*Willem Molle**

COHESION AND GROWTH: IS THE EUROPEAN UNION SYSTEM FIT TO FACE THE CHALLENGES BEYOND 2020?**

Abstract

The EU is confronted with very persistent cohesion problems. We assess the likely evolution of the problems in the present decade to obtain a picture of the challenges the cohesion and growth policy has to face in the period between 2020 and 2030. We next discuss the alternative policy options the EU has in order to face these challenges; we proceed by stage in the policy cycle. We find that mainly for political economy reasons it is likely that the EU will continue to work with a slightly adapted version of the present policy setup. The analysis has revealed a big dilemma; the chances for successful support are highest for those who least need it, while those who most need support cannot turn it into success. We therefore suggest to introduce a check on quality governance before funds are committed, coupled with a considerably stepped up effort by the ESI funds to support projects that improve the quality of government in convergence countries.

Keywords: Cohesion, balanced growth, quality of governance, European Union

Introduction

The European Union is confronted with very persistent problems. Assuming a reasonable degree of effectiveness of the policy in the present programming period, one can assess the magnitude of problems that will still prevail by 2020. Having complemented this picture with the major new problems that are likely to emerge between now and 2020, one obtains a picture of the challenges the policy has to face in the period between 2020 and 2030.

Many are now involved in putting into practice the new policy setup. However, this preoccupation should not divert attention from the fact that in the foreseeable future another overhaul of the EU cohesion policy setup may be necessary. In that perspective

[*] Erasmus University Rotterdam; molle@ese.eur.nl.

[**] The is paper is a streamlined version of the last chapter of my new book, Molle (2015).

it is good to ask ourselves already the question of what alternative policy options the EU has in order to face the challenges beyond 2020. In the following sections we set out to give an answer to this question.

The approach we follow is to detail the challenges and policy alternatives by stage in the policy cycle. In the following sections we analyse first the main challenge and next the (in)adequacy of alternative options to meet that challenge[1]. We round off the paper with some general conclusions.

Stage 1. Assessing the Problems and Defining Main Policy Orientations

1.1. Continued Convergence Efforts

The main long-term objective of cohesion policy is the decrease of wealth disparities. We have made a detailed analysis by country of the evolution of wealth indicators. We have also made a projection of these figures for 2020. We have summarized the results (grouped by large geographical areas of the EU[2]) in the left hand part of Table 1. We have added (in the right hand part of the Table) the results of two alternative scenarios for the development beyond 2020. These scenarios are based on existing studies and our own calculations[3].

In a first "pessimistic" scenario we do assume for the North a moderate growth; for the South a slow recovery and for the East a fairly dramatic reversal of past trends[4].

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[1] Unfortunately there are not many studies on which to base these future oriented analyses. One such study is Hinarejos (2013) that distinguishes two options: the surveillance model and the fiscal federalism model. The latter has inspired section 3.4 and the former sections 4.3 and 4.4.

[2] Into the North we have grouped all countries in the North and North West of the EU; the South consists of the Mediterranean countries (Portugal, Spain, Italy, Greece, Malta and Cyprus). To the East we group the Member States of Central and Eastern Europe. Mind that these groups are of different size: the North has some half of the EU population; the South and the East have each about one quarter.

[3] In elaborating these simplified scenarios we have borrowed extensively from considerations presented in two studies that have explored very long term trends, viz.: European Commission (2012) and OECD (2012). We have also consulted ESPON (2013). However, we have translated these considerations in our own assumptions about different growth figures to show the effect of alternative scenarios on the key variable: disparity.

[4] This low growth is based on the assumption that major countries from the Eastern group lose competitiveness, due to rises in unit labour cost, real estate bubbles, too much concentration of growth in capital cities, a negative demography, severe macro-economic tensions and finally various institutional blockages.

Under this pessimistic scenario, significant disparities between countries persist, reflected in quite important differences between the large geographical groups.

Table 1. Development of GDP/P (Index EU-28 = 100), by Area (2000–2030)

	Past trend			Future	Scenarios for 2030	
Region/year	2000	2007	2012	2020	Pessimist	Optimist
North	121	116	116	115	110	109
South	105	102	95	90	95	93
East	45	56	65	72	78	84
EU 28	100	100	100	100	100	100

Source: Molle (2015): 282.

