**	Former Prime Minister of Portugal, Professor at the Catholic University of Lisbon
Mr João **Cravinho**	Minister for Regional Planning (P)
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Mrs Nora **Owen**	Former Minister for Justice, Deputy Leader of Fine Gael and spokesperson for Enterprise, Trade and Employment (IRL)
Mr Yannos **Papantoniou**	Finance Minister (GR)
Mr Ruairi **Quinn**	Former Finance Minister and Leader of the Labour Party (IRL)
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Mr Pedro **Solbes**	MP, former Finance Minister (ESP)
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Mr François **Villeroy de Galhau**	Director of the Cabinet of the Economics and Finance Minister (FR)

Introduction

The decision by the Association "Notre Europe" and the Banco Bilbao Vizcaya Foundation to focus this seminar on economic and social cohesion and present it as the cornerstone of European integration was intended as a highly topical contribution to a debate which is at least as central to the aims and future of the Union as the immediate budgetary concerns of the Member States.

The deep divisions between the latter on this issue made themselves felt at the Vienna summit in December, at which the Commission's budget proposals for 2000-2006 were discussed against the backdrop of the planned accession of the central and eastern European countries, all of which will need assistance if they are to be integrated into the Union. The seminar organisers accordingly sought to alert Europe's policy-makers to the implications and long-term consequences of the decisions which were to be taken over the coming weeks. They themselves made no secret of their concerns.

Indeed the chairmen, Jacques Delors and Marcelino Oreja, opened the proceedings with a warning that the situation was "critical", drawing on their personal experience as former Commission president and commissioner in office. Delors expressed regret that "to justify a given budgetary target we should be reduced to unwarranted criticism of policies which, the figures show, have brought about real progress, not only for the southern States but also for regions in other Union countries".

A sense of belonging

So what is behind this word "cohesion" that is attracting such mistrust and controversy? Firstly support programmes designed to curb development disparities in 1/ regions lagging behind, 2/ regions affected by industrial change, 3/ some islands and rural regions.

But that is just one aspect, Delors suggested, pointing out that in the treaty, economic and social cohesion now ranks alongside the single market and economic and monetary union in terms of priority. "Cohesion", he declared, "is not just about horse-trading between South and North. Its aim is also to give every citizen a sense of belonging to the collective adventure of European integration. There is therefore a link, however tenuous at present, between economic and social cohesion, citizenship and the European public arena.

"What we are asking for, as European activists, is a balanced view," he added, and went on to call upon the "unprecedented" gathering of 25 ministers and former ministers, parliamentarians, economists and development experts to exchange opinions and gauge past policy action "as objectively as possible" in order to gain a clearer idea of what action should be taken in future.

Concern and anxiety

Oreja, for his part, confessed to a sense of "concern and anxiety" and deplored the current "questioning of the very essence of economic and social cohesion". He recalled the past landmarks in the history of cohesion:

- 1958 (one year after the signing of the Treaty of Rome, which aimed to strengthen the economies of the Member States and ensure their harmonious development but did not yet mention cohesion), the European Social Fund (ESF) and the European Agricultural Guidance and Guarantee Fund (EAGGF)
- 1975, after the first enlargement, which brought the United Kingdom, Ireland and Denmark into the Community, the European Regional Development Fund (ERDF)
- 1986, the Single European Act, incorporating a new title on economic and social cohesion into the treaty[1]
- 1988, the European Council meeting in Brussels which doubled Structural Fund resources for the period 1989-1993
- 1991, Maastricht, enshrining economic and social cohesion in the treaty[2] as one of the Union's fundamental policy objectives (confirmed by the Amsterdam Treaty in October 1997) and establishing the Cohesion Fund for the four least developed countries: Greece, Ireland, Portugal and Spain
- 1992, the European Council meeting in Edinburgh, which again doubled the resources for cohesion policy to ECU 175 billion for 1994-1999, or a third of the Union budget

Oreja took the view that "cohesion policy has a part to play in structural adjustment", stressing that the 10 applicant countries of central and eastern Europe, with their population of 100 million, have a per capita income of at most 30% of EU levels and require massive capital investment. He suggested that the budget proposals put forward by the Commission reconciled the budgetary imperatives of the Member States with the continuation of structural assistance within the existing Union and the gradual integration of new members. In absolute terms, the proposed budget of ECU 275 billion was a 15% increase on the period 1994-99, but in constant values it was in line with the ceiling set of 0.46% of the Union's GDP.

In addition, Oreja explained, the Commission was in favour of greater concentration, decentralised management and simplification of structural assistance. With this in mind, it had cut the number of priority objectives from seven to three: assistance for less developed regions (1), the social and economic conversion of distressed industrial, agricultural, fishing and urban areas (2), and improvements in education and training systems (3).

Likewise, the Commission had proposed reducing the Community Initiatives to crossborder cooperation between countries and regions, rural development and action to combat exclusion. It had also suggested that there should be just one management authority per project, to be appointed by the Member State concerned.

[1] See Annex 1.
[2] Signed in February 1992, the treaty came into force after ratification by all the signatory States in November 1993.

Substantive debate

There followed a substantive debate in which the speakers more than met the expectations of the organisers. They were asked to assess the impact of the Structural Funds not only on the economies of the beneficiary countries and regions, but also on the political, economic and social health of the Community as a whole. A number of points and key issues emerged from the discussions and presentations, which shed light on the wider implications of the cohesion debate:

- the link between cohesion policy, the single market and the launch of the euro;
- the divergent effects of transfers of funds on public opinion: sense of belonging/resentment;
- the connection between the allocation of funds and the need for a reform of national policies, with European transfers acting as a spur to the beneficiaries to help themselves, make structural changes and change attitudes;
- the feeling that 10 to 12 years of cohesion policy are sufficient to weigh its merits, but not sufficient for progress and achievements to be irreversible;
- the firm belief that a comprehensive, balanced assessment of cohesion will be of value in preparing the Union's enlargement into eastern Europe.

The first part of this report covers the debate on the principle of cohesion, including the introductory presentation by former Portuguese prime minister Aníbal Cavaco Silva. The second part concerns the review of 10 years of cohesion and the views put by Ruairi Quinn, former finance minister of the Republic of Ireland, and the third part cohesion's place in Europe at the dawn of the new millennium, and the presentation given by Pierre Moscovici, currently France's minister for European affairs.

*

1 – The principle of cohesion

The primary objective of economic and social cohesion is to reduce development disparities between regions and the backwardness of the least-favoured regions. There is thus a redistribution function from the richest to the poorest regions. But in his opening remarks Aníbal Cavaco Silva suggested that cohesion policy also implies the efficient allocation of resources throughout the Community. While this was not direct redistribution to the individual – the exclusive preserve of national governments –, he argued that it nonetheless had an impact on people's lives, in that it was intended in some cases to improve conditions for certain sections of society, such as people working in the agricultural sector or the long-term unemployed.

Taking the Union forward

This is an area in which the subsidiarity principle comes into play: an area of shared competence where national action is as important as Community regional policy, whose emergence Cavaco Silva traced back to the mid-1970s. He suggested that "national governments realised when they set up the regional development fund that a Community regional policy was indispensable to bolster the Community", pointing out that economic and social cohesion had been associated with the launch of two new stages in the process of European integration, the completion of the single market (the Single European Act) and economic and monetary union (the Maastricht Treaty).

Cavaco Silva identified three **goals of cohesion policy**: advancing social justice, reducing structural disparities and averting political and social tension.

1 – Social justice: sharp disparities in regional development, and particularly conditions in the very poor regions, are perceived as socially unjust and unacceptable. "Egalitarian or humanitarian values inspiring people's concern for equitable distribution are not confined within national borders but extend across the whole Community and beyond," asserted Cavaco Silva. Interpersonal solidarity was dependent on geographical proximity, and he noted that redistribution between individuals remained the most equitable solution, with interregional redistribution a "second best".

He stressed the scale of the regional development gap: "Hamburg has 4½ times the per capita income of the poorest region, and the average per capita income in the bottom 10 regions is barely 30% of that in the 10 richest regions," he remarked, and while the gaps between countries may have narrowed[3], the same could not be said for development disparities between regions over the past 10 years. He defended the idea that equity should have a Community dimension.

"We have to accept that solidarity wanes with distance, but solidarity at European level must

[3] In the case of Portugal in particular, where, as Delors pointed out, per capita GDP has risen from 55% of the Community average on accession to 70% today.

be one of the central foundations of the new Europe," he argued, adding that Europe-wide equity was a reflection of a certain culture of unity and an indication that European citizens had a sense of belonging to the same family.

2 – Structural disparities: the need to reduce such disparities is inherent in the concept of equal opportunities, in Cavaco Silva's view, particularly since the poorer regions benefit less from the single market than the richer ones. This is due to disadvantages in several areas: infrastructure, advanced technology, workforce skills, business management capacity, and efficiency in public administration and public service quality. The result is that disadvantaged regions are less productive and less attractive to investors. "Most authors", he added "consider that these disparities will tend to increase if there is no active policy to reduce them."

3 – Political and social tension: with the free movement of persons, those living in low-income areas will be encouraged to move to more prosperous regions. Cohesion policies thus have a part to play in preventing the emergence of housing problems, congestion and crime in urban areas of the better-off regions. Cavaco Silva argued that regional inequalities pose a more direct threat to European integration than do personal inequalities, and put the question of whether the deepening and enlargement of the Union would strengthen or weaken people's sense of belonging to the same community.

He stressed the contradiction whereby "progress towards greater political integration tends to reinforce the sense of common citizenship, solidarity between Europeans and the Community dimension of equity, but in those countries which are net contributors to the Community budget, the financial costs of further integration and enlargement may provoke negative reactions and undermine that feeling of community."

Cavaco Silva is in no doubt that enlargement to the east, by bringing very poor regions into the Community, will only heighten the perception that the inequalities are socially unacceptable. In his view, it will make economic and social cohesion all the more necessary. "It is more vital than ever," he affirmed, and paid tribute in passing to Jacques Delors for having seen the need for a cohesion policy very early on. He further emphasised the policy's rational character – in contrast to the Common Agricultural Policy, "whose rationality", he said, "escapes this humble economist…"

Cavaco Silva argued that the introduction of the single currency warranted closer attention to the structural disadvantages of some regions, to reduce the disincentives to business investment. While it was true, he noted, that the poorest countries, which have often suffered currency instability, stood to gain more than their richer neighbours, relatively at least, from the strength of the new currency, he pointed out that they would also be the ones hardest hit by the loss of exchange rate flexibility – an adjustment mechanism the richer countries had had less need of.

Enlargement – the litmus test

With the first wave of enlargement eastwards, although the disparities are no greater than they were with the cohesion countries, Polish, Czech and Hungarian businesses stand to face great difficulties competing on the single market. That at least is the justification for stepping up cohesion policy, in Cavaco Silva's judgement: disadvantages in terms of infrastructure can be overcome fairly rapidly, but the skills gap can be closed only over the long term.

"Enlargement will encourage the citizens of the new Member States to move to the richer countries, with all the consequences that implies," he stated, warning that "significant development disparities cause dissatisfaction in individual Member States, fragment European society, threaten political cohesion within the Union and hinder the consensus required for both further integration and enlargement."

So what degree of social cohesion does the Community need? That, he said, would be determined by the political process peculiar to Community decision-making in which voters, national governments, EU institutions and civil servants all had their say. The desire for equity and a reduction in structural disparities and the fear of political and social tension would influence the choice, but so too would the Community decision-making apparatus, the economic and political situation in certain Member States, public support for European integration, and the effectiveness of past cohesion measures. However, political pressure for a narrowing of the development gap would win out, concluded Cavaco Silva, who clearly doubted that cohesion within an enlarged and more integrated Europe was possible within the budget ceiling of 1.27% of GDP.

These views on social justice, structural disparities and concern to avoid political and social tensions within the Union were largely shared by participants at the seminar, although representatives of the four cohesion countries (Greece, Ireland, Portugal and Spain) were admittedly in a majority. In the ensuing debate, speakers echoed the general principles, while pointing up specific aspects of cohesion policy of particular importance in the light of their own experience or the national interests they were defending. We have grouped their comments under five headings:

- economic arguments (the introduction of the single currency and the need for economic convergence that implies),
- policy arguments in favour of cohesion,
- the causes of the change in climate which has led to the policy being challenged,
- the limitations on Community cohesion in practice,
- the binding nature of Member States' commitment to cohesion.

1 – Economic arguments

What was the primary aim of monetary union if not a higher growth rate and genuine economic convergence, asked Greek finance minister Yannos Papantoniou, commenting that Europe's regions were represented by national governments which would use their power within the Union to protest if the country or one of its regions was left behind, thus creating friction in the running of monetary union. If an important region were affected, there would be a real risk of budgetary imbalance and budget deficit and a threat of migratory movements which could upset the

Union's economic and social order.

"True convergence implies that growth rates in the poorer regions must be faster than the European average," affirmed Papantoniou, arguing that this was possible only with outside public assistance – the central principle of the Structural Funds and the Cohesion Fund. "Can Portugal, Spain, Greece or other poorer European countries hope to outstrip German, French or British growth rates by simply following the tenets of monetary orthodoxy on fiscal balances and interest rates?

"Clearly not." And he seconded Cavaco Silva's comments on the handicaps which were obstacles to investment in the poorer regions and suggested that when large companies came to make strategic investment decisions, the problems now outweighed the benefits of cheap labour in those regions.

However, Papantoniou added, experience in Greece showed that outside financing was effective only on two conditions: that the country practices appropriate macroeconomic policies and that it has suitable planning mechanisms for the use of Structural Fund resources and quality control. "It took Greece time to get there, and true convergence did not start until we met those conditions," he stated. Now, however, for the first time the Greek economy was growing faster than those of the richest northern European countries: 3.5% in recent years and still rising.

