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EU Cohesion Policy, Past and Present: Sustaining a Prospering and Fair European Union*

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Abstract:
In 2015, the EU regional / cohesion policy has passed its 40th anniversary. During this time, it has undergone various manifestations with ever-changing objectives. It started as a mixture of structural and regional policy aimed at reducing regional economic disparities within the Union. Since 2000 at latest, however, cohesion policy has been subordinated to a growth and competitiveness strategy and has undergone a substantial re-definition of objectives and principles. At the background of a potential conflict between growth and cohesion objectives, i.e., between efficiency and equality, the paper finds discrepancies between asserted intentions and actual practise of cohesion policy. On this ground, the paper argues for a return to a less ambitious, more basic-needs oriented cohesion policy.

Keywords: cohesion, regional policy, growth policy, EU Structural Funds.

JEL classification: H7, R5

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Content:

1 Introduction

Without much ado or even notice taking, the EU regional – or cohesion – policy has passed its 40th anniversary. It was invented in 1975 with the creation of the ERDF (European Regional Development Fund) and the adoption of the cohesion objective in the Single European Act (1986). The Lisbon Treaty TFEU (Treaty on the Functioning of the European Union, 2007) further sustained the cohesion objective in its Article 174:

> *"In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion.*
>
> *In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions.*
>
> *Among the regions concerned, particular attention shall be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, crossborder and mountain regions."*

Throughout these 40 years, the manifestations of regional or cohesion policy have changed incessantly, and so has the formal organisation of the financial instruments assigned to it: the ERDF and the other funds known together as Structural Funds or nowadays as ESI (European Structural and Investment) Funds.[1] This EU policy started as a mixture of regional and structural policy, aimed at reducing regional economic disparities within the Union, cushioning economic adjustment processes and safeguarding cohesion between favoured and disfavoured countries, regions, even persons. In this tradition, the cohesion policy thus could be said to pursue primarily equality-oriented redistributive objectives. But with the Lisbon Strategy in 2000 ("Turning the EU into the most competitive and dynamic knowledge-based economy in the world") and with the current Europe 2020 Strategy ("Union strategy for smart, sustainable and inclusive growth"), cohesion policy was chosen as a key instrument for implementing these strategies. It was subdued to their efficiency-oriented approach as well as to further objectives beside the mere cohesion objective. In particular, the Lisbon Strategy strongly foregrounded efficiency-oriented objectives, whereas the Europe 2020 Strategy put back stress also on a whole bundle of various and specific further objectives, such as strengthening R&D, improving ICT infrastructure, supporting SMEs, accompanying environmental policies, promoting social inclusion, etc. Moreover, in the turmoil of the Euro and sovereign debt crisis, also the necessity of some financial instruments to counterbalance extreme external imbalances under the conditions of a common currency and to stimulate economies in a downswing has been proposed. Once again, it were the Structural Funds that stroke as possibly appropriate instruments for this purpose, along with the new (small) Investment Fund (the financial means for which will be taken from the EU's Research Framework Programme Horizon 2020).

Given this broad array of objectives, it can be doubted whether these can successfully be pursued all with the same restricted amount of money. It depends on whether one believes that

[1] Include besides the ERDF: ESF (European Social Fund); CF (Cohesion Fund); EAGGF/Guidance (European Agricultural Guidance and Guarantee Fund, Section Guidance), today: EAFRD (European Agricultural Fund for Rural Development); FIFG (Financial Instrument for Fisheries Guidance), today: EMFF (European Maritime and Fisheries Fund); FEAD (Fund for European Aid to the Most Deprived).

these objectives are in a relation of conflict or complement with one another, e.g., whether there does, or does not, exist a trade-off between efficiency and equality. The Commission tends to argue, "growth and cohesion are mutually supportive" (EU Commission 2004, Proposal for Council Regulation: 3). EU officials and politicians further tend to assume that the spatial distribution of economic activities gets too concentrated under market forces. They expect a more equal distribution to be advantageous to all, and consider EU cohesion policy to be both necessary and able to achieve cohesion in the EU, particularly if applied to the most backward countries and regions. They further expect investments in R&D, innovation and entrepreneurship, in education and training, in ICT, in intraregional and interregional ("trans-European") transport and energy infrastructure to help all regions improve competitiveness and growth, and to "converge", even the poorest ones. In economic literature, however, such arguments do not go unchallenged, and the relationship between growth and convergence, efficiency and equality, has been disputed with highly ambiguous results.