In the "optimistic" scenario we assume that the past trends of catching up of the East are coupled with a very moderate growth of the North and a recovery from the crisis of the South. This scenario produces quite an important decrease in the disparity between EU Member States.

However, one sees that even in this optimistic scenario considerable disparities in wealth will remain. The detailed national figures that lie at the basis of our calculations show that for most of the present convergence countries and regions the time needed for them to catch up with the EU mean will by far exceed the 2030 horizon.

Such disparities are found to be economically inefficient and morally unjust and thus politically unacceptable. So, we may conclude that *i*n the future the objective of convergence will still be very relevant and that continuation of the cohesion effort is fully justified and likely.

1.2. Maintenance of the Overarching Policy Objectives

The EU has started to formulate an overall long-term strategy in 2000 (the so-called Lisbon strategy). It did set a very high objective: to become by 2010 "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". The strategy has been reviewed in 2004, which identified a strong discrepancy between ambitions and means. A number of changes were made to limit that gap.

By 2010 it had become clear that many of the targets would not be met. So a new strategy was adopted for the present decade, called Europe 2020. It set three overarching EU policy objectives: smart (competitiveness, innovation), sustainable (environment, climate) and inclusive (employment, social) growth. These objectives have been detailed in specific targets. In view of the limited progress realized up till now on several scores, it is probable that important disparities are likely to persist by 2020. So the EU finds itself back in a similar position as it was in a decade ago; it will have to find a new match between its stated ambitions and its intervention capacity.

For the decade beyond 2020 the main problems and challenges are very likely to be similar to the present ones. Smart growth will remain a central objective, as external openness and continued technical progress force the EU to improve its competitiveness. Sustainable growth will remain very relevant, as the negative effects of climate change will persist and probably become more severe. Finally, unemployment and poverty are likely to stay very widespread (risk of jobless growth), so inclusive growth is still of utmost importance.

All this suggests a certain continuity of priority objectives of European integrated policymaking: the triad of smart, sustainable and inclusive growth. So the continuation of a balanced growth strategy seems fully justified (albeit with new and realistic targets).

1.3. No Major Adaptations Required for Either Deepening or Widening of the European Union

In the past decades the EU has assumed many major new responsibilities and in so doing has gradually moved into ever higher stages of integration. Now it has reached the stage of Economic and Monetary Union. This EMU has been reinforced and more changes are being discussed. The Genuine Economic and Monetary Union (GEMU) would comprise mainly three elements: the completion of the Banking Union, some mutualisation of public debt and a European Stabilization Fund[5]. These changes will not bring a need for adaptation as a short assessment of the GEMU shows that all three elements would have mainly pro-cohesion effects and would enhance the capacity of the weakest countries to create balanced growth.

In the past, the EU was able to integrate new members successfully; some of them with particularly strong cohesion and other problems. In the future (the period of 2020–2030) the challenge of widening is likely to be limited. This can be seen from the analysis of the situation of various potential candidate countries (European Commision 2013). The countries in the Western Balkan will not be ready to become members in the period up to 2020. Even if we assume they will be ready in the decade after 2020, they will not require a major change given their small size and the similarity

[5] The propositions have been made by the top of the EU executive institutions; they are discussed in detail in Begg et al (2014, chapter 5).

of their problems to the ones the EU knows very well. Due to large political problems, we do not envisage the accession of large countries[6].

Stage 2. Designing a Solution-Oriented Intervention System

2.1. Continuity in Basics, Flexibility in Modalities

The essential features of the architecture of the EU cohesion and growth policy date from the 1980s. So, the system is very robust; it has been able to accommodate important increases in the size of the EU, in the degree of integration, in openness to global developments, in severity of crises, etc. The more detailed parts of the architecture have been adapted every seven years. These have taken account of new challenges, changes in political priorities and new insights from academic work[7].

Will such an adaptation to new challenges also be possible in the post-2020 period? The answer is very probably yes. Indeed, the past sections have made clear that the main challenges that are likely to confront the EU cohesion and growth policy in the future are similar to the present ones; they concern both the convergence of the least developed parts of the European Union and the creation of synergies between the cohesion policy and the other strategic policies of the EU. As there is no fundamental change in the type and size of the objectives, there is no reason to call for a systemic change either. Yet the pressure for more effectiveness and efficiency may require a systemic change. We will discuss three options.