Where Papantoniou analysed the convergence necessary for monetary union from a government standpoint, his compatriot George Alogoskoufis took an economist's view: the justification for structural intervention in favour of convergence, he argued, was precisely the incapacity of market forces alone to bring it about. He gave five reasons for that:

- National disparities in administrative and economic infrastructure and geographical differences within the Community are a product of history and of a range of factors the market cannot influence. Hence the need for policy action.
- Big business, which can achieve economies of scale, has an advantage over smaller firms, which therefore require assistance with costs.
- Education and training are the best engines of growth, but, since the market cannot bring them up to the right level, assistance and harmonisation between European countries is called for.
- The need to promote labour flexibility in the cohesion countries.
- In the specific case of Greece, the need to overcome the obstacle of geographical distance from the other Community countries by improving transport and communications.

Static vs dynamic

Fabrizio Barca, head of development policy at the Italian finance ministry, suggested that when discussing equity a distinction must be made between:

- the static equity which is one of the traditional functions the welfare state performs by redistributing benefits and assistance to allay social tensions,

- and the dynamic equity which seeks to promote equal opportunities, give individuals a chance to improve their abilities, and alter production conditions in the long term as a precondition for the redistribution of wealth.

Barca argued that welfare and static equity should be left to the Member States, with the proviso that some coordination of efforts to reform national social security systems was called for. Action to meet the requirements of dynamic equity, however, should be financed by the Structural Funds. In that spirit, he called for a maximalist approach, on condition that the funds served the aims of dynamic and not just static equity.

On resource allocation, Barca made reference to the potential for conflict between equity and effectiveness. This occurs where the funds are used as a transfer to ease a difficult social situation and create a temporary surge in employment, in the construction industry for example, but ultimately only accentuate the development disparities, as in the case of Italy's Mezzogiorno.

It also happens when the funds are used, more rationally, to promote certain regions – generally in the south – by providing them with a competitive capacity which other regions and countries, largely in the north, may see as detrimental to their interests. Temporarily at least, since in the long term, at European level, everyone stands to gain.

On the subject of the potential for regional economic crises, Barca pointed out that the Americans' answer was mobility – not only of labour but also of capital – and investment diversification, not forgetting transfers of federal funds. In Europe, he observed, where capital and to some extent labour mobility remained limited, there was a danger that capital and skilled workers would be drawn away from outlying regions if wages and returns on investment there remained stuck at a level below that of the more developed areas. Working on that assumption, there was an urgent need to reverse the trend by investing in the regions under threat to ensure sufficient promise of capital returns and wage levels on a par with the better-off regions, if not immediately then at least within a reasonable time frame. That, in Barca's view, was the direction cohesion philosophy and the use of the Structural Funds should take.

2 – Policy arguments

Eneko Landaburu, head of the Commission's DG XVI, which is responsible for regional policy, put forward three political arguments in support of Cavaco Silva's analysis:

- "Without strong, well-resourced cohesion, the whole integration process will come to a standstill. There is nothing irreversible about the single market or economic union," he claimed, recalling the Delors Commission's warnings of the "cost of non-Europe" and suggesting that the "cost of non-cohesion" would likewise be "disastrous for all concerned, the richest countries chief among them."
- The policy of the last 10 years has been a success, as the figures now being published by Eurostat demonstrate. In the 10 poorest regions, statistics indicate that between 1988 and 1998, per capita GDP has risen by 5%, from 44% to 49% of the Community average. Add a further 25 regions and the increase is from 52% to 58% – six points of real convergence.

- "Backed up by communication and information, cohesion policy is one of the best tools at our disposal to build up a sense of European identity," Landaburu suggested. "Our heads of State and government would do well to make use of it when they speak of citizenship and improving public understanding of Europe."

Economic common sense

The Italian MEP Andrea Manzella wondered, reading between the lines of Cavaco Silva's analysis, whether there was not a hidden institutional dimension to cohesion, alongside its economic and social aspects. Should we perhaps conclude that there is an institutional deficit here, and agree with those commentators who have stated that the very nature of the Union changed when it took on a political agenda?

Manzella's response to talk of solidarity, equity and welfare was caution, because he believes that "the true basis for cohesion is economic common sense, meaning that the net benefits for the Community should outweigh the cost to the taxpayer."

If there is a political agenda, "it has been to take political responsibility for the stability of the single market. Stability between States, between States and regions, and between regions". He cited some of the observed effects this had had:

- The shift to a higher level had denationalised regional policy.
- That had encouraged dialogue with public- and private-sector bodies at regional and local level.
- A sense of European citizenship and a common destiny had begun to emerge.

Isabel Mota, former Portuguese Secretary of State for regional development, was involved in negotiating the two Delors "packages". For someone who has seen from the inside, as she has, how her country has succeeded in integrating into the Community over the years, cohesion policy is the central pillar of European integration. "With a new wave of enlargement ahead," she argued, "what we need most is a broad political vision; the problem is our capacity to project ourselves on the world stage". That, she argued, makes the "narrow economic focus" of the current debate on cohesion all the more damaging. "We are abandoning higher policy considerations to talk about money," she protested, "and that is making the public feel insecure and rolling back the process of European integration".

3 – The change of atmosphere

Why have things changed? Why is what seemed clear a few years ago now unclear? What has happened? Pedro Solbes, Spanish Socialist MP and former economics minister, pointed in explanation to the economic crisis of 1993, the problems of German unification and resulting additional transfers to the eastern *Länder*, and the monetary and budgetary discipline imposed by monetary union, with the stability pact being used to justify claims that resources were not available.

"We do have a deficit problem. Transfers do have to be cut. There are fears about enlargement... All that is true," he admitted, but what was more striking was "a shift of mentality: the principle that 'what is good for one country in the Union is good for the others, and what is bad for one is bad for all' is no longer generally accepted; everyone is thinking in more purely national terms".

Hence the rise of calls for a "fair return". Such concerns were not new, Solbes observed, with reference to the debate on the third phase of monetary union and the reservations of the net contributor countries regarding the possibility of transfers if the single currency caused any serious problems in one or other of the Member States. "We discovered that it was impossible to introduce a transfer mechanism without defining its purpose", he recalled.

"The prevailing trend is not towards more cohesion", he observed, "but towards more harmonisation in those areas which, paradoxically, are the only room for manoeuvre the poorer countries have to improve convergence, such as taxation and social policy."

The impatience of the rich

Jean-Louis Bourlanges, a French MEP on the Liberal Conservative wing, also looked at the reasons for the current challenge to cohesion policy. "Rather than playing the opera chorus and all singing cohesion's praises in different keys, let us ask ourselves why, despite the importance of its objectives, this policy has become a subject of both veiled and open attack," he suggested. He identified three main reasons:

- Like other policies of public-sector intervention, cohesion fell out of favour when quite a narrow form of economic liberalism became fashionable. "In implementing cohesion policies", Bourlanges maintained, "we have not clearly marked the boundary between the sphere of private-sector initiative and that of public-sector intervention. As a result, cohesion is perceived as a tax paid by others: the best kind of tax for the beneficiaries, and the worst for those who foot the bill."
- A Community budget designed essentially to meet the needs of agricultural and cohesion policy presents a structural problem in terms of the legitimacy of Community spending, particularly for the prosperous, urbanised masses of northern Europe.
- Two entirely separate systems of intervention are involved: one administered by decentralised authorities at regional level and directly coordinated by the Commission (which requires the latter to have both the powers and the resources of a federal administration), the other a form of macroeconomic support channelled via the Member States (which reduces cohesion to the level of financial compensation and deprives Commission intervention of its legitimacy). Bourlanges thus identified the problem as one of the consistency of institutional action.

The former Irish justice minister Nora Owen could also understand the impatience of the richer States. "There is a risk that cohesion and structural funds, far from creating European citizens, are creating more nationalism within our own countries."

"If we want to include more countries, we must find a suitable way to share out the cake, otherwise we will end up not with a two-tier Europe as we have now, but with a three- or four-tier one, with Ireland in the second tier, Greece on the level below, and the eastern European countries right at the bottom."

While aid from the funds was probably necessary, as the seeds of growth sown by the Delors packages had been, Owen stressed the capacity of the recipient country to cultivate them by means of appropriate national policies. She gave her own country as the classic example. "Ireland made the most of the transfers of European funds because of its political maturity. We were able to target the funds successfully because we began educating and training our small population at least 30 years before we joined the Community."

4 – The constraints on cohesion

Spanish MEP Miguel Arias Cañete, who chairs the European Parliament's committee on regional policy, highlighted and deplored these constraints. He asked two questions:

- What mechanisms does the European Union have at its disposal to correct regional imbalances?
- Does it have the political will to do so?

Arias Cañete commented that "at national level a whole range of internal solidarity mechanisms are unanimously accepted, even if they are not always effective: progressive taxation, redistribution, charity, etc. But where Member States have a wide range of tools at their disposal to correct imbalances, the Union has just two: the Structural Funds and the application of cohesion criteria in all Community policies.

"The Structural Funds have fulfilled their purpose, but Community policies have never been formulated on the basis of cohesion criteria – worse, several conflict with them," he maintained, going on to state that the institutional framework of the Union did not enable effective regional development action at Community level. "The Commission may have a overall view of the 'European project', but at national level that view is fragmented, and in many cases it is not shared." He concluded with a further question: "Does the European Union have the political will to redress development disparities as the best means of securing political integration? Or are we merely bringing together national interests?"

5 – Binding commitments

Should economic and social cohesion be seen as the counterpart to the less developed countries' agreement to open up their domestic markets to their partners' services and industrial products, under an open-ended pact negotiated on their accession to the Community? This question lies at the heart of the debate on the theory and politics of cohesion. Delors alluded to it in his introduction, and in one form or another it emerged at each stage of the discussions: principles, review and outlook.

It is the more political angle that Spanish Secretary of State for European affairs Ramón de Miguel chose to develop, in a deliberately blunt contribution: "It was not for nothing that Spain brought the common market 40 million consumers," he began. "That was its side of the bargain; economic and social cohesion was a fundamental part of what Europe was to provide in return."

He took the example of France and Germany as what he termed the "hard core", comparing their track record with Spain's and concluding that "their markets are less transparent than Spain's, they have incorporated fewer directives into national legislation than Spain has, and their society is less open and less liberal than Spanish industrial society."

"Spain has taken the single market further than the hard core of the Union," he asserted, emphasising the "Herculean efforts" of both Spain and Portugal to achieve nominal convergence in line with the discipline of economic and monetary union, at the expense of faster progress towards real convergence. "And now their reward is talk of dismantling the Cohesion Fund," he protested, "when everyone knows that the strict application of the Maastricht criteria is a brake on stronger growth."

Part of the bargain

"To imagine that economic and monetary union can be achieved with nominal convergence alone is to ignore its fundamental principles," Ramón de Miguel argued. "The cohesion countries do not see it as charity. It is the other part of the bargain; take that away, and you have to start dismantling other essential components of the single market or economic and monetary union.

"There is much talk of the cost of Community policies, but has it occurred to anyone what the cost of not having them might be?" This was an argument raised by several speakers. "We have something extraordinary here in terms not only of prosperity and economic growth but also of political prestige, a model which is the envy of the whole world."

In reference to the much quoted cap on the Community budget – 1.27% of GDP –, he pointed out that since the fall of the Berlin Wall most of the Union's richer countries had saved an average of 1% of their national budgets through cutbacks on military spending. He criticised them for not managing to find a further 0.02% of their contribution for the "great solidarity project" of the new Europe, arguing that allowing the countries set to join the Union the full benefit of economic and social cohesion policy would not cost more than 0.03% of the GDP of all the Member States.

In the same spirit but a less combative tone, the Portuguese regional development minister, João Cravinho, stated that "the problem is not Agenda 2000, but Agenda 2005," since, in his view, "we cannot build a European Union on such shaky foundations. Economic and social cohesion is faltering. That means that the project of economic and monetary union is faltering too. Agenda 2000 sets out no vision for Europe. The objective is gone, and people have forgotten that cohesion is a policy issue."

Costs and benefits

Among the radical changes that would shape our future, Cravinho cited globalisation and the "new technological frontiers" which he claimed would restructure economic activity. "Globalisation and technology spell growing profits which may have a devastating effect on economic and social cohesion for the poorer countries and regions; they face hard times over the next 10 years, while the main players of globalisation can look forward to massive gains.

"Portugal and countries like it have made great progress," Cravinho accepted, "but without resolving the problem of low productivity." He was adamant that cohesion was the only answer, and enlargement would not be possible unless it was strengthened. "Monetary union will generate numerous benefits," he warned, "but there will be a price to pay as well."

Speaking outside the formal seminar, at a dinner for participants, the Spanish foreign minister, Abel Matutes, sounded the same note of caution: "Spain, like Portugal and Ireland, and Greece too, has made considerable sacrifices to join Europe's first tier. You cannot then say: 'Now you are there you will not be needing the Cohesion Fund any more.' On the contrary, they need it more, because they have had to forfeit investment to get where they are. While they remain below 90% of the average Union income, those countries have a right to cohesion."

Taking part later in the general discussion, François Villeroy de Galhau, principal private secretary to the finance minister in Paris but speaking at the seminar in a private capacity, remarked that the aim of cohesion was too closely identified with its instruments, the Structural Funds and the Cohesion Fund, and that concentration on the means had obscured the ends. "As the funds have grown in importance – a good thing in itself –, have we not lost out somewhat on common policy content?" he asked, adding that "we have also gradually moved towards a position of acquired rights for certain countries and regions.

"The value added of Community management of those rights has declined and the scope for national and regional administration of the funds has increased – which is in line with the subsidiarity principle but also converts the policy into a mere redistribution mechanism, thereby creating tensions with some of the northern European countries."

The air fare to Limoges

Robert Savy, president of Limousin regional council in France, gave his own account of the way in which "the ends have gradually taken second place to what in the treaty was merely a means of achieving them." What matters most in his eyes – and as enshrined in the treaty – "is economic and social progress, a high level of social security; it is economic and social cohesion". The internal market, competition policy and the single currency are just ways of securing those aims.