The purpose of this paper is twofold. After presenting a literature review on some quite general theoretical views of regional policies, and on more specific empirical assessments of the EU cohesion policy (section 2), it intends to first provide some broad understanding of the ambitions of the present EU regional/cohesion policy as compared to its past (section 3). It then sets out to assess in how far the actual EU cohesion policy has been up to these ambitions (section 4). Section 5 concludes with some lessons for future pathways.

2 Cohesion policy in the literature

2.1 Theoretical rationales for regional policy

Regional disparities, that is the heterogeneous spatial distribution of economic activities and income opportunities, constitute the underlying motivation for regional policy. According to economic theory, such disparities can be expected if elements like trade costs, scale economies, imperfect competition, factor movement, knowledge spillovers, and agglomeration economies/diseconomies come into play and shape location decisions, as in new trade theory, new economic geography, theory of endogenous growth. In contrast to pure neoclassical models, these models offer justification for regional policy both from a distribution-oriented and an efficiency-oriented point of view.

The *new economic geography* (NEG), featuring increasing returns to scale in production and imperfect competition, describes centripetal agglomeration externalities that at an intermediate level of trade costs drive self-reinforcing agglomeration processes, by prevailing some balancing centrifugal forces. By contrast, at very high or very low trade costs, these centrifugal forces, like wage differentials and price competition, launch an even dispersion of economic activities in space, particularly so if workers are assumed immobile and wages flexible (Puga 1999, 2008, Baldwin et al. 2003, Forslid and Wooton 2003, Combes 2011, Breinlich et al. 2014).[2] In this highly discontinuous bell-shaped process, even small and random initial asymmetries may lead to an endogenous, complete and enduring "catastrophic" agglomeration of economic activities at least

[2] Cf. Krugman (1991) for agglomeration driven by worker migration and Venables (1996) for agglomeration driven by intermediate production

for an (indeterminate) interim period. The arbitrariness of the agglomeration process and the existence of hysteresis strongly support arguments favouring policy intervention.

"Robust" policy implications are yet not easy to extract from this theory. First, any implications depend decisively on the model and its parameter values referred to, particularly with regard to the assumed level of integration. Concomitantly, empirical evidence as to the most relevant model or the most relevant parameter value in a given situation is lacking. Second, as the theory deals largely with pecuniary externalities, the outcome is usually[3] an optimum equilibrium solution for the overall economy, while it need not be an optimum solution for any region involved, let alone all actors involved. Most NEG models thus constitute a trade-off between spatial efficiency and spatial equality, and thus a conflict between the respective policy objectives. Third, the welfare implications are generally not well explored; they touch at least three different dimensions of disparities: inhomogeneous dispersion of economic activity, unequal distribution of regional per-capita income and of personal per-capita income. A base-line insight is that immobile workers in the periphery are most likely to experience welfare losses from integration-induced agglomeration while mobile workers in the core and capital owners tend to gain from it.[4] It ought to be determined very distinctly, which of the various types of inequality any policy intervention is expected to address, whether to go for a place-based or a people-centred policy (McCann et al. 2013). Indeed, the World Bank building on NEG theory strongly argues in favour of the latter (World Bank 2009), which is in stark contrast to the EU Commission. Fourth, NEG models often yield unexpected, unintended and counterproductive second-round effects to any treatments. Thus, compensatory policy measures that intend to support the periphery may instead decrease either efficiency or equality, or even both. Moreover, all policy suggestions need to consider that agglomeration forces could be extremely strong, and that any attempt to contain them would need to be even stronger and thus very expensive (Martin 1999).