2.2. Light and Heavy Versions of the System

Some think that the applicability of the complex EU system for all parts of Europe is inadequate. A lighter system would suffice in the more developed northern countries because these countries are confronted with relatively small problems and have a good

[6] The accession of Turkey is unlikely and pleas are now made for other solutions than full membership (see e.g. Karakas 2013). For the Ukraine the political situation is so involved that membership is very uncertain.

[7] See for the long term development of the policy: Bachtler et al (2013), for the basic design and application in practice: Molle (2007) and for the most recent changes: Barca et al. (2009) and McCann (2015).

intervention capacity. This leads to pleas for a partial or complete repatriation of the integrated growth policy[8].

The advantage of the adoption of a light version for the more developed countries (mainly the North) would stem first from a gain in efficiency by saving on transaction cost (no pumping around of money; no cumbersome procedures), next from welfare gains (because the prioritization of projects would not have been "distorted" by EU considerations).

However, the adoption of a split regime also has a number of disadvantages. The main one is the risk of stigmatization of poor countries (mainly in the South and the East) that such a dual system would create. For that reason, the EU did not go along that road in the past.

In future it is likely that this political trade-off will be maintained. Moreover, the EU has now decided to mobilise all countries and regions in the effort to contribute to the Europe 2020 strategy. It implies both growth-enhancing investments by the ESI funds and strong EU oversight of the relevant policies in all countries.

2.3. Inter-Jurisdictional Fiscal Equalization

The EU has entered the stage of the Economic and Monetary Union. Already in the early writings about the creation of a European EMU the question was asked what form of redistributive scheme would be most adequate to deliver simultaneously macro-stability and spatial and social equity[9]. One of the responses to that question has been fiscal equalization.

The aim of fiscal equalization is to provide citizens of poor regions with similar public services at a tax burden that is broadly similar to other regions. It can be done in many forms. Most systems use specific purpose grants to sub-central governments to pay for the provision of specific services[10].

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8 See: Begg (2009) for a more elaborate treatment of this subject. One advocate of repatriation is the United Kingdom government. See also: DTI (2003). In practice this could mean that the more developed countries would net their contribution to the EU budget with their entitlement to the ESI funds. The Member States that would fall under this light regime might then participate in the total EU cohesion and growth policy through some variant of the Open Method of Coordination. An alternative would be to limit the allocations to these countries to grants to ease for instance inner city social problems related to migration, as the latter is seen by many as a European problem (see also section 3.2).

9 See in this respect the famous reports by MacDougall (1977) and Delors (1989). See also the various contributions to EC (1990) and EC (1993).

10 In most countries the differences between regions are relatively limited and it means that with a level of some 4% of GDP or some 8% of government revenue most of such interregional differences can be offset. Moreover such interregional flows of public money have indirect effects; in many cases they were found to have reduced inter-regional per capita income differentials by 25 to 50%. See for further details Bloechliger and Charbit (2008) and Rodden (2009).

The system would have the advantage of free financing capacity with local governments of the less developed areas that can be devoted to productive public investments. Moreover, it has the advantage to maintain in less favoured areas a minimum of services and spending capacity. However, it has also a major disadvantage: the system is not easy to use in terms of the factors that determine competitiveness of the productive system.

As the balance between advantages and disadvantages is rather uncertain, it is not likely that this option will be adopted by the EU. Moreover, the lack of solidarity between EU Member States precludes any tax claims for a common financing of the provision of identical service levels all over the EU[11].

2.4. Further Horizons (Fiscal Federalism)

At present, the EU does have a very limited own fiscal capacity (customs duties). On its way to a full union, taxes with a European dimension will be centralised. One candidate is carbon tax, as combating climate change transcends the national level. Another candidate is corporate tax, as the present differentiated national systems create many distortions. In a change-over to such a system of EU taxation capacity one would abandon the present system of national contributions that are largely proportional to Gross Domestic Product.

On the spending side, it is mainly the EU's responsibility for stabilisation that would lead to some changes. One might think of the creation on the EU level of systems dealing with asymmetric shocks and with the inherent imbalances in the financial sector[12]. For the equity function, a system change is not directly needed; indeed the present EU cohesion system of dealing with equity measures, together with concern for many other aspects of balanced growth, may in first instance be maintained. However, in a somewhat more far-reaching perspective, one could also think of a European social security system[13].