Reconciling competitiveness with cohesion he described as a "constant and fundamental dilemma", regretting that competition policy should give the former precedence over the latter: "In France there will be ever more flights from Paris to Nice and the fares will be cheaper, while flights to Lorient, Limoges and other towns in the Massif Central will become scarcer and fares ever more expensive."

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2 –10 years of cohesion policy

As far as former Irish economics minister Ruairi Quinn was concerned, the lesson of the first 10 years of the single market is that without cohesion the market cannot function. In his good-natured way and taking a tone as colourful as it was conciliatory, he supported the position of his Spanish colleagues. His conclusions, however, were more measured.

"It is not fair to criticise cohesion policy without looking at it in its historic context and taking in the whole picture," he stated. "The single market was the product of political transaction involving compensation for opening up the protected sectors of the economy. Otherwise we would not have ratified the Single European Act."

Quinn took Ireland as his example, citing such forgotten non-tariff barriers as those protecting the national production of cement, chocolate bars and dog food, and recalling his compatriots' fears that without cohesion the free market would sound the death knell for small outlying economies.

Yet cohesion had worked well, he argued, noting that in the course of 12 years, from 1985 to 1997, per capita income in the four cohesion countries had risen from just under 66% of the Community average in terms of per capita GDP to 76%. In the case of Ireland the increase had been even greater (to 89% of the European average), to the point, he said, where the figures might be thought an overestimation. And all for a relatively modest share of a Community budget limited to 1.27% of Community GDP, around half of which was used to finance the Common Agricultural Policy.

In Ireland, Quinn observed, substantial improvements in infrastructure had alleviated geographical handicaps some had thought insurmountable. "But it would be wrong to attribute all of Ireland's recent economic success to structural and cohesion funding," he remarked. "Other factors have played a part: our demographic profile, our corporation tax regime and our anglophone tradition have all contributed to our attractiveness to inward investors. And clearly inward investment has been the engine which has driven economic growth. Our system of social partnership has also been of great benefit," he added.

Valuable transfers

"However, it would be a mistake to make this simply an accounting exercise," Quinn continued, explaining that in all the beneficiary countries cohesion policy had been a channel for transfers of cultural values which had altered people's behaviour in such diverse fields as culture, politics and social and economic activities.

- Culture: football, for example, with French players joining British clubs. But also opera singers, and student exchanges under the Erasmus scheme.

- Economics, where market forces seized the opportunities available by streamlining their activities. Ireland had become the world centre of telemarketing, the food industry had moved to Spain and Portugal and engine manufacturers were leaving the Community countries for the Czech Republic and Hungary.
- And administration, where new structures had been set up on the initiative of Brussels; for instance, countries unused to multiannual programming had begun working with three- to five-year budgets, and were finding them a great improvement. "You could call it intellectual cohesion", Quinn suggested, "when you see Brussels transferring the administrative best practice of a majority of Member States to others whose methods were different."

Unlike the Spanish ministers, however, Quinn acknowledged that a form of dependence had developed among the beneficiaries of Structural Fund assistance, which had never been intended to be permanent, concluding: "Objectively, the experience must be said to have been positive. There has been no serious call for the reinstatement of national borders or tariff barriers. Without the last 10 years of social cohesion, we would not have had the political will to establish economic and monetary union or the strength to meet the Maastricht criteria."

Community value added

Eneko Landaburu expanded on Quinn's remarks on the value of intellectual and cultural transfer with the following comments regarding Community methods and their value added for national policies:

- **1/ *Multiannual programming***: "an unbelievable innovation", he claimed, citing the example of Spain, "which had no regional policy at all and had to switch from simply implementing projects to managing programmes – qualitatively an important step forward." In Italy too, where the authorities had established "a national and regional policy entirely in the European mould". And in France, where the government had agreed to adjust its programming periods to those proposed by Brussels.
- **2/ *Partnership***, whereby union and industry representatives joined the local authorities in deciding where money should be spent. But Landaburu observed that "it is very difficult to convince States that the best way to use public money is to involve those most directly affected by the decisions, whether that is local and regional authorities or the driving forces in the economy." Ruairi Quinn commented that, regrettably, representatives of the national parliaments were excluded from that process of partnership and consultation, and called for this "democratic deficit" to be redressed.
- **3/ *Innovation***, which the Commission encouraged by disseminating "best practice, so that Berlin's experience serves Porto and Lisbon's serves Helsinki, for example."

What concerned Landaburu, however, was a trend towards the renationalisation of this policy, with pressure being felt from many States who just wanted the money, invoking subsidiarity and rejecting any talk of European value added. "That is what is unacceptable," he stated, "for if they get what they want, Brussels will lose all control over the use of funds."

In reply to Delors, who enquired which Member States were the most intent on centralising the management of funds in this way, Landaburu remarked that "paradoxically, the more federal the State, the more it seeks to limit the Commission's sphere of action." That was certainly the case of Germany, the Union's most federal State. "They just want the money, full stop," he said, and added that the French government too, ever wary, "wants to retain control of what goes on in the regions, and does not want to be bothered with calls from Brussels for innovation or the application of European eligibility criteria." Nor did the Spanish government take kindly to forceful intervention from Brussels. "Even the Portuguese government", Landaburu remarked, citing Cravinho's remarks as evidence, "tends towards the view that the Commission should not interfere too much."

Leave it to us

What the Commission was proposing was more substantive dialogue with Member States and regions, on objectives, priorities and the strategy for the use of the funds. "And what do the Member States reply?" asked Landaburu. "It is very simple. On objectives: 'Leave it to us; we know the country's needs better than you.' And on decentralisation: 'Okay, but only if there is no evaluation, no monitoring and no sanctions!'

"We now face two dangers," he concluded: "the proposals from France, Germany and others risk leaving us without enough funds to maintain real convergence, while on the other hand methods are being imposed which are wrecking everything we have achieved over the last 12 years."

Villeroy de Galhau commented that regional policies had lost the status of common policy measures, "because we have abandoned the project-centred approach of identifying the best projects for the Union for a system where each region or country must have its cheque. In that sense the Cohesion Fund, for all its merits, has had unwelcome side effects."

For his part, Yannos Papantoniou stressed the value added of structural policies as a force for the modernisation of the less-developed countries and regions: "The economic impact is not solely quantitative and measurable in terms of rising incomes. Their qualitative impact is still more important," he argued, giving financial and budget management and quality control as examples of areas where Greece had gained an indirect qualitative benefit, at all levels of government and across the development sector. He was clearly concerned that if this form of pressure were to lessen at the same time as the transfers themselves, the pace of modernisation would slacken.

Take the money and run

Jean-Louis Bourlanges focused on the problems of administering cohesion, analysing the contradictions between the management of the Structural Funds, which involved policy-makers and the two sides of industry at a decentralised level and strong Commission intervention, and that of the Cohesion Fund, which operates, he suggested, on the principle of "take the money and run".

Decentralisation, he argued, was not an adequate response to the problem, unless the Commission secured the human resources it needed to act, even if that meant rejecting all that had been said at the seminar. He could not blame it if it did, describing the number of European civil servants as "laughable": 11,000 (not including linguists and research staff) to administer a Community of nearly 400 million.

Bourlanges also called for more rigorous programming and analysis of Member States' needs, without systematic recourse to the additionality principle, whereby each country puts up funds in proportion to what it receives. "For that you need to have funds to start with," he remarked.

Vectors of efficiency

In countries such as Portugal, the Structural Funds have had the effect of spreading certain principles of economic efficiency which were not part of the national culture to decision-makers who had previously been unaware of them. And that, for João Cravinho, was not the least of their achievements. "The funds' action in disseminating efficiency," he said, "put across the message that a change of mentality was needed to the heads of small businesses, to town councils, to mayors in small villages – to a whole world which we should not underestimate, because all those people have an important part to play in modernising society."

While agreeing that subsidiarity had a place in regional policy, Cravinho condemned invoking it as justification for rejecting controls on the implementation of common policies, on the principle of "just give me the money and I will do with it as I see fit." He suggested that renationalisation was not an issue in Portugal, while conceding the legitimacy of complaints that national policies are not always taken into account when regional programmes and strategy are drawn up in Brussels, on the grounds that "regional prosperity depends largely on national policy".

He favoured each side playing its part, and did not feel that the Community should exercise administrative powers which were outside its remit. What was lacking in Brussels, he said, was political leadership. "Renationalisation is an attempt to fill that vacuum, and our only means of defence," he maintained, concluding that "regional policy must take account of subsidiarity and combine the powers of national governments and the Commission, on the basis of criteria which remain to be determined."

A lack of vision

At a more theoretical level, Patrizio Bianchi, economics professor at Ferrara university, criticised Europe's "lack of vision". "We hear of nothing but methodology and techniques for distributing funds, but what kind of economy, what kind of society are we building in Europe, particularly in the poorest areas?" he exclaimed, recalling the long debate leading up to the Delors Commission's 1993 white paper, and the principles underpinning the strategic choices made, which had focused on education, environmental protection, new technology, energy and communications.

"What are our policy plans for the future? Where is the investment in new businesses, in new activities?" Bianchi demanded, and criticised the fact that the Structural Funds and Cohesion Fund were not being considered in the context of a long-term vision. "What is the Commission's outlook for the period after the introduction of the euro? We have a Commission with a lot to say about monetary policy", he complained, "but very little about anything else."

Marcelino Oreja, the only member of the current Commission present at the seminar, rejoined that the Commission had not shied away from its responsibilities. "It has had to set the whole process of economic and monetary union in train, and that of enlargement," he commented. It had also had to prepare the financial perspective, address employment policy and draw up an action plan on security – an area which involves a number of issues relating to justice and home affairs –, thus establishing a distinction between the matters which belong to the first and third pillars of the treaty. Lastly it had had the Structural Funds and Cohesion Fund to deal with, overseeing the introduction of programmes in the eligible States and regions. "Is that vision? I don't know," said Oreja, but "the Commission has not been idle over the last four years."

Bianchi readily conceded that the Commission had accomplished an "incredible" amount. But he remained critical: "At a time like this, the question is how to generate wealth for the future," he affirmed, and called for work to begin on a new white paper. "For tomorrow, for the new millennium," it was not too late to act.

The south's south

José Manuel Soria, mayor of Las Palmas de Gran Canaria, had the privilege of being the southernmost participant, and could therefore share his experience of an island location on the confines of North and sub-Saharan Africa.

In the Canary Islands, improvements had been made in both infrastructure and outlying urban areas. "We have better roads," Soria said, "technology is more advanced and human resources have been developed. Thanks to economic and social cohesion, we have been able to narrow the structural development gap and move closer to the European development average." So have the Canaries discovered a brave new world? Not quite.

What is the problem? Employment: "Despite efforts to improve training and raise people's skill levels, employment rates remain high," Soria observed, adding that for him there could be no talk of social cohesion in Europe "until there are jobs for all Europe's citizens".

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3 – Outlook

Pierre Moscovici, the French minister for European affairs, introduced the debate on the outlook for the year 2000 by saying that cohesion policy, directly linked to economic and monetary union, had been "one of the Union's greatest successes of the last 10 years".

Moscovici recalled that in June 1997 France had made its definitive entry into the euro zone conditional on the qualification of Italy, Spain and Portugal, and condemned the prejudices of business circles in northern Europe which saw those countries as good holiday destinations but not credible partners in a single currency. Not to let them join when they met the much touted Maastricht criteria would, he said, have been "politically questionable and economically absurd, in that the expected benefits of monetary union are directly proportional to the size of the economy within the euro zone."

Judging that common policies should make a more direct contribution to strengthening cohesion, Moscovici called for:

- the infrastructure development policy proposed in Essen by Delors to be incorporated;
- the European Social Fund to return to supporting convergence in employment policy;
- the reform of the Common Agricultural Policy to be geared to preserving the European agricultural model;
- the importance the Union wishes to lend the public services – whose legitimacy, he noted, had been endorsed by the Amsterdam Treaty – to be determined.

Reviewing acquired rights

Reviewing the "new challenges" ahead for cohesion, Moscovici warned that certain adjustments were "indispensable".

"The cohesion countries are quite plainly taking the acquired rights line, the logical corollary of which would be an accumulation of Community redistribution mechanisms, with no change in the current geographical balance," he commented, and suggested that this rationale seemed incompatible with economic reality.

Community solidarity had shown its true strength, he maintained, pointing to the 14,000 km of main road built or upgraded in Spain, the installation of water treatment systems in Greek towns and the assistance young people in Ireland received to continue their studies after the end of compulsory schooling. He also considered the arguments of those countries that saw themselves as net contributors, observing that "the very existence of the Cohesion Fund is now up for debate."

Moscovici, sympathetic to the viewpoint of those advocates of real convergence who stressed the enduring prosperity gap, sought to qualify the position of the policy's detractors and called for "a flexible approach which eschews both the gravy train and the hatchet job." He argued for a return to "a more clearly redistributive" regional policy, and for Structural Fund reform to "put an end to the escalation in the share of the Community population (now nearly 50%) covered by the funds."

"Structural Fund policy", he continued, "needs to refocus on its true vocation, which is to narrow the prosperity gap for those regions whose development is lagging far behind and those where geographical polarisation within the single market is creating clear industrial conversion or rural desertification problems. The Member States must retain responsibility for ensuring the balanced development of their national territory by means of an independent regional development policy, as the only guarantee of a hands-on response to local problems."

A changing Europe

On the challenge which enlargement to the east represents for cohesion policy, Moscovici suggested that the increase in membership to 30 would change the nature of Europe. "It is a new Europe we are building, but one that will still need a cohesion policy in 2003, 2004 or 2005," and he commented that, although that would not be until after the forthcoming budget agreement, the time would pass quickly and thought should be given to it now. "We must be careful to ensure that accession does not trigger an economic shock in central and eastern Europe or wreck our existing common policies.