The *theory of endogenous growth* deals with technological externalities in the form of knowledge spillovers while studying sources of economic growth that do not run dry, i.e., that can be accumulated continuously without the returns to accumulation ever diminishing, such as R&D, human capital and innovations. Knowledge spillovers are assumed to occur most effectively in densely agglomerated and developed core countries and regions, and they imply a gap between social and private benefits that constitutes a general rationale for growth-enhancing policies. More specifically, the Neo-Schumpeterian growth theory (Aghion and Howitt 2008; Acemoglu et al. 2003, 2006)[5] differentiates between innovations that leapfrog the global technological frontier and innovations that just catch up to this frontier by implementing already existing technologies. Therefore, countries or regions being close to or far off the technological frontier will face very different challenges. As innovation-implementing is easier than leapfrogging, countries or regions

[3] The pecuniary externalities in NEG models may also produce inefficient over- or under-agglomeration, with different conclusions on efficiency-improving policy interventions, depending on models and parameter values (Pflüger and Südekum 2008). In this case, it can be argued in favour of compensatory policy interventions even from an efficiency-oriented standpoint.

[4] But even these workers *may* benefit from agglomeration processes if there are positive dynamic technological externalities of agglomeration (Martin 1998, Dupont 2007). These workers *may* then experience increases of real income *even* if the region loses production of "attractive" increasing-returns imperfect-competition industries.

[5] Referring to Schumpeter's work, these models focus on "creative destruction" as the essential source of economic growth, i.e. quality-improving innovations that render old products obsolete.

will ceteris paribus grow the faster the further they are behind the technological frontier ("advantage of backwardness", Gerschenkron 1962). However, the pace of growth also depends on the appropriateness of institutions, which in turn depends on the countries' or regions' respective distance from the technological frontier (Gerschenkron 1962, Acemoglu et al. 2006). Accordingly, countries catching up to the technological frontier are required to shift their institutions from implementation-enhancing to leapfrog-enhancing. Failure to perform such a shift is penalized with lower growth rates.[6]

A straightforward policy conclusion of this theory is hence that a one-size-fits-all regional growth policy might not be optimal (Aghion and Howitt 2008). Thus, for instance, a strong competition policy putting markets under permanent stress of entry and exit may spur leapfrog innovations and enhance growth in regions close to the frontier, while it may discourage innovation and growth in regions far from this frontier without any chance of escaping competitors via innovations. The EU as a whole may be esteemed as being relatively close to the technological frontier, yet many peripheral and semi-peripheral EU regions may not.

Together, these theories describe a number of traps that market-determined agglomeration and growth processes might hold, and that a cohesion-oriented policy might run into. Thus, some policy instruments may fail even in the first round, e.g., may not succeed in supporting the periphery and reducing inequality as intended, while unintendedly improving overall efficiency. First-round failures may accrue from:

- *Subsidies to firms in peripheral regions* (expected to achieve more dispersion of economic activity): According to NEG models, such subsidies may benefit capital owners only. If these choose their dwelling similarly to the rest of the population, a larger share of them will be located in the core. The subsidies granted to them will thus add to the core's market potential and will in return lead to unintended additional agglomeration tendencies (Dupont and Martin 2006, Dupont 2007).
- *Intraregional transport infrastructure* (expected to increase the attraction of the periphery and thereby to advance dispersion): Such infrastructure may produce an unintended counterproductive "shadow effect" (Ottaviano 2008, Behrens et al. 2007). If the agglomeration core serves as a transport hub between the various peripheral regions, then improving peripheral transport infrastructure may actually strengthen the hub function of the core and thus add to agglomeration tendencies.
- *Interregional transport infrastructure* between periphery and core (expected to increase the accessibility of peripheral regions): Such infrastructure may produce an unintended "straw effect" (Ottaviano 2008, Behrens et al. 2007). The reduction of trade costs makes it easier to supply all products from the core, taking advantage of the agglomeration economies existing there. Thus, the core will be able to attract even more activities from the peripheries.
- *Skill-upgrading of workers and human capital formation in the periphery* (expected to increase the periphery's attractiveness to high-income productions): This strategy may be idle in regions far from the technological frontier. Instead, it may render the skilled workers more mobile, and may drive them out of the region to strengthen the core – good for them but useless for the peripheral regions.

[6] In fact, such failure of reforming institutions is sometimes seen as the major reason why Europe stopped catching up with the US since the mid-1970s (e.g., Sapir et al. 2003).