The economic advantages and disadvantages of various forms of fiscal redistribution systems are complicated and depend very much on the level of development and institutional arrangements of a country or federation. The main

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[11] The economic crisis and the rescue packages that have been put in place for many Southern European countries have put a very heavy strain on intra-European solidarity; only under the considerable threat of a breakdown of the euro have governments been able to mobilize sufficient support (e.g. Fernando, Rubio 2012).

[12] A large number of proposals have been made in the framework of the completion of the Genuine Economic and Monetary Union. See for instance: Belke (2013), Colignon (2012) and Allard et al (2013).

[13] Such systems are indeed very effective; in a sample of EU countries they reduced interpersonal income inequality on average by one third and deprivation and poverty by one half (OECD 2008).

advantage is in enhanced stabilisation that permits economies to smoothly adjust to economic shocks. The main disadvantage is distorted allocation due to increased taxation and moral hazard. The measurement of both the positive and the negative element is difficult (Checherita et al. 2009).

The political feasibility of a system change depends on many factors. On the positive side one can mention the fact that a system of own resources for the EU would do away with the poisonous debates about the justification of the relative size of national contributions to the EU budget. On the negative side, however, much stronger political arguments prevail. The main one is the limits to international solidarity. Indeed, many surveys have recurrently shown that a vast majority of the European citizens prefer to stick to national solutions[14].

Stage 3. Specifying Objectives and Matching These With Instruments

3.1. Further Development of the Toolkit

The integration of cohesion and other balanced growth policies requires the coordinated input of a number of instruments. These have evolved over time both in their variety and in the intensity with which they have been deployed. The fundamentals of the policy, such as reliance on the financial method (specific purpose grants), supported by strict regulation (including partnership, programming and evaluation) and coordination (both horizontal and vertical) have shown their adequacy in the past decades.

We recall that during the 2013 review a set of adaptations was made. They have put a stronger emphasis on 1) the concentration of efforts on a limited number of EU strategic objectives, 2) increased commitments on realising the proposed results entailing enhanced checks on performance, 3) stronger and more adequate instruments, such as stricter forms of regulation (e.g. on conditionality), and 4) a place-based approach that makes the best of the regional potential in view of

[14] Both tax and expenditure systems are the result of complicated arbitrages between different segments of the national society. They are very resistant to fundamental change, which makes even a European harmonization of key features difficult. For these reasons the EU is unlikely to embrace ideas for a European Social Security System or a European Unemployment Insurance Scheme. See e.g. van Vliet (2010), Graziano et al (2011), Hemerijck (2012), Kammer et al (2012), Clays et al (2014).

a strategic specialisation. These changes are meant to better match the objectives with the means. They have to give proof of their effectiveness in the present programming period.

3.2. Financial Support

From the assessments of the alternative scenarios for the future (see section 1.) no strong arguments emerge to change either the total level of cohesion and growth-related expenditure or the distribution of the budget to counter newly emerging problems.

However, a major change could be necessary in case the more developed Member States take care of their internal cohesion and structural growth problems themselves and EU money is only available to support the convergence of the less developed Member States (see section 2.2)[15].

At the moment, the main instrument is the specific purpose grant. Some factors drive towards a shift in the choice of instruments. The main factor is the increased focus on efficiency in the delivery of the policy. Another factor is the pressure on available funds. So we may assume an increased role for new financial instruments, in particular the use of loans from revolving funds. This tendency might become particularly relevant in a split system (as discussed in section 2.2), as the more developed Member States might make use of a loan facility, while the less developed Member States would continue to benefit from grants.

3.3. Regulation

Regulatory instruments forbid certain actions of private and public actors that may have a negative effect on growth and cohesion or prescribe other actions that may enhance growth and cohesion. Over the past programming periods the EU regulation in matters of cohesion and growth has become very encompassing, detailed, complex and rigid. It has been the price to pay for meeting the challenges of consistency, effectiveness and accountability. For the future we envisage two scenarios.

In the first scenario we see a continuation of the trend towards stricter and more encompassing regulation. The forces that tend to step up complexity refer mainly to extended conditionality. This can be in the economic field[16], but also in the

[15] See again Begg (2009) for a more elaborate treatment of the subject; See EC (2011) that explains how these policy choices have been confirmed in the latest review of the cohesion policy.