"The needs are great and financial resources are limited by the budgetary discipline imposed under the Stability and Growth Pact, and which we accept. So we must make the money go further, and that will not be easy. And since cohesion is not limited to the Cohesion Fund", Moscovici concluded, "we must also look beyond purely budgetary concerns and take a broader view, redirecting Community policy as a whole towards the aim of economic cohesion."

On the acquired rights referred to by Moscovici, Pedro Solbes suggested that a distinction should be made between those cases which generated acquired rights – for example the situation of regions with a per capita income of below 75% of average Community GDP, making them eligible for Structural Fund assistance, or those with an income of less than 90%, the requirement for access to the Cohesion Fund, "which does not mean that the right is acquired in perpetuity", he added – and those which were a matter of judgement. Once income rises above 75% or 90%, for instance, the region loses its automatic entitlement but a transition period may be allowed for adjustment.

What clearly worried Solbes was whether the budget ceiling of 1.27% of GDP left the Union sufficient financial capacity to meet future needs, including those of enlargement. What would happen, he asked, if economic growth was less than predicted for the purposes of calculating the budget, or if the savings made on the Common Agricultural Policy fell short of expectations? He pointed out that, depending on the base year for the calculation, 1.27% could fall to just 1.06%.

He agreed that the cohesion countries should pay their share of enlargement costs, but wondered what model of cohesion would be applied to the newcomers. "Some will argue that the present model is too generous for an enlarged Community, others that it is not generous enough for countries whose incomes are well below those of the beneficiaries under the current system of cohesion."

Awash with non-cohesion

Miguel Arias Cañete argued that denying the cohesion countries access to funds had nothing to do with acquired rights, and everything to do with "the commitment made by the parties to the Treaty on European Union to reduce regional disparities, which is as binding as those made on the single market and the single currency." He backed up his comments with an analysis of the growth differentials the cohesion countries needed to achieve if they were to reduce the remaining disparities. "To move up 20%, they have to maintain a growth rate 1.75% higher than the more developed countries for 20 years – not an easy task in a context of globalisation and economic integration," he stressed.

Returning to one of his favourite arguments, Arias Cañete asserted: "the Structural Funds do not have sufficient critical mass; far from being awash with cohesion, Community policies are awash with non-cohesion!" The plans for cofinancing the Common Agricultural Policy affected all the cohesion countries, and with the exception of France, he claimed, in relative terms it is they who would be hardest hit.

"Some of the budgetary adjustments being suggested therefore undermine cohesion," he said. He made plain his scepticism regarding the future of cohesion policy, citing the example of environment policy and above all the policy of trans-European networks, which applied criteria that favoured those areas with the most traffic and excluded outlying areas as being unprofitable. "What will happen with enlargement," he added, "when cohesion mechanisms will have to be designed to enable countries with a GDP often no more than 25% of that of the richest Member States to integrate peacefully into the single market?"

In the case of Greece, no one would expect the finance minister to view the possibility of an end to the cohesion strategy with equanimity. He was certainly not taking it lying down. Greece was entirely dependent on European support for public investment, explained Papantoniou, who felt that controlling the government deficit while coping with a reduction in Structural Fund assistance would place "intolerable" pressure on the budget. He voiced the fear that monetary union would aggravate disparities and cause capital to concentrate in the most competitive regions. He saw no other means of reversing that trend, if necessary, than a transfer of external funds to retain capital in the areas at risk, as suggested by Barca.

As we have already seen, the Irish are less worried. They have less cause to be. Ruairi Quinn accepted that Ireland had sufficient resources to meet a share of its needs, but suggested that a "serious" infrastructure deficit remained. Like Papantoniou and other speakers, he was primarily concerned about the impact of the single currency, which he likened to "a journey on the dark side of the moon".

Quinn also had doubts on the completion of the budget negotiations for Agenda 2000: would they finish in March, as the German presidency intends? Moscovici replied: "They must, otherwise we could find ourselves in trouble. Not to conclude under the German presidency would mean delaying the decision until the end of 1999 (with a Commission at the end of its term of office and a new Parliament). That would be unhelpful at a time when the Union also needs to reform its institutions and put the Amsterdam Treaty into effect."

An enduring taboo

Within the Italian government, a revitalised cohesion strategy was seen as vital to accompany the launch of the euro, stated the minister for Community policy, Enrico Letta, who went on to make four points on the matter:

- Regarding the link between cohesion and enlargement, those countries which had borders with the accession States (as in Italy's case, with Slovenia) feared a possible migration of their businesses. "This is a serious problem," he warned.
- Again on enlargement, he called for a strengthening of the institutional context. He criticised the delays accumulated by "ignoring all that was said about the last enlargement, and which is all the more important for the next one."
- On the planned reform of Structural Fund policy, he stressed the need for resources to be redirected towards those sectors in most need of investment, such as technology development.
- His personal view was that the hitherto taboo issue of the 1.27% ceiling and resources for new Union should be put on the table.

On the latter point, Moscovici replied that the ceiling could be met for the period 2000-2006. "It is now clear to everyone", he suggested, "that, while enlargement is not going to be put back, it is going to take a little longer than we originally thought, and the Santer budget is essentially, if not entirely, a 15-member package. That does not mean that the same figure holds for all eternity, or that we do not need to plan for a Europe of 20, 25 or 30 Member States."

In Portugal, there was great concern about the impact of the single currency and enlargement on the national budget and investment. "It is important that monetary union should be a success for all the countries involved, and that all should feel the benefits," stated Cavaco Silva, the former prime minister, since a negative impact on one of the partners, such as a decline in growth or employment, would prompt hostility to the single currency in the political, social and economic spheres, creating a climate of instability across the euro zone.

He did not share the view of those American economists who were predicting disaster for some of the Euroland countries. On the contrary, he believes the venture could be success for all concerned, with the proviso that "everything hinges on the flanking policies". And that calls for cohesion. "How can the stability pact be reconciled with a high level of government investment?" he asked, pointing out that Portugal's rate of investment, at 4.2% of GDP, was substantially higher than the Community average of below 3%. Hence his conviction that "it will be vital to maintain economic and social cohesion alongside monetary union to start with, especially in the early stages."

A cohesive currency

Cavaco Silva sees monetary union as grounds for a degree of optimism, "because for the first time people will share the same currency, and that is a very strong tie. From Finland to Portugal and from Madrid to Rome, everyone will be united in the common cause of defending that currency's purchasing power. That will necessitate strong policy coordination, which will strengthen everyone's sense of being part of one community."

He acknowledged that budget restrictions continued to bite, and that it had become routine in some countries for political leaders to try to win votes by defending the taxpayer's interests with loud calls of "we want our money back". He urged his listeners to resist that trend: "we must forge ahead and ensure that the product we offer the public is politically acceptable."

Above all, he warned against presenting cohesion as a form of welfare, when welfare systems everywhere were in crisis. "We must make the connection between growth and redistribution," he argued, "explain that everyone stands to gain, that it is an goal of value for every country, not just the southern States, because the others too benefit substantially from cohesion."

In the same vein, Cravinho expressed concern at the increasing importance politicians in the Member States were attaching to negative public reactions. "Just how well informed is public opinion?" he asked sceptically. "We are assessing the costs and benefits of our policies in purely budgetary terms, and all the papers talk about is taxes." Cravinho condemned this, and called for a radical change in the way the issues were presented. He wanted the public to understand that monetary union, enlargement and the single market are beneficial but also involve costs, which require a dynamic concept of equity and an assessment of what would be equitable for future generations.

All the figures suggest that enlargement will hit Portugal hard, but Cravinho did not see that as a reason to oppose it. "We are in favour, because of our history. We see it as an extremely important political objective for Europe, and we are prepared to pay the economic price," he assured his listeners, and spoke of a possible proposal by the Portuguese government to the EU Council of Ministers for a special fund to be set up. Contributions would be on the basis of population size. "That way the cost of enlargement would be calculated per capita, and the Portuguese are willing to pay as much as the Germans or the British."

The 0.46% ceiling

On financial resources and changes in the content of regional policy, Landaburu had two points to make:

- He defended the Commission's chosen ceiling of 0.46% of Community GDP for the Structural Funds, which was based on the 1999 budget. He was very anxious that this should be the proposal discussed, and not the lower figure put forward by Germany and the Netherlands.
- "Since we must concentrate resources," he urged, "let us aim for a real instrument of future convergence, and that calls for clear policy priorities."

Landaburu recognised that the Commission had no remit to administer funds directly. "It has a coordinating role, but that implies a high level of decentralisation, and the counterpart must be serious evaluation methods and a system of sanctions for anyone using the funds for purposes other than those for which they are intended."

Landaburu was concerned on two counts: one was that the old habit of directing action on the basis of sectoral policy goals was creeping back, and the need to integrate programmes was being forgotten. The other was that each ministry wanted its own funds or resources for its particular ends, and the result was a move away from the model of a Community-wide vision which all European, national, regional and other instruments feed into. He also seconded Arias Cañete's comments on the poor contribution of other policies to the policy of economic and social cohesion.

In reply to a question from Delors, Landaburu confirmed that the only way to consolidate the cohesion budget and maintain structural resources at their current level of 0.46% of GDP was to calculate it on the basis of the 1999 budget, which would then include, with the balance of the Delors II package, the sum of appropriations not yet committed. "However," he continued, "if average expenditure between 1994 and 1999 is the figure which is taken into account, as Germany and the Netherlands are suggesting, we will not be able either to maintain financial transfers to the southern States or to make a gesture in favour of enlargement."

On the Commission proposal, Moscovici saluted "the very great merit of addressing the issue as a whole: the aim is not merely to iron out problems of specific imbalances raised by individual States, such as the net balance for Germany or the Netherlands; a complete rethink is needed – no idea should be taboo." However, he did not hide the fact that the French government considered the Structural Fund proposal too generous, on the grounds that "the funds were already doubled under the Delors II package, not all the resources have been used, and a limitation of the areas covered and a concentration of objectives is called for."

A sectoral drift

After Landaburu, Robert Savy too expressed concern at the drift towards sectoral specialisation. Even the Commission was not immune, he remarked. "Very strict application of the procedure for the use of the Structural Funds is needed, requiring forward planning on the part of Member States and regions on strategic priorities and imposing an integrated approach to development, but it is clear that all the mechanisms of regional governance militate against an integrated strategy. In the forthcoming Community programmes for Limousin, I shall therefore be asking the French authorities to give the region the task of managing activities, as it is less a prisoner of this sectoral approach than other administrative structures."

Savy suggested that the very idea of cohesion was losing ground. "I am struck by the behaviour of Catalonia, Lombardy, Flanders and other strong regions which see subsidiarity as a convenient pretext for doing with their substantial resources as they see fit."

"Can the cohesion countries stay the course towards true convergence with a cut in European financing?" asked Alogoskoufis, and replied: "Of course they can't." He argued that growth in those countries would stop as swiftly as it had started, and with it their success stories. Meanwhile Greece, where there had been no success story, would face still more severe problems.

On the funds needed for enlargement, Alogoskoufis put the question: who stands to gain from enlargement, primarily the cohesion countries, or the Community as a whole? In the latter case, he argued, there was no reason why the cohesion countries, with their 17% of the population, should be made to bear the brunt of the burden, and why the Community should not finance enlargement from the general budget, if necessary by increasing its resources. Otherwise, he commented, the cohesion countries should be authorised to borrow more to finance their own investments, releasing them from the constraints of the Stability Pact.

The forgotten cities

Francesco Rutelli, Mayor of Rome, had come to Madrid to put the case of the forgotten cities. "If a concentration of resources and a shift of priorities is on the agenda, let us talk about urban policy," he proposed, describing the "urban dimension" as "an essential tool of cohesion in a Europe where nearly 80% of the population lives in urban areas.

"The cities were the cradle of Europe and remain one of its strengths. Why do people come here from all over the world, if not to visit and get to know our cities?" asked Rutelli, who saw the city as the focus not only of all our contradictions – immigration, exclusion, poverty – but also of irreplaceable forces for development. He condemned Europe's failure to make this dimension a priority, and criticised the Committee of the Regions, on which he had sat for four years before resigning, as being merely "an amalgam of regional bureaucracy and the bureaucracy of the political parties".

Rutelli argued that a cohesion policy based on urban development would yield more immediate results than fragmented sectoral policies. Addressing Delors, who has described the city as "a major issue for regional development", Rutelli added that 20 or 30 locations in Europe should be chosen for cohesion initiatives, as these were the places where the contradictions would make themselves felt and where the creative potential was the strongest.

Closing the debate on the outlook for cohesion policy on the eve of the new millennium, the Spanish Secretary of State for the budget, José Folgado, stressed that nothing in the treaty said that the countries taking part in the single currency should lose their entitlement to Cohesion Fund assistance.

While recognising the divergent approaches to resource levels and eligibility, Folgado commented that there was consensus on the need to ensure that "the resources used achieve their potential impact, by establishing sound administrative structures in the beneficiary countries and regions and a macroeconomic climate conducive to a growth in capital and employment." That, he suggested, implied sound economic policies on the part of Member States: policies for stability, growth and structural flexibility.

Substantial benefits

"The benefits of cohesion are not concentrated exclusively in those countries which receive the most funds," Folgado continued, pointing out that the share of Community financing for the least developed countries which found its way back to their partners through purchases of technology and equipment or growth in the total volume of exports was estimated at 25 to 30%. He rejected cutbacks, a policy he claimed would be "a step backwards".

"It would not benefit any of the Union countries," he added, "and in a context where neither monetary policy nor exchange rates can be used as adjustment mechanisms to improve competitiveness, cohesion policies are more vital than ever."

The average per capita GDP of the 25 richest regions was still 2.5 times that of the 25 poorest, he stressed, and "cohesion policy therefore remains necessary to reduce these imbalances, or at least to prevent the gap widening."