Other measures may succeed in the first round, but produce unintended second-round effects that may actually undo the success of the first round. Second-round failures may accrue from:

- *Transfers of purchasing power* to peripheral regions (expected to change the market potential of peripheral regions relative to the core region thereby increasing their attraction; Ottaviano 2008: 19): Such transfers lead to more dispersion. However, more dispersion reduces the efficiency gains from agglomeration in the core, and, in a dynamic setting, reduces overall growth rates. While the net result of all effects is particularly detrimental to the core, it may even put the peripheral regions worse off than without transfers (Martin 1998, 1999).
- *Promoting R&D, start-up firms, ICT infrastructure at the periphery* (expected to bring about growth in peripheral regions): For regions far off the technological frontier, this may be little more than waste, while at the same time dragging R&D resources off the centres where they could be used much more effectively.

However, there also seem to be some policy instruments promising simultaneously to reduce the inequality of regional income distribution and to increase efficiency and growth:

- *Boosting further steps of integration; accelerating further reductions of trade costs* (in hope for the re-dispersion effect at low trade costs):[7] This could be the best policy advice from NEG theory, obviating all kinds of compensatory policy interventions (World Bank 2009).
- *Institution building* (referring to the framing of institutions depending on the technological development level): Such strategy would enhance technology implementation in regions far away from the technological frontier and enhance leapfrogging to new technologies in regions close to the frontier.
- *Promoting R&D, start-up firms, ICT infrastructure at the core and technology transfer at the periphery* (expected to comply with the need for a differentiated strategy in dependence of the distance to the technological frontier): This strategy takes into consideration that R&D investment is most productive in the core, thus contributing to overall growth. Thereof, the periphery will benefit, too, particularly so, if support to technology transfer enables catching-up implementations. "*The apparent paradox is therefore that the public policy which is least 'regional' in its application enables the regional policy objectives to be achieved*" (Martin 1999: 19).

Such positive results, however, hold only if some general presuppositions are met (and it might not be a good bet that they are). First, that it is possible to determine the situation a region is in and to assign the relevant model to it; second, that it is possible to identify the right leveraging points for policy instruments; third, that it is possible to mobilise large enough funds to overcome strong agglomeration forces. It seems thus difficult to escape the antagonistic nature of efficiency/growth- versus equality-oriented policies.

A general message from these considerations is that any EU cohesion policy should clearly identify its policy objectives – make a choice whether to go for growth <u>or</u> equality; moreover, decide on which kind of equality to pursue and thus to follow either a place-based or people-based policy. To this respect, possible trade-offs between different objectives should be recognized. All kind of policies may have secondary relocation effects that should be recognized – as good as possible – in the ex-ante policy choice. Such well-pondered policy may require a "comprehensive

[7] Technological externalities, e.g. "localized knowledge spillovers", may prevent such deglomeration even at very low trade costs.

knowledge of the regional factors and conditions in place", which may be obtained more easily in a bottom-up than in a top down approach (Applica et al., 2015:4). The resulting mix of policy measures may look quite different than popular ideas on cohesion policy would have it.

2.2 Empirical evaluations of EU cohesion policy

A huge number of reports and studies on the effects of the EU cohesion policy have been undertaken over the years, many of them commissioned by the EU Directorate-General Regio itself as a background to its Cohesion Reports (three-annual), Progress Reports on Cohesion (between the formers), and Periodic Reports on the Social and Economic Situation,[8] others independent of such commissions. Even a far-from-exhausting overview yields that this existing evidence is rather mixed (for a comprehensive survey of econometric evaluations see Hagen, Mohl 2009). Several studies, thereof the EU official reports themselves, find positive effects of cohesion policy on the assisted regions' GDP, or, usually less pronounced, on its employment (e.g., Cappelen et al. 2003, Dall'erba 2005, Becker et al. 2010). Other studies, by contrast, find little or conditioned results (e.g., Ederveen et al. 2002, Puigcerver-Peñalver 2004, Rodríguez-Pose, Fratesi 2004, Esposti, Bussoletti 2008, Mohl, Hagen 2010). A few find overall negative results (e.g., Boldrin, Canova 2001, García-Milá, McGuire 2001, de Freitas et al. 2003, Eggert et al. 2007, Dall'erba, Le Gallo 2008, Le Gallo et al. 2011, Breidenbach et al. 2016). These studies employ very different approaches to reach their results, with some using descriptive statistics, others CGE simulations, and still others cross-section and panel-data regression analysis, and they relate to different observation periods (only very rarely beyond 1999). To assess the treatment effect, cohesion policy is mirrored either by a region dummy (eligible/non-eligible) or by the amounts of funds dedicated to the assisted regions. Some studies refer to the committed amounts of funds only, others to those actually paid (which are more difficult to get at); some refer to ERDF and CF funds only, others include ESF funds as well; some account for the additional funding from national states that is stipulated in the rules on cohesion policy (e.g., Begg et al. 2004). Some studies control for spatial spillovers (Dall'erba, Le Gallo 2008). Some studies assess the effect of cohesion policy funds on individual regions (Le Gallo et al. 2011), and even identify excess transfers to certain regions that could be reduced without any loss of growth effects (Becker et al. 2012). Some studies include the effects of sectoral "spatial-blind" yet spatially effective policies such as the EU Common Agricultural Policy (Crescenzi, Giua 2016).