[16] In the economic field the present conditionality applies to the public budget deficit criterion of the Stability and Growth Pact. However there is evidence that its application to the debt situation would

social field[17]. This leads to increased strictness of the present surveillance model. In order to stay effective, the EU will have to regulate ever more segments of national policymaking and frame in ever more detail the actions of Member States.

In the second scenario some dominant tendencies force the pendulum to go back, and this involves a decrease in the strictness and complexity of regulation. Lack of acceptance of the constraints (and perceived inroads into national sovereignty) is building up in the public sector. Potential beneficiaries (both in the public and private sector) increasingly fail to react to financial stimuli. For one, because there are too many strings attached with respect to the use of the money. For another, because they entail high cost in complying with rules about application, management and justification.

3.4. Coordination

Coordination is the third instrument to improve the effectiveness and consistency of policymaking. In a similar way as for regulation, one may envisage two scenarios for the future development of the use of the tool of coordination: "more" and "less".

In the first scenario, one sees a continuation of the past tendency of an increase in regulation-based coordination mechanisms in order to increase effectiveness in a range of policy domains. One may thus assume the system to produce progressively more detailed policy prescriptions resulting from the coordination of issues such as the tax system, the entitlements to social security, the priorities of the infrastructure investments, the reform of labour markets, etc[18].

In the second scenario, Member States stem the forces that push towards European intrusion in many of their policy domains. In cases where the stability of the system is at stake this would happen because Member States would respect the main criteria that the EU has set for its most important policies (for instance on macro-economic stability and budget equilibrium). In other cases (where the EU does not have the

be justified as well. Indeed, empirical evidence shows that above a certain debt level (60–80%) growth tends to become negatively affected. See for evidence for the EU: Baum et al (2013) and Checherita-Westphal and Rother (2012). This is corroborated by evidence for the OECD and world levels; Afonso, Jalles (2013).

17 In the social sector the lack of results in the fight against unemployment and poverty has led to pleas for strengthening the commitment to targets of both the EU and the Member States by using more detailed regulation coupled with conditionality. They imply the application of the carrot and stick approach of the macro-economic conditionality mechanism to the realization of social policy targets by Member States. These come notably from the European Trade union Congress (http://www.etuc.org/documents/etuc-resolution-towards-mid-term-evaluation-europe-2020-strategy).

18 The increasingly dense coordination networks cover not only cohesion and growth policies but also other policies, such as macro-economics, etc.; Molle (2011a).

capacity to deliver due to limitations in its toolkit) such a scenario could develop by a limitation of the ambitions formulated at the EU level.

Stage 4. Implementing Actions and Delivering Results

4.1. Complexity Required for Accountability

Over the years the EU has identified a number of requirements for a good delivery system to be operated by the Member States. They have been translated into basic principles, general rules, institutional structures and detailed administrative procedures. Member States and regional authorities have to respect these constraints while delivering the integrated cohesion and growth policy.

Quite a few actors have difficulties to comply for a variety of reasons. Some have difficulties in producing sufficiently good projects. Others have problems in justifying the expenses made. All complain about excessive complexity. The present setup entails high cost. First a loss of efficiency as programming, monitoring, evaluation and auditing are all fairly voracious in terms of human resources. Second, a loss of effectiveness, as countries that cannot live up to the EU demands underutilise resources, miss opportunities for growth and hence slow down the pace of convergence and the pace of overall growth of the EU.

Yet the EU wants to maintain the essentials of this system. The main reason is that the European Commission is accountable to the European taxpayers who want to be sure that the substantial amounts of money that it transfers via the ESI funds are well spent. The elaborate EU system regulating the access to and the spending of EU money is needed to prevent problems. The EU has tried to limit the loss of efficiency by simplification measures and the loss of effectiveness by support to capacity building.

Mind that the EU delivery system has also had some side benefits: it has improved the practices of quite some Member States (both old and new) in matters of policy design, programming, implementation and control.

4.2. Improving Quality Government

Successful integrated policymaking is critically dependent on the quality of the national and regional administrations. Many Member States of the EU are confronted with quite a persistent and endemic lack of quality governance. We give some figures that describe the development for the large regions in Table 2.

Table 2. Governance Quality (Index) by Region (1996–2020)

GEO	1996	2004	2012	*2020*
Northern Europe	66	67	64	*65*
Southern Europe	40	38	26	*31*
Eastern Europe	15	18	21	*24*
European Union	49	50	45	*n.a.*

Source: World Bank (1996–2012).