Folgado looked forward to a time when those countries, including his own, which today were net beneficiaries under the Structural Funds and the Cohesion Fund, would be in a position to do without such transfers. And he concluded on the subject of enlargement that "the costs must be divided equitably between all the Member States on the basis of their respective circumstances and resources."

Conclusion

Economic and social cohesion is not confined to structural policies. Still less to structural policy financing, Jacques Delors remarked at a press conference on the seminar's conclusions. The assessment which had emerged on the achievements of 10 or 12 years of cohesion policy was, he said, "generally positive" in relation to its original aims: social justice, a reduction in structural disparities, the prevention of political and social tensions linked to the implementation of the single market, growth, and the development of a sense of community.

There were negative points too, of course. But he was sure that "this assessment will be of real benefit to the European Union as it faces the future, since the chances of success are closely linked to the methods used and the macroeconomic policy of each country." Cohesion, he said, was not a "policy of handouts", but "a policy which aims to make all Europe's citizens full members of this collective adventure – 15 countries in the same boat."

Cohesion policy today faces two new challenges: enlargement on the one hand, and the successful introduction of EMU on the other.

On the first point, Delors found it reassuring to see that even those countries which still had ground to make up were ready to help meet the costs of enlargement. He stressed that countries such as Ireland, Spain, Portugal and Greece, represented at the seminar by ministers and policy-makers, had not evaded that issue.

On EMU, the richer countries are nervous about social and tax dumping, while the cohesion countries fear a concentration of wealth and a slackening of solidarity. If the area covered becomes more dynamic and competitive, the issue of regional development will be more urgent than ever – wide-ranging debate is needed now, Delors urged.

Throughout the seminar, economic and social cohesion was thus viewed in the wider European policy context. There was agreement that the CAP and cohesion policy were insufficient to prepare Europe for the challenges ahead on globalisation, technological progress and the environment, or the current challenge of employment. Hence the questions raised: was there not a need to extend the scope of structural policies? What other common policies should be developed, on research, for example, trans-European networks or information superhighways? What kind of development do we want over the coming years? And, more generally, what are we fighting for, and why do we want to live together?

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ANNEX 1

Extracts from the Single European Act
(which set out the basic principles of economic and social cohesion and its implementing provisions – 1987)

Article 130a

In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion.

In particular the Community shall aim at reducing disparities between the various regions and the backwardness of the least-favoured regions.

Article 130b

Member States shall conduct their economic policies, and shall coordinate them, in such a way as, in addition, to attain the objectives set out in Article 130a. The implementation of the common policies and of the internal market shall take into account the objectives set out in Article 130a and in Article 130c and shall contribute to their achievement. The Community shall support the achievement of these objectives by the action it takes through the Structural Funds (European Agricultural Guidance and Guarantee Fund, Guidance Section, European Social Fund, European Regional Development Fund), the European Investment Bank and the other existing financial instruments.

Article 130c

The European Regional Development Fund is intended to help redress the principal regional imbalances in the Community through participating in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions.

Article 130d

Once the Single European Act enters into force the Commission shall submit a comprehensive proposal to the Council, the purpose of which will be to make such amendments to the structure and operational rules of the existing Structural Funds (European Agricultural Guidance and Guarantee Fund, Guidance Section, European Social Fund, European Regional Development Fund) as are necessary to clarify and rationalise their tasks in order to contribute to the achievement of the objectives set out in Article 130a and Article 130c, to increase their efficiency and to coordinate their activities between themselves and with the operations of the existing financial instruments. The Council shall act unanimously on this proposal within a period of one year, after consulting the European Parliament and the Economic and Social Committee.

Article 130e

After adoption of the decision referred to in Article 130d, implementing decisions relating to the European Regional Development Fund shall be taken by the Council, acting by a qualified majority on a proposal from the Commission and in cooperation with the European Parliament.

With regard to the European Agricultural Guidance and Guarantee Fund, Guidance Section and the European Social Fund, Articles 43, 126 and 127 remain applicable respectively.

ANNEX 2

ECONOMIC AND SOCIAL COHESION,
CORNERSTONE OF EUROPEAN INTEGRATION

INTRODUCTORY PAPER

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- ***I**ntroduction*
- ***S**ingle European Act – the turning point*
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- ***E**conomic and social cohesion – an encouraging evaluation*
- ***C**ohesion Fund – Community instrument or intergovernmental bargain?*
- ***S**olidarités de fait aux solidarités voulues – the future of cohesion policy*

Introduction

The concept of economic and social cohesion is not limited to a fair division of resources between regions. It involves endowing lagging regions with the extra means to participate in the collective effort of European integration. Cohesion is not a minimalist approach to regional policy limited to the indispensable but a collective strategy to maximise the benefits of the Community for all its members.

Cohesion policy is the natural counterpart of the internal market. The single market programme, in spite of its positive effect in terms of trade promotion and job creation, further highlighted the disadvantages for the peripheries and less developed regions in an enlarged Union. The (welcome) loss of protectionist policies underlined the indispensable role of positive integration in overcoming barriers to trade, such as high transport costs and a low-skilled labour force, enabling all the Member States to realise all the benefits and economies of scale of intra-Community trade with the goal of higher growth and stability for all. Today, economic and monetary union, which curtails Member States' power to preserve local incomes through exchange rates and public spending, and associated social costs, makes the push for convergence all the more pressing.

Successive enlargements have further highlighted the relevance of cohesion policy. The first enlargements to Ireland with its low level of GDP per capita, and the UK emphasised regional disparities and necessitated a common effort to tackle problem areas. The 1981 enlargement to Greece and the 1986 Iberian enlargement added impetus to the drive for a level playing field. Additional pressure on regional policy came from the east with the admission of the five *Länder* of the former German Democratic Republic.

As the 1996 Cohesion Report underlines, the European social model is the most appropriate framework for confronting the major challenges of globalisation, rapid technological change, EMU and enlargement. Economic and social cohesion reconciles, on the one hand, market forces and entrepreneurial initiative, necessary for seizing new opportunities and, on the other, solidarity, an equally important basis for progress, not only for social reasons but also for optimising overall economic benefits given the detrimental effects of inequality on growth. The virtuous circle of economic and social cohesion is summed up by the Delorian triptych: **competition** to stimulate the economy**, cooperation** to strengthen the Union and **solidarity** to unite the peoples of Europe.

Single European Act

The turning point

Article 130a of the Single European Act stated the Community's clear intention to *"develop and pursue its actions leading to the strengthening of its economic and social cohesion"*. It established the methodological approach to economic and social cohesion (refined by the Treaty on European Union) in terms of *"harmonious development"* with the aim of *"reducing disparities between the levels of development of the various regions and the backwardness of the least-favoured regions, including rural areas".* This marked a turning point for two reasons. First, it represents the first formal codification of the existing and fragmented *acquis communautaire* and confirmed economic and social cohesion as a top political principle. Second, it marked a change in emphasis from the "first-generation" regional policy restricted to cofinancing national policies to the EU's more politically conscious regional policy with a Community-wide supranational vision. With growing European integration, it is inevitable that the Union should increasingly share responsibility with the Member States for maintaining the European model of society. Cohesion policies are the means at the Union's disposal. As Jean Monnet wisely noted: *"Là où la solidarité est évidente, elle n'est pas pour autant naturelle. Il faut donc l'organiser."*

Today, the Union's cohesion policies are translated by the Cohesion Fund and the Structural Funds, subdivided into labour market policies (the European Social Fund) and regional policies (the European Regional Development Fund and the Guidance Section of the agricultural fund, the EAGGF) with additional support from the European Investment Bank. These various tools have developed progressively with the increasing integration and expansion of the Community. Following the first enlargement, the initial steps were taken towards a formal regional policy with the creation of the ERDF in 1975 to complement the ESF, established in 1958. Under the pressure of the single market programme and the Iberian enlargement it became clear that the Community could no longer rely on economic growth and limited policy instruments to reduce regional disparities. The Community responded with the 1988-93 financial perspective (the Delors I package). The revised Delors II package (1993-99) increased the budgetary ceiling for the Union as a whole and also provided extra resources for German reunification. In parallel the Cohesion Fund was established to provide a financial contribution in the fields of the environment and trans-European transport networks in Greece, Spain, Portugal and Ireland in light of the aim of fulfilling EMU convergence criteria.

Today, if the Union is to tackle the Agenda 2000 package of CAP reform, Structural Fund reform and renegotiation of the financial perspective in the face of expansion to a possible 20 or 25 members, it is imperative that the Union answers the question of whether cohesion policy remains the cornerstone of European integration. Suffice to say, the Union is not a loosely bound intergovernmental organisation but a community in which economic and social cohesion is a legally binding principle for its members. Is the Community willing to make the investment now to continue to enjoy the benefits of membership in the future? The following section assesses the impact of cohesion policy to date and outlines the challenges for the Union of tomorrow.

Delors packages

In principle and in practice

The so-called Delors packages are important on several levels: financial, organisational and political. A double doubling of Community resources gave real weight to regional policy. Four times higher than the Marshall Plan, total funding increased from 17.6% of the EC budget in 1986 to 27.8% in 1992 and 36% in 1999. The establishment of dear principles provided a coherent structure and introduced good management practices to a hitherto disorganised and fragmented distribution of funds. The **additionality** principle guarantees that Community spending has real added value and does not become a substitute for national-level regional budgets. Aid is **concentrated** both geographically (on the six "objectives") and financially (70% of aid was targeted towards the poorest regions). **Multi-annual programming** encourages long-term strategic planning since regional development budget is "depoliticised" and, unlike national money, is not dependent on annual spending cycles. **Partnership** promotes closer cooperation both with the Member State and sub-national tiers of government as well as with other interests such as business and trade unions, and, under Agenda 2000, ground-level organisations such as NGOs in planning, implementation and evaluation. A positive side effect can be improved local-centre relations within Member States (the UK is a notable example).

However, in practice there have been implementation problems for which both the Commission and Member States must share responsibility. Geographical concentration of funds was weakened during the second programming period (1993-99) from 43% of the population covered by structural funds to 50%. Although, to a large degree, this can be attributed to the reunification of Germany and the automatic extension of Objective 1 status to the eastern *Länder*, there was also political pressure from other Member States to increase the Objective 1 threshold (75% of average EU GDP per capita). Similar pressures, exacerbated by the unfavourable economic context, existed in Objective 2 and 5b areas and militated in favour of extending geographical coverage.

The strategic vision of programming was overwhelmed by the sheer quantity of programmes (now more than 900), of which half fell under the Community Initiatives (only 9% of the entire budget). The Commission's control over individual projects is limited because of the small Brussels-based administration. Over-regulation can be blamed on the Commission's cumbersome collegiate system whereby each modification, however slight, must be approved by the college as a whole but equally, certain Member States are guilty of using Brussels as a scapegoat for ill-planned national regulations. Agenda 2000 aims to correct this situation by giving greater responsibility to national actors but, in the final analysis, it is a question of mutual confidence. One example of over-regulation is the multiplication of Community Initiatives (13 in all) which reflects a strong national bias in defence of various national industries (RECHAR for UK coal, KONVER for German defence and RETEX for Portuguese textiles, for example) and runs contrary to the cross-border spirit of the initiatives, adding to the bureaucratic burden. As a result, the Community Initiatives have too often duplicated rather than complemented the "Objectives", wasting resources, devaluing Community intervention and creating confusion. Nevertheless, well-targeted initiatives, such as trans-border cooperation, can have a positive impact but, again, this depends on the will of the Member States concerned.

The same can be said of additionality, a concept which is simple to understand but difficult to put into practice. For the large homogeneous Objective 1 regions, control has been improved since the Delors I package. But the situation is less satisfactory for the smaller territorially fragmented Objective 2 and 5b regions. Even when Member States provide the necessary information it is difficult to verify.

Partnership is most successful when Member States adapt to administrative best practices, associating private or social partners and integrating Community programmes into national regional development plans (as Portugal has done with the 1993-99 CFS). Weak partnerships can result in over-dependence on aid and a lack of coherence if aid is too widely dispersed and may hinder the "leverage effect", intended to boost private finance rather than simply increasing public spending. Maximising the allocative efficiency of the Structural Funds and avoiding the dependency trap therefore requires significant concentration of aid, better targeting of resources to achieve a critical mass for maximum impact. More recently, an element of conditionality (tying aid to specific sectors on predetermined conditions) has been introduced into partnerships. To date, this is limited to the Cohesion Fund but the Commission proposes to extend conditionality to the mainstream Structural Funds.

On the whole, the positive contribution of the Structural Funds cannot be denied. They have become a concrete element in regional development throughout the Union and, although the impact varies from country to country, the presence of an independent and neutral interlocutor guarantees a transparent and largely efficient Europe-wide regional policy. Furthermore, their increased visibility of regional policy spending has created a tangible link between the EU and the citizens of Europe, in contrast to the narrowly targeted CAP. 72% of people think that the EU should have a regional development policy for the less favoured regions and 77% think that the regions should have a say in the way the Union is run[4]. The Community recognised that living with disparities is perfectly possible but that to allow disparities to grow would threaten the future of the European project. In this sense the Delors packages represented a *"saut qualitatif"* from a regional policy to a real cohesion policy.

Economic and social cohesion

An encouraging evaluation

That the 1988 reform transformed regional policy for the better is certain but its exact impact is difficult to quantify. The initial results are encouraging. The First Cohesion Report, published in 1996, describes how the four cohesion countries have seen their GDP per capita rise from 66% of the EC average in 1983 to 76% in 1995. (This figure is predicted to rise to 81.5% in 1999)[5]. Structural Funds for the 1988-93 period are estimated to have increased growth by 0.5% p.a. in the four cohesion countries, from 1.7% to 2.2%.