The ambiguity of the results is due, on the one hand, to the difficulties of getting at the required detailed, sufficient and long time-series data, and, on the other hand, to the general difficulties of defining the counterfactual situation. Obviously, there need be some increase of GDP if one pours funds into a local economy at least as far as the second-round effects do not stand out against. Moreover, further adverse effects related to the implementation of the policy may come into play: windfall gains, waste, substitution effects (e.g., by manufacturing activities being favoured over services, or capital-intense production being favoured over labour-intense production), pass-through effects along the value chain, financing effects (in the end, all resources distributed need to be funded from taxpayer's money). Not all of these adverse effects are taken

[8] Most recent, respectively: EU Commission, 6th Cohesion Report, 2014; EU Commission, 8th Progress Report on Cohesion, 2013; EU Commission, 6th Periodic Report on the Social and Economic Situation and Development of the Regions, 1999.

into account in every study. Moreover, many of them are not even calculable. Hence, the net effect of cohesion policy measures is extremely difficult to assess.

In 2015, the EU Directorate-General Regio called for a completely new series of ex-post evaluation studies for the programming period 2007-2013 on various aspects of the cohesion policy: effects on SMEs and on large enterprises, on the environment and energy efficiency, on the transport, tourism and culture sectors, on urban development, territorial cohesion and the geography of expenditure. The studies will also provide a large database building upon Annual Implementation Reports and further interviews with the Managing Authorities for the Operational Programmes – results are still to be awaited.

3 The organization of EU cohesion policy, past and present

3.1 Current organization of EU cohesion policy

The EU cohesion policy is organized under the guidance of three different policy threads following different aims and involving different European actors (cf. Fig. 1): The cohesion policy proper, under the responsibility of the EU Directorate-General Regio (middle of Fig. 1), the strategic agendas under the joint responsibility of EU Council and EU Commission (currently Europe 2020 Strategy; left-hand-side of Fig. 1), and the EU state aid control under the responsibility of the EU Directorate-General Competition (right-hand-side of Fig. 1). Moreover, any actual interventions of the cohesion policy are the outcome of the legal foundations of these policies plus a complex three-step procedure of framing guidelines, setting up work plans and monitoring results, in coordination of EU, national and regional layers of administration.

3.1.1 Europe 2020 Strategy

To start with, the EU, under the auspices both of the Council and the Commission, has put forward strategic agendas for definite periods since the so-called Lisbon Strategy 2000-2010 at latest. Foremost, they draw up a vision of a bright European future to be reached within the said period. Moreover, they set out a framework for joint and coordinated reforms and investments of the EU as a whole and its member states, meant to realise this vision. The current Europe 2020 Strategy, officially constituted by *Conclusion of the European Council* in 2010 and running from 2010-2020, is thus supposed to be a growth strategy for the Union. Its "three priorities" – smart, sustainable and inclusive growth – are substantiated by quantified "five targets" on employment, R&D, environment, education, social inclusion, and are fed into "seven flagship initiatives" as more explicit engines to boost employment and growth (cf. Table 1).