The table shows that the scores of the northern group are high and relatively stable over time. The southern groups' moderate performance has significantly deteriorated over time (heavily influenced by the figures for Italy). The eastern group as a whole has caught up by adapting institutions and government practices to modern EU standards[19].

We have made some estimates for 2020 (see right hand part of Table 2). One sees that the convergence countries (grouped together in the southern and eastern regions) are likely to suffer even in 2020 from very big problems as to the quality of their governance. On the contrary, the countries of the North are likely to perform on average rather well on this score[20].

The EU will, in the period beyond 2020, face the considerable challenge to reinforce very significantly the institutional and administrative capacity of the major beneficiaries of the policy. As quality government is an important condition for balanced growth, the EU will have to step up considerably its efforts in the matters of enhancement of government quality (both on the national and regional level) and to modulate them in proportion to the gravity of the problem.

[19] The low initial figures of the East can be explained by the considerable difficulties of transition of these countries. Although the development is positive there is nevertheless a reason for concern given the long time period needed to come to improvement on one hand and the possibility of a reverse development on the other (Verheijen 2007).

[20] In some countries the improvement of the quality of the government has been recognised as a prerequisite for overcoming the effects of the crisis and regaining competitiveness. The EU is somewhat reluctant to play a very active role in this matter. However, the OECD makes regular Public Governance Reviews of its member countries and gives guidance for reform. The OECD has made a series of concrete recommendations concerning the capacity of the Polish public sector to set, steer, operationalise, monitor and evaluate strategies (OECD 2013). The OECD (2014) has suggested to Spain (that has adopted an ambitious programme for government reform) not to limit itself to a one off reform but to work in a systematic and programmed way on a continuous improvement of its governance.

4.3. Some Further Horizons

The discussion in the two previous sections is based on the continuation of the basic setup of the delivery system. If one assumes (as suggested in sections 2.2 and 2.3) other systemic set-ups, the picture becomes different. For instance, if the areal coverage of the present setup was limited to the areas that are most in need and if the choice of instruments was shifted from grants to loans, a much less elaborate system of delivery (programming, monitoring and evaluation) would suffice.

It would slim the involvement of many actors. It could limit the involvement of the EU to a bankers' role. European loans would be provided to projects that are likely to contribute to the realisation of the major policy objectives of the EU. Preferential interest rates could be modulated according to the development level of the area in question. Public authorities (such as local authorities, national ministries) would integrate the management of these loans in their regular budgetary and administrative procedures. Private firms would have simplified access to finance, e.g. through financing vehicles such as revolving funds. The role and cost of intermediate organizations (such as lobbyists, chambers of commerce, advisors, etc.) would be severely limited. At the moment they are involved in all stages of the process in order to support the initiation of projects, the linking of beneficiaries, etc. In many countries they have developed into an increasingly thick layer of aid-dependent organizations that operate during decades without any proof of a positive effect on sustainable development.

The realisation of this shift seems unlikely in the foreseeable future for many political reasons. However, a gradual shift in this direction would be feasible and would add to efficiency.

Stage 5. Checking Effectiveness and Consistency

5.1. A Reasonably Effective European Union Policy

The EU systematically evaluates whether its efforts have brought it closer to its targets. These evaluations have to serve two main goals. First, accountability; they have to provide evidence to all stakeholders that money was well spent. Second, learning; evaluation has to contribute to improving various parts of the policy cycle due to which future programmes and projects will be better geared to the stated goals.

In broad outline, the EU evaluation system has served these goals; it is adjusted to the systemic aspects of the whole policy system. Its results have formed the basis for a regular recast of the policy. By and large, the policy has indeed helped to bring the EU closer to its main objectives, but on each objective much remains to be done. However, a particularly difficult problem remains; the lack of development of some regions in the South of Europe, notwithstanding decades of EU support.

The past experience has also revealed a big dilemma. Successful integrated policymaking is critically dependent on the quality of the national and regional administrations. The convergence countries (that are the largest beneficiaries because they have the biggest gaps in income) tend to show big problems as to the quality of their governance and their macro-economic conditions. The competitiveness countries, on the contrary, perform on average rather well on these scores. So it seems that the chances for successful support are highest for those who least need it, while those who most need support cannot turn it into success.