Between 1993-99, an overall **income equalisation** (in terms of GDP per head) of 5% was achieved with transfers of only 0.45% of EU GDP, which highlights the added value of an EU cohesion policy. The equalisation effect is an impressive 10 times the original amount of public finance. Cohesion policy also provides **a long-term approach** to economic regeneration. Community transfers are not simply designed to transfer money around the Union but rather to strengthen the economic base in recipient regions – the Maoist logic that it is better to teach a man to fish than to give him a fish. Furthermore, benefits are not limited to recipient countries. There is an important **multiplier effect**. Estimates show that around 30-40% of all funding that flows into the poorest Member States returns to the richer ones in the form of purchases of know-how and capital equipment. For example, for every ECU 100 of structural funds spent on the poorest regions, of which France contributes ECU 20, France receives ECU 5 in additional export revenue.

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[4] Commission européenne, Etudes de développement régional, *"La notoriété des politiques régionales en Europe"*, 1996

[5] This figure is boosted by Ireland's impressive economic growth levels. The 1995 average for Portugal, Spain and Greece alone is 69.3%, predicted to rise to 73% by 1999. (Based on European Commission predictions, *EC Economic Data Pocket Book*, n° 5/1998)

There is encouraging evidence that the incomes of the least prosperous regions are improving vis-à-vis the EU average. However, because richer regions are pulling away from this average and becoming even wealthier income disparities between the poorest and wealthiest regions, and particularly between centre and periphery, have remained largely unchanged. For over a decade per capita GDP in the 10 richest regions has remained more than three times higher than in the 10 poorest regions. Are the limits of regional policy in redressing regional disparities simply a matter of needing more time or are there more fundamental problems of application?

Mitigating factors include successive enlargements to regions with below-average GDP levels and the uphill struggle against economic slowdowns. Neither should we forget that cohesion will not happen overnight and requires a sustained effort over the long term. Furthermore, we are still at too early a stage in the evaluation process to make a definitive judgement. Many of the studies, Keynesian in inspiration, concentrate on short-term effects on demand and ignore the longer-term effects on supply, which are decisive in the catch-up process – improving productivity, professional training and education, infrastructure, etc. Ireland's success is a clear example of the importance of supply-side effects.

Furthermore, the Structural Funds are often criticised for their limited size in terms of Community GDP yet this criticism is unfair since aid is distributed at regional level and is concentrated on those regions most in need. It is true, however, that the impact of the Structural Funds is uneven. Regional policy has the greatest impact on Objective 1 regions which receive the lion's share of aid and, in particular, where aid is country-wide. Hence, as stated above, Community aid has substantially increased the GDP per capita of the four cohesion countries. The funds also contribute significantly to the ultimate goal of convergence (i.e. pushing the growth levels of lagging regions above the EU average), with the important exception of Greece, where, despite improvements, growth remains below average. The case of Greece highlights the important lesson that Community policies do not work in isolation and cannot correct Member States' weaknesses. Maximum impact can only be achieved by building on a solid administrative base in a favourable macro-economic climate. In other words, EU regional policy and national-level regional development planning must work in tandem for structural funds to have added value.

The Cohesion Fund

Community instrument or intergovernmental bargain ?

Obviously it is impossible to assess the impact of the Cohesion Fund, introduced by the Maastricht Treaty (1993), separately from the Structural Funds. The progress made by Spain, Portugal and above all Ireland is evidence of the success of cohesion policy in its broadest sense. Yet, the effects of the Cohesion Fund cannot be judged according to the same criteria as the Structural Funds because the two are fundamentally different in nature. The Structural Funds deliberately target regions (whether directly via Objective 1 – for larger regions – 2 and 5b for smaller regions – or horizontally via Objectives 3 and 4) and are implemented in conjunction with regional-level actors. The Cohesion Fund, however, is **distributed via Member States**. It is also distributed in much **larger quantities** – the minimum allocation is ECU 10 million.

Another philosophical shift has been towards **greater conditionality** of aid. Unlike the mainstream Structural Funds, the Cohesion Fund **targets both specific Member States and specific sectors** (the environment and transport infrastructure) on condition of aiming to satisfy the EMU **convergence criteria**. Targeting aid on a predetermined objective is therefore essential for the Structural Funds to have a recognisable impact. Tying aid in this manner also reinforces confidence amongst the Member States that aid is directed towards projects of Community interest. The proven effectiveness of targeting aid on a country-wide basis begs the question of whether a partial renationalisation of EU aid (national envelopes with greater freedom of movement for the Member States) is not a more effective method. On the other hand, choosing this path threatens targeted small-scale intervention, which has proved efficient, especially in the case of Objective 5b. Furthermore, a simple intra-national redistribution of aid would also deprive the EU of a tool for reinforcing Community integration by identifying eligible regions and common actions. The balance has to be struck between targeting the Member States lagging in their development and supporting regional mobilisation in areas in need of conversion elsewhere in the Union.

The Cohesion Fund also poses the question of whether conditional aid has a **limited timeframe** – should the aid be terminated once the set objectives have been achieved? The reorganisation of the Structural Funds in Agenda 2000 suggests that aid to those regions which have successfully reached their target objectives should be gradually phased out. The Cohesion Fund, on the other hand, seems likely to be renewed, despite the fact that the recipients (with the exception of Greece) will participate in phase III of EMU. Logically, the Cohesion Fund should continue as long as it has a valid role. It should be temporary in the sense that recipients do not benefit *ad infinitum* but permanent in that it evolves into a mechanism to ease the transition of new Member States into the Union.

There are two opposing interpretations of the origins of the Cohesion Fund. The first is that the Cohesion Fund was nothing more than a concession to the poorer Member States, notably to appease Spain. This would explain the annexation of protocol No. 15 on the Cohesion Fund to the Maastricht Treaty, later integrated into the Amsterdam Treaty. The second is that the conceptual roots of the Cohesion Fund are found as early as 1991. Take, for example, the Commission's contribution to the IGC, which stresses the territorial, rather than regional, dimension of economic and social cohesion and which focuses on specific sectors (TENs) and on Community policies. Further references are to be found in the speech of the Commission President before the Luxembourg European Council in June 1991, which proposed the creation of a special fund for the environment as well as aid to countries lagging in terms of price stability and balance of payments, to promote convergence. In reality, both interpretations no doubt contain elements of truth. But if the Cohesion Fund continues to be perceived as an *ad hoc* stop gap measure or a political bargaining chip in intergovernmental negotiations it will be deprived of real economic significance. Yet, the fact that pre-accession aid to the "ins" (ISPA) is modelled on the Cohesion Fund supports the second interpretation, suggesting that the Cohesion Fund can and should develop into a flexible Community instrument which complements the Structural Funds.

The interpretation of the Cohesion Fund, we can see, has important implications for the future direction of the Union. In the face of enlargement, will cohesion policy be reduced to a solution for buying off poorer Member States rather than being an instrument for furthering the economic and political well-being of the Union as a whole? From a practical point of view, can the Union make the necessary internal reforms and expand to the east whilst hobbled by the budgetary constraints of the 1.27% ceiling? On a more philosophical note, is Community solidarity, one of the essential pillars of the Community treaties, in danger of being overshadowed by short-term economic interests? Has cohesion become an economic means and lost its status as a political objective?

"Solidarités de fait aux solidarités voulues"
The future of cohesion policy

Paradoxically, at the very moment when the Union transformed its narrowly based regional policy into a broader cohesion policy, Member States are adopting a short-sighted accountant's view of cohesion. The insistence on the 1.27% budget ceiling marks a major break with past enlargements, when the Structural Fund budget has been considerably expanded. Over the years, regional policy has gradually developed into the glue holding European integration together and pushing it forward. In an Union of 20-plus cohesion will be crucial. We already begin to see the benefits that have accrued from the commitment to economic and monetary union in today's global climate of economic instability. Improving public finances, necessary to extend this zone of stability, will not reduce the problem of regional disparities. On the contrary, increasing economic interdependence will mean that net contributors will pay heavily for Member States lagging in development.

To reap the full benefits of interdependence the Member States must keep a long-term view but also a broad view of cohesion. Economic and social cohesion is not confined to the Structural Funds and the Cohesion Fund. Cohesion is a multi-faceted objective and opportunities for synergy between Union policies must be maximised for the Member States to fully reap the benefits of Union. Certain policies, such as the CAP, RTD and competition policy, can have a negative impact on cohesion since in pursuit of raising the objective of competitiveness they can benefit more prosperous Member States disproportionately. More account must be taken of regions in all Member States which lie outside the wealthier belts of the Union – Objective 5a, which targets less favoured rural areas, is an example of a more balanced approach. Similarly, more emphasis must be put on improving the environment and telecommunications and transport infrastructures to promote the harmonious development of the whole of the Union. The 1996 Cohesion Fund report identifies key priorities for ensuring a more effective cohesion policy: better targeting of scarce resources; a greater degree of performance orientation; increased use of loans and private financing; best practices networks; simplification and strengthened subsidiarity. Agenda 2000 adds the need for further concentration, more decentralised management and a more even distribution of responsibility for evaluation and control of funds.

Yet instead, Member States are trying to build an extension to the Union house without using cement to bind the bricks together. The Union cannot be assessed like a company in terms of assets and liabilities. Community solidarity has intangible benefits for the whole Union. The success of the European model has always been founded on economic performance coupled with Community solidarity. The Structural Funds are the foundations of a Social Europe. Regional aid is a mobilising force in the Union. It is visible and concrete proof of the Union at work – hence its popular support. The choice is between a political Europe and a huge free trade zone. A Europe where the sole motivating force is the market is like a house built on sand. As David Allen notes: *"The EU* *economy could probably ... survive without the redistributive effect of the Structural Funds. But it is not clear that the EU system of governance could survive.*"[6]

Maastricht witnessed the reluctant expression of political union with the introduction of a common foreign and security policy, economic and monetary union and economic and social cohesion policy. Yet, at the dawn of EMU and with enlargement to their neighbours in central and eastern Europe on the horizon, the Member States are unwilling to provide the financial means to achieve their ambitions. At the crucial point, the Union denies its responsibilities, not once, not twice but three times. Thus, CFSP falters before foreign policy crises, EMU limps on a single monetary leg, and in Agenda 2000 enlargement proceeds on purely budgetary rationale. Philippe de Schoutheete, former permanent representative of Belgium to the EU, warns of the consequences of such short-sightedness: *"En occultant les objectifs pour se concentrer sur les instruments, l'Europe s'est privée d'une justification, donc d'une part de légitimité."*[7]

The choice now facing Europe is between *"les solidarités de fait"* and *"les solidarités voulues"*[8]. In other words, a choice between, on the one hand, a minimalist approach where cohesion policy is interpreted as a convenient pay-off in a national-level bargaining process and, on the other, a strategy for maximising the economic and political benefits of the Union for all its Member States, constituent regions and individual citizens. In making the choice Europe will define its future.

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[6] D. ALLEN, *"Cohesion and Structural Adjustment"*, in: Wallace H and Wallace W, Policy-Making in the EU, OUP, Oxford, 1996, 3rd ed., p. 231

[7] Philippe de Schoutheete, *"Une Europe pour tous"*, Eds. Odile Jacob, Paris, 1997, p. 152

[8] Jacques Delors, *"L'Union européenne entre l'unité et la diversité"*, keynote address, Prix Latsis Universitaires 1997, Fondation Latsis Internationale, no. 7, p. 12

ANNEX 3

ECONOMIC AND SOCIAL COHESION,
CORNERSTONE OF EUROPEAN INTEGRATION

THE FOUNDATIONS OF ECONOMIC AND SOCIAL COHESION
Abstract

Aníbal Cavaco Silva

1. The concept of economic and social cohesion (ESC) in the European Union is generally associated with the objective of reducing disparities in the levels of development between different regions as well as overcoming the disadvantages of less favoured regions.

ESC not only has a redistributive dimension, it is also concerned with the efficient allocation of resources within the Community as a whole. Such redistribution is of an interregional nature (from the richer to the poorer regions) and not an interpersonal one, although ESC does have a certain redistributive impact on an interpersonal level. But ESC is also related to resource allocation at Community level in the sense that it takes the form of financial support for the provision of public goods and services.

Reducing disparities in regional development is not an exclusive competence of the Community. In the light of the principle of subsidiarity, it may be said the role of national policies is just as important as Community-level action.

2. The Structural Funds, including the Cohesion Fund, are the basic tools for promoting ESC. While other Community policies and actions such as the intervention of the European Investment Bank, the internal market, the common agricultural policy, social policy, research and technological development policy and the development of trans-European networks may also contribute to ESC, their overall significance is less than that of the Structural Funds.

As for the Community revenue budget, payments are not, strictly speaking, based on Member States' contributive capacity, nor is it intended to have a redistributive goal.

3.The Treaty of Rome included the notion of ESC but did not define a Community-level regional policy. It was during the mid-1970s that the heads of State and government explicitly recognised that a Community regional policy was indispensable for bolstering the Community and the means to implement it were adopted.

However, the major drive towards the objective of ESC was brought about by the Single European Act (SEA), when a new chapter on "Economic and Social Cohesion" was added to Part III of the European Community Treaty. The objective of cohesion was further reinforced under the Maastricht Treaty. The reinforcement of ESC is therefore associated with the launching of two new phases in the process of European integration – first, the construction of the Internal Market (SEA) and later, the creation of EMU (Maastricht Treaty).

4.Several reasons have been put forward for including ESC as a Community objective.

First are reasons of equity for the Community as a whole. Marked disparities in levels of development between the various regions and especially the existence of extremely poor regions is considered to be socially unjust and unacceptable.

From this viewpoint, the concept of equity not only has a national but also a Community dimension. The egalitarian or humanitarian values inspiring individuals' concern for equitable distribution are not confined within national borders. They are held throughout the Community – and even beyond – although it is acknowledged that the degree of solidarity towards others is related to geographical proximity. The Community dimension of equity may be seen as a reflection of a certain culture of unity and a feeling on the part of citizens of the European Union of belonging to the same Community.