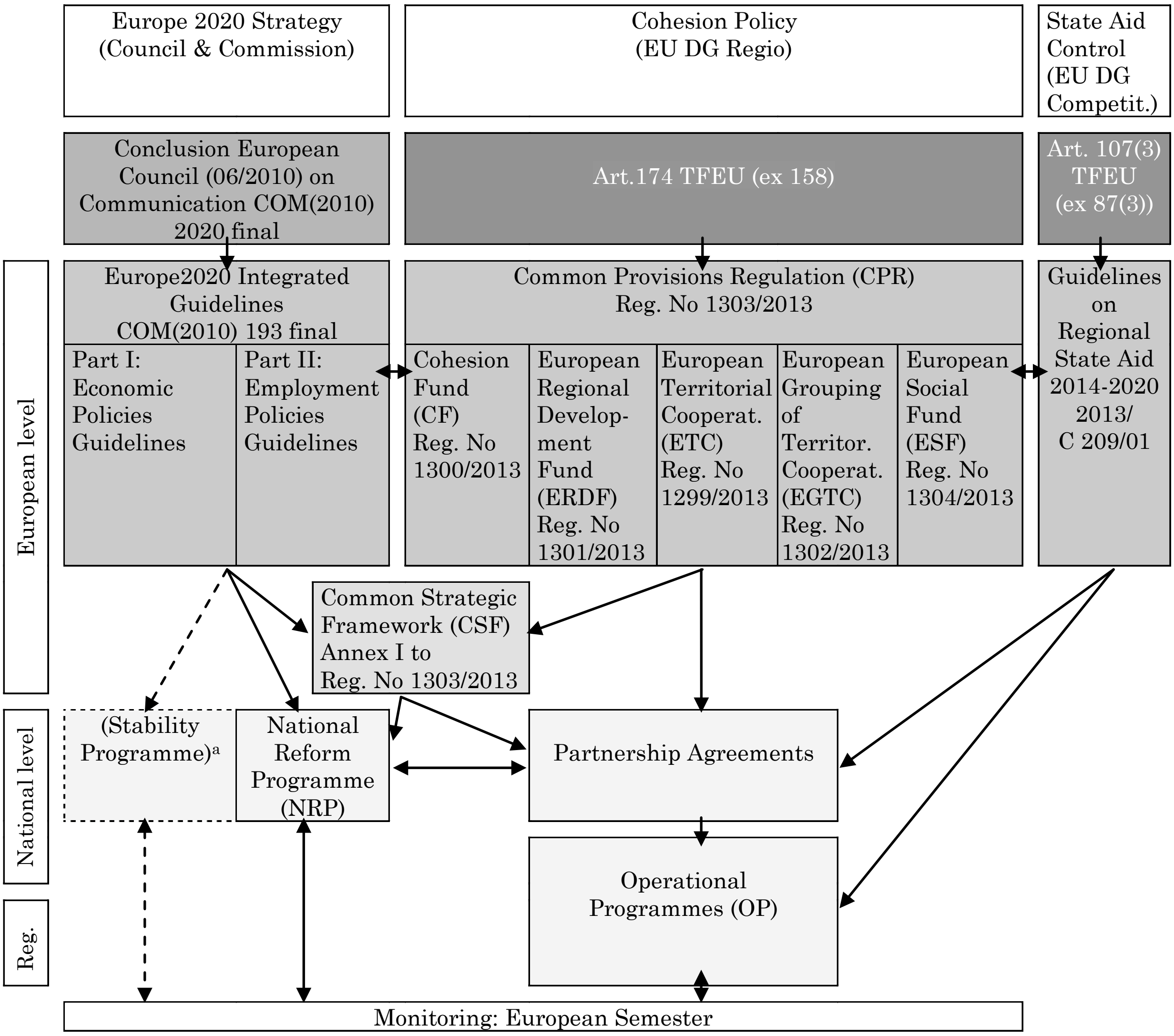
The *Europe 2020 Integrated Guidelines* (IG), as the first step of the three-step procedure, include the five targets at their core; they also detail the agenda and at the same time extend it by adding further objectives, on sustainable public finances, macroeconomic stability and a skilled workforce (cf. Table 1). [9]

From these Integrated Guidelines, in a second step, work plans at Community level and at national levels have been derived. The EU-level *Common Strategic Framework* (CSF) provides that the European Structural and Investment (ESI) funds are to be subjected to the goals of the

[9] To these, one could still add the 10 Policy Priorities of the new Commission that assumed office in 2014. These Policy Priorities are again somehow, but rather loosely, related to the Europe 2020 Strategy and they are again expected to be implemented by the ESI Funds (Juncker 2014).