5.2. Consequences for Lack of Effectiveness; Cohesion

Convergence countries by themselves are not able to overcome their intricate problems. Important deficiencies limit their receptiveness and their absorption capacity. So, the mere stepping up of aid to these countries is not a good option, as this extra input has no effect as long as the deficiencies persist. Then, what means can the EU deploy to improve the situation without making serious inroads into national sovereignty?

One way is to impose strict conditionality with respect to quality governance and thereby force a change in political and administrative culture. It would involve the introduction of a conditionality check on quality governance before funds are committed, coupled with compulsory participation in a considerably stepped up participation in programmes financed by the ESI funds to improve the quality of government in convergence countries. The problem with this solution is, however, that "conditionality" works best when the beneficiary of the funds accepts it as necessary; in other words, when it is not imposed but "owned". Therefore, incentives are likely to be a better alternative[21].

Another way would be to push the consequences of the claim for sovereignty to its extreme by limiting aid to a certain package for a certain period. It would do away with the unsatisfactory situation in which regions (such as Southern Italy) that have been beneficiaries of very high amounts of aid (both from their own country and from the

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[21] Mind that the option of conditionality has been proposed for the present programming period but finally not adopted on the argument that piling up conditions would make the whole instrument ineffective. See for instance Molle (2011b).

EU) for a very long period (more than half a century) show little or no signs of structural improvements. On the contrary, they seem to have become addicted to aid and seem to have developed a thick layer of costly semi-public intermediaries that suffocate potential growth instead of stimulating it. Under a "defined benefit period" system such lack of effectiveness (and hence the persistence of problems) would no longer be a reason for continuing aid. This notwithstanding the loss of efficiency and equity that such a decision may entail[22].

5.3. Consequences for Lack of Effectiveness. Balanced Growth

Balanced growth is the other main challenge of the policy. In the past the EU and its Member States were able to steer their efforts towards the objectives of smart, sustainable and inclusive growth and on many scores progress has been made. However, there are blatant mismatches between objectives and results; in particular in matters of (un)employment. Indeed, on this issue the various EU and national policy tools have hardly been effective[23].

The question is in how far the same recipe as we envisaged for lack of cohesion should be applied here. In this case: to abandon the EU ambition in order to realise impossible social targets and envisage to stop the EU financing of projects that can only marginally improve the unemployment and exclusion situation as long as economic growth does not pick up. The argument for continued EU involvement in social equity issues is that the EU needs support for its growth-enhancing policies. Such popular support is at risk in case the EU is perceived by the wider public as an organisation that is only dealing with economics in a neo–liberal fashion without caring for the needs of the ordinary citizens. However, as practically all the instruments for realising the social dimension of the EU are in the hands of the Member States, the EU has no capacity to come up to unrealistic expectations. Assuming that politicians will want the EU to stay involved, the EU can only act on the expectation side by making sure that the ambitions set for the EU correspond to its capacity to influence the national socio-economic systems.

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[22] Such a system can be made operational. For instance Spain operated in the 1970s and 1980s a system of support to growth poles that successfully phased out aid to a specific growth pole after an agreed support period. There are reasons to doubt the steadiness of the political decision makers to implement such a system in the EU context. Indeed, in matters of international development aid lack of success has seldom been sanctioned by a stop on aid flows. The arguments have always been that such a stop would lead to a decrease in the economic base, to social unrest and possibly to a downward spiral of political chaos, crime and misery. Such arguments may also have their relevance in the EU context.

[23] See for instance Copeland and ter Haar (2013).

Conclusions

The EU is confronted with very persistent cohesion problems. We have assessed the likely evolution of the problems in the present decade to obtain a picture of the challenges the cohesion and growth policy has to face in the period between 2020 and 2030. We have then discussed the alternative policy options the EU has in order to face these challenges; we have detailed these by stage in the policy cycle. We have found that mainly for political economy reasons it is unlikely that such alternatives that lead to a fundamental system change will be adopted. However, we show the feasibility of a number of less drastic changes.

The analysis has stressed a big dilemma. The convergence countries (that are the largest beneficiaries) cope with big problems as to the quality of their governance and are likely to still suffer from this problem around 2020. On the contrary, the competitiveness countries perform on average rather well on this score. So it seems that the chances for success are highest for those who least need the EU support, while those who need the EU support most cannot realise their success. We therefore suggest to introduce a check on quality governance before funds are committed, coupled with a considerably stepped up effort by the ESI funds to support schemes that improve quality government in convergence countries.

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