Although interpersonal redistribution is what is of real interest in achieving equity, interregional distribution – as envisaged by ESC – can be seen as a second-best solution.

Distributive equity is a relevant issue inside the European Community. Disparities in levels of development among the different regions are very high. The richest region, Hamburg, has 4½ the per capita income of the poorest region. The average per capita income in the 10 poorest regions is barely 30% of that of the average in the 10 richest regions. In addition, several regions may be considered as being very poor. The per capita income of 24 regions is below 60% of the average for the Community. Moreover, it should also be taken into account that development disparities have not decreased in the last decade.

5. Another foundation of ESC derives from the structural disadvantage of certain regions.

European integration generates net welfare benefits for the entire Community, but this benefit is not automatically distributed on an equitable basis throughout the various regions. The poorer regions benefit the least. This is due to their backwardness in terms of physical infrastructure, modern technology, human capital, business management capacity, efficiency in public administration and public service quality, all making them less attractive locations for business. These structural handicaps account for low levels of productivity and their negative consequences are felt even more in peripheral areas. The poorer regions by themselves do not have the financial capacity to solve their insufficiencies in terms of providing factors of production. Most authors consider that regional disparities will tend to increase in the absence of corrective Community policies.

This second foundation of ESC is inspired by the concept of equal opportunity. The Community must intervene in order to improve the conditions of competitiveness in the poorer regions, that is, physical infrastructure, human capital and research and technological development, thereby eliminating handicaps to economic growth in an open, competitive market.

Although Community support targeting the structural deficiencies of the poorest regions clearly has a redistributive effect, this same type of support may also be seen as a means of pursuing efficiency in resource allocation in the Community as a whole owing to its externalities.

6. Social and political tension related to inequality in development between the different regions and the subsequent difficulties in the process of European construction forms a third foundation of ESC.

With the free movement of people, the residents of poorer regions tend to emigrate to richer ones. ESC policy is necessary to counteract this trend and prevent the problems of housing, congestion, pollution, drugs and crime in urban areas of richer regions from becoming exacerbated. ESC thus improves well-being not only in the beneficiary regions but in the contributing regions.

Inequalities in regional development may also give rise to political tension. If the poorer Member States draw little net benefit from further integration, they will tend to put up more resistance to the process thereby increasing political tension. Regional inequalities pose a threat to the political cohesion necessary for European integration.

7. Does the push for European integration and the enlargement of the Union strengthen or weaken these foundations of ECS?

7.1. As regards equity in the Community, the question is knowing whether such deepening and enlargement will strengthen or weaken Europe's citizens' feeling of belonging to the same Community, that is, a feeling of what can be called common European citizenship.

There are several steps in furthering integration that contribute to reinforcing the feeling of common citizenship. In general terms, progress made in political integration reinforces both solidarity between Europeans and the Community dimension of equity.

The financial costs of deepening integration and enlargement may provoke negative reactions in those countries that are net contributors to the Community budget, thereby prejudicing the feeling of European common citizenship.

In principle, the enlargement of the Union towards the eastern European countries, makes its inequalities more socially intolerable by bringing particularly poor regions into the Community.

7.2. The impact of European integration and globalisation, which promotes economies of scale and intensifies competition, makes reducing structural handicaps all the more pertinent.

The single currency contributes decisively towards full market integration and cost-reduction for interregional trade, thereby leading to intensified competition. This warrants paying more attention to the structural disadvantages affecting certain regions so as to minimise handicaps stemming from a localisation of economic activity. The report on EMU in the European Community is very clear when it states that "particular attention must be paid to Community policies whose objective is to reduce regional and structural disparities and to promote harmonious development throughout the Community".

Although the handicaps in terms of physical infrastructure and human resources of the first wave of applicant countries will perhaps not be worse that those of the current cohesion countries, enlargement will bring in regions whose enterprises are unable to face the competitive pressures of the internal market, and this will increase the negative consequences of their structural deficiencies.

7.3. Significant regional disparities can create dissatisfaction in certain Member States, fragmenting European society, threatening the political cohesion of the Union and hindering the consensus needed to further integration and enlargement.

By facilitating the free movement of people and access to social benefits in the country of residence, further integration stimulates intra-Community flows of migrants, heightening social tension, thereby providing another justification for reinforcing ESC. Enlargement will have a similar effect, encouraging the citizens of future Member States to migrate to richer countries.

8. The degree of socially desirable cohesion stems from the outcome of a political process of Community decision-making involving voters, national governments, Community institutions and bureaucrats. Decisions about financial perspectives and Structural Fund regulations are especially relevant to ESC.

Naturally the reasons put forward for ESC influence the results of policy choice. Yet this outcome may also be influenced by many other factors, such as Community decision-making rules, the economic and political situation of certain Member States, the popularity of the process of European integration, or the efficiency of Community action in the framework of ESC. It is not clear whether or not these factors will strengthen the political demand to reduce disparities between regions in the Community.

9. In summary: economic, social and political reasons have always warranted interregional redistributive policies within the Community, and it seems likely that they will continue to do so to an even greater degree in the future.

ANNEX 4

ECONOMIC AND SOCIAL COHESION,
CORNERSTONE OF EUROPEAN INTEGRATION

AN ASSESSMENT OF ECONOMIC AND SOCIAL COHESION

Ruairi Quinn

I would like to thank the organisers of this conference for inviting me to speak here today in such august company. As we contemplate another round of structural and cohesion funding, which have their origin in the single market, it is timely to discuss the results of the first 10 years of the single market.

As a socialist you would expect me to agree with the title of this conference. As a tradition, we have supported economic cohesion both domestically within our own countries and globally. But this is not simply about ethics, as you know. Without economic cohesion, the single market will simply not work.

At the outset I would like to beg leave to concentrate my comments on the country known best to me. In this short paper, I will review the impact of the single market, structural funds and the single currency on the ground in Ireland. But I would also like to address the significant impact I believe Europe's commitment to Ireland has had on the domestic policy formulation.

You will know of course that Ireland is now the fastest growing economy in Europe. The EU Commission has estimated economic growth this year in the region of 11%. I am inclined to believe that this figure overestimates real economic performance by at least a full percentage point. A recent report has suggested that because of our dependence on inward investment, the difference between GDP and GNP figures may be as high as 15%. Nonetheless, the trend is clear. Even as growth figures are revised downward for 1999 and 2000, as they have been recently, they remain at historically high levels.

Such historic growth has drawn international attention to Ireland. Economic commentators from every corner of the world have come to examine what has become known as the Celtic Tiger. Among the reasons they cite, two stand out. European support, principally through structural and cohesion funding and social partnership – as practised in Ireland.

WHERE WE ARE NOW

The final building block of the single market is nearly upon us. Within two months the euro will be in existence. In three further years, euro notes and coins will be introduced in the 11 participating countries. For those of us who have campaigned and planned for its introduction, it is sometimes difficult to comprehend that the day itself is finally dawning.

As you already know, Ireland will be one of the participating countries in the euro zone. We have kept within the qualifying Maastricht criteria for over six successive years. On the one issue which gave some cause for concern, the debt/GDP ratio, some domestic commentators are predicting that it will fall to under 40% by the end of this year, substantially below the 60% requirement outlined at Maastricht. Domestically, only inflation is a source of concern, understandably so in an economy growing as fast as Ireland's is.

Irish membership of the euro marks the culmination of a long and passionately held policy goal of politicians from all parties in the Republic. From the advent of the single market and the original debates about the single currency, Ireland was determined to be part of the integration project.

Such a strategy was not without its risks. As the devaluation crisis of 1992/3 proved, there were many people who believed that the Irish economy was inextricably linked to its British neighbour and that Ireland would not be able to participate in the single currency without Britain. Despite the growing importance of continental Europe in Irish trade figures and the relative decline of our traditional dependence on Britain, the doubters remained.

To understand this phenomenon, one has to realise the extent of our dependence on trade with Britain. For example, in 1949 up to 90% of our exports went directly to the British market. In 1997, the comparative figure was 24%. It is a spectacular shift but nevertheless concern about euro membership without British participation remained, particularly as it was believed that small indigenous industries were particularly exposed to the dangers associated with the sterling exchange rate. Domestically, this issue provided the issue around which many euro-sceptics could rally. Thankfully, recent soundings from the UK in relation to the single currency are encouraging.

Social partnership has been at the centre of our economic success. Forgive me for deviating from the topic under discussion for a while, but as I have stated earlier the two themes are closely related in the Irish context. In my view, it is no coincidence that the current form of Social Partnership and the Single European Act were born simultaneously in 1987.

Irish social partnership was conceived at a time of economic crisis. Its introduction enabled us as a nation to bring inflation under control and begin the difficult task of reducing our debt/GDP ratio. In later years it has ensured our continued economic competitiveness.

The basic premise is simple. Wage rates are kept marginally above the rate of inflation, workers receive increased remuneration through tax reductions and their representatives are given an increased role in setting the national policy agenda. The result has been a peaceful industrial relations climate which has complemented our existing advantages in the battle to secure quality inward investment.

The success of social partnership is clear to see. Workers' wages have risen considerably. Unemployment has fallen. Individual income tax rates, once amongst the highest in Europe, have been reduced considerably.

The initial impetus given to the domestic economy in the late eighties as we started to regain our control of domestic finances, was complemented by the publication of the first EU-aided national development plan in 1989.

Ireland's subsequent economic success is well known. Speaking in Cork, Ireland's second city, recently, Commissioner Wulf Mathies described Ireland as the best pupil in Europe's cohesion class.

Progress over the last few years has been rapid and comprehensive. From being one of the largest recipients of EU aid in the late eighties and the early nineties, Ireland will probably become a net contributor to the EU budget in the first decade of the new millennium.

This eventuality is the cause of some concern in my country. Undoubtedly, Ireland will soon be able to stand on its own two feet. This year's projected government exchequer surplus will run to over ECU 3 bn. But, in a country which has prided itself on its ability to draw down EU funds and use them well, it is a big step to take to plan properly for their eventual withdrawal.

Ireland's success is only one example of the success of cohesion and structural funding since its inception after the Single European Act. As the Commissioner also pointed out in Cork, progress has been made elsewhere. In 1985 the four cohesion countries, Spain, Greece, Portugal and Ireland, had an average per capita income of 66% of the EU average. That figure is now as high as 76% – a 10% rise. Put into a proper historical context this is a massive increase.

In Ireland's case the increase has been greater. Per capita income is around the EU average. Again calculated on the basis of GDP these figures overstate the reality. However, even GNP figures, calculated on the basis of purchasing power parity, reflect a rise of almost 30% since 1986. Moreover, studies in Ireland indicate that the impact of structural funds on the Irish economy has been in the order of 2.5 to 3% of GDP. These figures have declined recently, but that is more a testament to our remarkable growth than a decline in receipts.

It is little wonder then that a form of dependence has developed in relation to structural funding. Structural funding was never meant to be permanent. Commissioner Mathies made that clear in Cork. The intention was always to raise the productive potential of the recipient States. That is precisely what has been achieved in Ireland, although it is difficult to measure. Most studies in circulation concentrate on the immediate demand-side effects of transfers.

For those of you who may have visited Ireland in the last 10 years, and in particular for those of you who may have travelled around it, the improvement in our physical infrastructure has been considerable. Those opposed to EU integration in Ireland used to argue that our physical remoteness would mean that we would never be able to rise above our peripheral status. Recent improvements in national transport infrastructure and proper concentration by our industrial development agencies on high-tech and other industries like telemarketing has helped minimise the significance of our geographical location. Industrial policy, accepting the single market and aimed at maximising Ireland's competitive advantage within it, has been successful.

But we still have a long way to go. Economic growth is posing as many challenges as it is solving problems. There has been a massive increase for instance in the numbers of new cars on the road. Consequently many of the improvements in recent years, particularly along the more affluent eastern seaboard, are already showing signs of strain. There is an awful lot more work to be done. And, let me put you on notice, Ireland will be using all its negotiating skills to ensure that the maximum level of assistance from the EU will be made use of. Public-private partnerships, so long a feature of public infrastructural improvements in places like the UK and, further afield, New Zealand, now form an important part of debates about public policy in Ireland.

It would be wrong exclusively to attribute all Ireland's recent economic success to structural and cohesion funding. There are other important factors too. Ireland's demographic profile, our corporation tax regime, our anglophone tradition have all contributed to our attractiveness to inward investors. And clearly inward investment has been the engine which has driven economic growth. But public policy choices too have been a factor. Even in the darkest days of economic recession in the eighties, priority was given to maintaining standards within our education system. In recent years, our system of national social partnership has attracted considerable attention.

All the while, Europe has been in the background. Adherence to the Maastricht criteria has informed national economic policy since its inception. It has been made possible because all the social partners, both the trade unions and employers' groups, supported entry into EMU. Participation in the single currency became a national imperative.

Of course, there has been debate about the loss of key economic policy interests like the exchange rate and interest rate policy. However, Ireland has had its experience of demand-driven Keynesian economics – in fairness to Keynes as practised in the 1970s, not as envisaged in the 1930s. The Structural Funds experience has taught us the importance of supply-side innovation. Over the course of both our national plans, Ireland devoted a higher percentage of our Structural Fund allocation to investment in human capital than any other of the four cohesion countries. That investment has reaped massive dividends.

Notwithstanding the debate about whether Ireland will attempt to regionalise to draw down more funds in the next tranche of structural funds, Ireland will receive less than half of the funds received during the course of the previous national plan. The loss of those funds does pose challenges for the years ahead. But, there are signs that those challenges can be met. One consequence arising from our experience with drawing down Euro-funds is a realisation of the importance of strategic planning.

In Ireland especially, that ability to pick and plan priorities will be even more important in the years ahead.