Europe 2020 Strategy, taking into account that a vision and some targets are needless without financial underpinning. The CSF is thus situated at the interface between the Europe 2020 policy thread and the cohesion policy thread, corresponding to both (for details, cf. Box 1). *National Reform Programmes* (NRPs) have been drawn up by the member states, complying with the Integrated Guidelines and the CSF, and adapting the five targets according to the specific national circumstances (cf. Table A1 in the Appendix). These NRPs vary considerably in content and style as well as in the pace, intensity and commitment towards reforms;[10] and they vary also in the scope of the involvement of social partners and national parliaments in developing the NRPs and in the amount of public attention they receive, this attention generally being quite low.

Figure 1: Organization of EU structural policies in 2014-2020



[a] Not relevant for cohesion policy.
Source: Own illustration.

[10] NRPs of all countries are to be found here: http://ec.europa.eu/Europe_2020/europe-2020-in-your-country/index_en.htm. For critiques of the earliest versions of such NRPs see Pisani-Ferry, Sapir 2006, Begg 2006, 2008. Pisani-Ferry and Sapir even noted that some NRPs seemed to "consist simply of a repackaging of existing measures" (2006: 10).

The third step in the Europe 2020 procedure concerns the cyclical annual monitoring of the policies and their results, called *European Semester* and introduced as new governance instrument for the first time with the Europe 2020 Strategy. As part of the European Semester, the Commission prepares Annual Growth Surveys setting out policy priorities for the next respective year, and Alert Mechanism Reports identifying member states that require closer inspection. These reports are discussed in several subsequent rounds with the Council, the member states and the European Parliament; they enter into country reports denoting imbalances and proposing a reform agenda and into country-specific recommendations that feedback into the National Reform Programmes. Certainly, these feedbacks may have led to some improvements of NRPs as compared to those first put forward for earlier cycles.

Table 1: Overview on current goals, objectives, targets for ESI funds

<table>
<tr><th>Europe 2020 Strategy</th><th>Cohesion policy</th></tr>
<tr><td>Council Conclusion 2010 COM(2010) 2020 final</td><td>Art.174 TFEU</td></tr>
<tr><td rowspan="3">3 priorities:
Smart,
Sustainable,
Inclusive growth

5 targets (quantified):
1. Employment rate >75%
2. R&D/GDP ratio >3%
3. Environmental emissions -20%
4. Education: dropouts <10%, graduated >40%
5. Social inclusion of 20 million poor

7 flagship initiatives:
1. Digital agenda for Europe
2. Innovation Union
3. Youth on the move
4. Resource efficient Europe
5. Industrial policy for globalisation.
6. Agenda for new skills and jobs
7. European platform poverty</td><td>Overall harmonious development
Economic, social, territorial cohesion
Reducing disparities between regions
Rural areas
Industrial transition areas
Outermost regions</td></tr>
<tr><td>Common Provisions Regulation
Reg. No 1303/2013</td></tr>
<tr><td rowspan="3">11 thematic objectives (Art.9):
1. Strengthening R&D
2. ICT access
3. Competitiveness SMEs/agriculture
4. Low-carbon economy
5. Climate change
6. Environment protection
7. Sustainable transport
8. Sustainable employment
9. Social inclusion
10. Education investment
11. Enhancing public administration

2 goals + sub goals (funds endowed; Art.89ff.):
Investment for Growth and Jobs
Less Developed Regions [a]
Transition Regions [b]
More Developed Regions [c]
Outermost Regions [d]
Youth Employment Initiative
European Territorial Cooperation
Cross-Border Cooperation
Transnational Cooperation
Interregional Cooperation</td></tr>
<tr><td>Europe 2020 Integrated Guidelines
COM(2010) 193 final</td></tr>
<tr><td rowspan="3">10 guidelines, incl. quantified 5 targets:
1. Sustainable public finance
2. Addressing macroeconomic imbalances
3. Addressing imbalances of Euro-area
4. R&D/GDP ratio >3%
5. Environmental emissions -20%
6. Business & consumer environment
7. Employment rate 75%
8. Skilled workforce
9. Education: dropouts <10%, graduated >40%
10. Social inclusion of 20 million poor</td></tr>
<tr><td>Funds-specific regulations
Reg. No 1299/2013-1304/2013</td></tr>
<tr><td>~ 75 investment priorities
under the thematic objectives</td></tr>
</table>