ANNEX 5

ECONOMIC AND SOCIAL COHESION,
CORNERSTONE OF EUROPEAN INTEGRATION

Speech by Mr Pierre MOSCOVICI, French minister for European affairs

It is never easy to join a seminar part-way through. I know your discussions yesterday were very productive, and I hope I can contribute to an equally worthwhile debate this morning.

But first of all I would like to express my very warm thanks to Jacques DELORS and José Angel SÁNCHEZ ASIAÍN for combining their distinct but formidable talents to organise this informal gathering.

<u>Initiatives of this kind are vital for progress in Europe</u>. That progress cannot be left to the cumbersome machinery of the Community institutions and official bilateral meetings which, while necessary, always bring us back to a pragmatic vision of Europe. Our job as politicians must also be to strive for a European ideal – an ideal that, while it may be unattainable, can guide us and direct and give meaning to our day-to-day work. That European ideal is nurtured chiefly by debate in the most diverse circles, the common denominator being that they unite the energies of dedicated people eager for a more effective, more widely accepted Europe whose benefits are felt throughout society.

I shall now come to the matter before us this morning. First I would like to give a brief review of cohesion to date – without going into too much detail, as I know you spent most of yesterday discussing it. But most of all I want to stress the prospects for cohesion policy, which needs to provide real solutions to the challenges that lie ahead.

Cohesion policy has been one of the European Union's greatest successes over the last 10 years.

Everyone is justifiably pleased with the progress made towards economic and monetary union in Europe, with the advent of the euro due to take place in just over a month. But what I want to stress above all is the debt successful economic integration owes to cohesion policy. I see a quite direct link between cohesion policy and economic and monetary union.

The single market has been a very powerful force for integration.

Cast your minds back to the fears voiced in some quarters 10 years ago. There were concerns about the damage the theory of competitive advantage could do if played out in a European market where, from the Rhine to Andalusia to Puglia, objective production conditions differed widely. It was thought that the less advanced countries and regions would become trapped in their traditional low-value-added specialisations, while the more advanced countries at the heart of Europe would gain almost exclusive benefit from the emergence of powerful intra-Community trade flows.

In fact the reverse was true, thanks to cohesion policy's corrective action as a flanking mechanism. In the space of a dozen years, countries such as Ireland, Spain and Portugal have succeeded in fully integrating into the European market. Their external trade balance has grown substantially, to the extent where it equals or exceeds that of France or Germany, although admittedly a degree of dichotomy remains in their economies between those sectors which are fully integrated into the European market and more traditional, more vulnerable sectors which to some extent remain outside Community trade flows.

Moreover, the process of monetary unification would not have been possible without cohesion policy.

The Cohesion Fund was set up in 1992, precisely to ensure the economic convergence which is crucial to the smooth functioning of economic and monetary union. Spain, Portugal and Ireland gained their place in the first wave of EMU through a major process of internal adjustment, long-term and deliberate, by which, in the space of a few years, they have secured a degree of stability for the Portuguese escudo and the Spanish peseta which is virtually on a par with that of the German mark and the French franc.

Again, success was far from guaranteed. It is thanks to the solidarity displayed by means of the Cohesion Fund, and to the bold economic policies of these countries since the start of the decade, that a total of 11 countries will be introducing the euro on 1 January.

As you know, the French government I belong to stated in June 1997 that France would definitively adopt the euro only if not only Spain and Italy but also Portugal qualified. As long as those countries met the convergence criteria regarding inflation, interest rates and public deficit, it would have been unacceptable to exclude them on the basis of an unspoken "sixth criterion" founded on old prejudices about the Latin countries which persist in some business circles in northern Europe. You will recall the references to the "Club Med countries", implying that they were fine as holiday destinations but not credible partners in a single currency. Happily, all that is now behind us. France refused to endorse such a politically questionable and economically absurd position.

Politically questionable in that it would have set the European Union back more than 10 years, reviving the old demarcation line between Mediterranean Europe and the Rhineland Europe historically centred on France, Germany and the Benelux countries.

And economically absurd in that the expected benefits of monetary union are directly proportional to the size of the economy within the euro zone. With 11 countries, a combined population of nearly 300 million and an economy at least the size of the United States behind it, the euro will be the very instrument we need both to protect us against turbulence on external currency markets and to generate the kind of endogenous growth dynamic capable of perhaps absorbing a share of Europe's massive under-employment.

That powerful instrument we now hold, *de facto*, in our hands. It is already at work, externally – witness the moderate impact of the Asian crisis on the euro currencies – and internally, with the improvement in the outlook for domestic demand offering a timely counterweight to the loss of markets in the emerging countries.

More will be needed over the coming weeks and months. The coordination of economic policy in the euro Council – a matter of great importance for France – will need to be stepped up, and the matter of asserting the euro's position on the world stage will have to be settled to the satisfaction of all concerned. On these points I must say that I am substantially in agreement with the views expressed by "Notre Europe" in an extremely interesting policy paper published recently, although in my capacity as a government minister I cannot go along with the rather provocative title, "The Current Crisis: an Opportunity for Europe".

All these past and present achievements which are so crucial for the economic future of the continent we owe to a shared political will. We also owe them to the vision of political leaders – Jacques DELORS chief among them – who saw early on that such achievements would not be possible unless the broadest possible section of the European public were given a stake in them, in particular by means of solidarity mechanisms at Community level.

However, cohesion policy now faces new challenges.

First and foremost, from now on cohesion needs to be at the heart of European integration.

Lionel JOSPIN's government has argued relentlessly over the past 1½ years for a shift towards growth and employment in the process of European integration.

Our aim is for the euro to underpin a model of growth which is balanced, sustainable over the long term, job-creating and conducive to an equitable social distribution of the wealth created. That is a goal people can unite behind, and will win the euro the political recognition which it deserves and is beginning to receive, in France at least.

In this context, it is also the Union's responsibility to ensure that the common policies it implements more directly promote increased cohesion. For economic and social cohesion extends far beyond the limits of cohesion policy in the strict meaning of Article 130a of the treaty.

It also encompasses the infrastructure development policy set out in Essen on the basis of proposals by Jacques DELORS. It is time to end the contradictory stance of regularly highlighting the upgrading of transport infrastructure and the environment – financed by the Cohesion Fund – as a crucial factor in helping the economies of southern Europe to catch up, while voicing scepticism regarding the impact of that policy if applied across the Union. Personally, I find it extremely disturbing to be told that the Vasco de Gama bridge over the Tagus, largely financed from the Cohesion Fund, is an unqualified success, but that a high-speed rail link between Lyon and Trieste or serving the Mediterranean coast, part-financed from an EU loan, would have a disastrous effect on the Union's finances...

Cohesion in the broadest sense also requires restoring the European Social Fund's role as a force for convergence in employment policy, as reflected in the proposals contained in the national employment action plans put forward by France and Spain.

As to the reform of the common agricultural policy, it will gain public acceptance only if it marks a clear shift towards safeguarding the European agricultural model of balanced land use and support for economic activity and employment in rural areas.

And there is no shortage of other examples, such as the importance the Union wishes to lend the public services, whose legitimacy is formally acknowledged in the Amsterdam Treaty, as a force for greater economic and social cohesion in Europe.

In this context, cohesion policy must be part of this general movement, while accepting the necessary adjustments.

Cohesion policy must show some adaptability, some capacity for reform, if it is not to invite criticism. We launched the debate on this point a little over a year ago, as part of Agenda 2000. And we must recognise that it is still at a fairly preliminary stage. However, the basic negotiating positions are already fairly clear.

To simplify – and this is perhaps a little provocative, but I feel we are here to speak our minds –, I would say the cohesion countries are quite plainly taking the acquired rights line, the logical corollary of which would be an accumulation of Community redistribution mechanisms, with no change in the current geographical balance.

That rationale seems incompatible with an objective assessment of economic reality. Cohesion policy has generated a very strong growth dynamic in most of the cohesion countries, Spain, Portugal and Ireland in particular. They have been spared the "growth deficit" Europe has suffered over the last decade: average growth has been 4.5% in Ireland, 3% in Spain and 2.6% in Portugal.

Community solidarity has shown its true strength. The results are tangible achievements of which the Union can be justifiably proud:

- in Spain, more than 14,000 km of main road will have been built or upgraded by 1999;

- in Greece, the number of towns equipped with water treatment facilities will have more than doubled since the country's accession;

- and in Ireland, half the students continuing their studies beyond the end of compulsory schooling have done so with Community assistance.

Today some of these countries – and I am thinking of Ireland in particular – have already balanced their public finances and can now take a positive view of ambitious strategies to cut taxes and social security contributions as well as deficits.

Conversely, in the debate on the future of cohesion policy, other countries, particularly those which see themselves as "net contributors" to the European budget, such as Germany, the Netherlands and Sweden, are tempted to impose a narrow reading of conditionality. They take the view that once sufficient progress has been made towards convergence, the Community instruments employed to that end can be dispensed with. The very existence of the Cohesion Fund is now up for debate.

That position must clearly be heavily qualified, since for economic and monetary union to work, progress towards real and not simply nominal convergence is necessary. The strong growth rates of most of the cohesion countries in recent years should not obscure the fact that very substantial disparities remain in terms of prosperity within the Union.

We must therefore push for a flexible approach which eschews both the gravy train and the hatchet job. A balance must be found that takes account of the progress already made on the road to convergence and of the distance that remains to be travelled.

The same is true of the reform of the Structural Funds themselves. Clearly, the share of the Community population covered by the funds cannot be allowed to continue growing at its present rate. Over 50% of the population now benefits from Structural Fund assistance in one form or another. Solidarity that broad, if applied too indiscriminately, can become so diluted that it ceases to be effective.

We must therefore restore a more clearly redistributive character to regional policy, by accepting an overall limit on the population covered and progressively withdrawing aid to those regions where overall the economy is moving close to the Community average.

Structural Fund policy needs to refocus on its primary purpose, which is to narrow the prosperity gap for those regions whose development is lagging far behind and those where geographical polarisation within the single market is creating clear industrial conversion or rural depopulation problems.

Moreover, in accordance with the subsidiarity principle, the Member States must retain responsibility for ensuring the balanced development of their national territory by means of an independent regional development policy, as the only way of ensuring a hands-on response to local problems. In my view, that means that Community and national zoning need not coincide precisely. The national authorities must be left sufficient leeway to address their national priorities as well. Quite simply because solidarity in the Union begins at home, as the Commission so rightly says in its latest report on cohesion.

I would like to end with a few words on the challenges the forthcoming enlargement to the east represents for cohesion policy, since with an increase in membership to 30, Europe's nature is set to change. It is a new Europe we are building, but one that will still need a cohesion policy in 2003, 2004 or perhaps 2005. That will be after the next budget agreement. But time will pass quickly and thought should be given to it now.

We have a historic undertaking before us, one which will unite the European continent nearly 10 years after the fall of the Berlin Wall and German unification. Europe's unification will be complete when the new democracies to the east feel fully involved in a shared political endeavour, centred on the values of economic freedom, democratic accountability and social solidarity which have always been those of the European Union.

At present all those countries are in a transition period: they have cut their ties with the old command economy and single-party system, but they cannot yet aspire to full integration with their neighbours to the west.

<u>This process will take some time</u>, as everyone is now aware – our Polish, Hungarian and Czech friends no doubt as acutely as ourselves. I am thinking of Vaclav HAVEL's comments during the visit Lionel JOSPIN made to Prague a fortnight ago, when he was careful to avoid any reference to the year 2000 as the date of his country's accession, but, on the contrary, stressed his desire for serious and constructive membership negotiations. What he said was: "Very well, in 2003 if possible, but if necessary then later." We have moved beyond the obsession with millennial deadlines and on to the real issues, for <u>we are all alert to the economic difficulties enlargement presents</u>. The policy of economic and social cohesion was originally devised for a European area where the income disparity between regions was 1:2. Is it reasonable to suggest that it can be transposed without further ado to a Europe where the largest disparities are in the order of 1:4?

The answer must be no. That would risk provoking an explosion in Community spending and an artificial and destabilising stimulation of the economies of œntral and eastern Europe, which, as we know, do not have a limitless capacity to absorb foreign aid. We must be careful to ensure that accession does not trigger an economic shock there or wreck the existing common policies here.

We must therefore allow time its natural function in the economic equation and take a measured, methodical approach. The preaccession strategy is designed precisely to enable those countries, over time, both to bring their productive systems into line with the standards of the European Union's market economy and to increase their supply capacity. The priorities for the preaccession strategies were defined on that basis: the adoption of all the Community's achievements and the development of productive investment are the strategic conditions for most of the aid granted for the preaccession period.

This is vital if these countries are ultimately to be successfully integrated into economic and social cohesion policy. That will happen in due course, and in a way that both meets the real needs of the new Member States and preserves the existing common policies of benefit to the 15 current members. That was the thrust of the dual programming principle adopted in Luxembourg in December 1997, whereby the financial package depends on the size of the Union at the time it is submitted. The principle met with broad agreement among the Member States and should safeguard us from undoing part of what we already have in order to build anew.

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To conclude, I am tempted to say that cohesion policy is at a crossroads:

the needs are great, yet financial resources will be limited by the budgetary discipline imposed under the Stability and Growth Pact – I say "imposed", but it is also a discipline that we accept. <u>So we must make the money go further, and that will not be easy</u>.

<u>We must also look beyond purely budgetary concerns and take a broader view, redirecting Community policy as a whole towards the aim of economic and social cohesion</u>, for, I repeat, cohesion is about more than the Cohesion Fund.

That is what we began doing in Amsterdam, and in Luxembourg last year with the resolution on growth and employment and the extraordinary summit on employment.

We must continue along that path, despite the obstacles ahead – for Agenda 2000 in particular, but also for the task of stepping up the European social dialogue and developing a genuine European citizenship, and with it a European civil society capable of doing at least as much as the forthcoming reform of the institutions to set Europe on the move again.

Thank you for your attention.

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