[a] Less developed regions: GDP per capita <75% of EU average. – [b] Regions in industrial transition: GDP per capita between 75-90% of EU average. – [c] More developed regions: GDP per capita >90% of EU average. – [c] Outermost (and northernmost sparsely populated) regions: concerns the far-off islands Guadeloupe, French Guiana, Martinique, Réunion, Saint-Barthélemy, Saint-Martin, the Azores, Madeira and the Canaries, furthermore the most Northern regions of Sweden and Finland.

Summarizing on this policy thread, the Europe 2020 Strategy via a complex procedure pursues a broad array of different targets, with perhaps a certain focus on technology-prone, growth-enhancing policies. It subdues the ESI funds to its purposes, those very funds that are also dedicated to the cohesion policy proper, thus potentially evoking a conflict of goals with cohesion policy.

Box 1: Common Strategic Framework – CSF (Annex I to Reg. No 1303/2013)

The Common Strategic Framework, put forward by the Council as an Annex to the Common Provision Regulations (see below), aims explicitly, on the one hand, at the so-called thematic objectives that are derived from the Europe 2020 Integrated Guidelines (though by means of the Common Provisions Regulations) and, on the other hand, at some so-called key territorial challenges and border-crossing cooperation activities that rather comply with the objectives of cohesion policy proper.

In addition, the CSF provides for various coordination requirements. Thus, it strives more explicitly than its predecessor under the Lisbon Strategy (the so-called Community Lisbon Programme – CLP) for involving and committing the member states into an integrated policy approach. Moreover, it arranges for the coordination of the ESI funds with other Community policies like the Common Agricultural Policy and the programmes on environment (LIFE), transport (Connecting Europe Facility – CEF), research (Horizon 2020), education (ERASMUS), and employment (Employment and Social Innovation – EaSI). The CSF also includes some further, horizontal principles and cross-cutting objectives for the implementation of the ESI Funds (regarding gender issues, accessibility for disabled, sustainability, demographic change, and multi-level governance).

3.1.2 Cohesion policy proper

The EU cohesion policy proper, on its behalf, has its legal basis in *Art.174 TFEU* and is thus committed to the goals of promoting harmonious development, strengthening economic, social and territorial cohesion, and reducing disparities between regions (Fig. 1). This is primarily an equality-oriented aim in potential conflict with the growth-enhancing aim of the Europe 2020 Strategy.

In the first step of the cohesion policy procedure, under the auspices of the Directorate-General Regio, this legal base is explicated by a series of regulations, decided upon by the European Council and the European Parliament, and laid down for each 7-years-programming period. Among these, the *Common Provisions Regulation* (CPR) provides the frame for all further regulations on the specific ESI funds and on territorial cooperation, and this very CPR explicitly subordinates the cohesion policy to the Europe 2020 Strategy (Art.4(1)/Art.10ff. of Reg. No 1303/2013). Accordingly, it derives a set of so-called thematic objectives for the current period that are technology- and growth-related, environment-related and social-affairs-related but hardly cohesion-related (Table 1). Somewhat in contradiction to these, the CPR also defines a set of two goals closely complying with the cohesion objectives of Art.174 TFEU: the Investment for Growth and Jobs goal and the European Territorial Cooperation goal and their respective sub-goals. It is this set of goals that the ESI financial resources are allocated to. Among these,

- The *Investment for Growth and Jobs* goal is generally dedicated to supporting social and economic cohesion. The sub-goals divide all EU regions (at the NUTS 2 level) into three classes of similar development levels from *less* to *more developed* plus some *outermost regions*; they thus define any EU region to some amount as eligible for funding while the bulk of resources is dedicated to the less developed regions. Another sub-goal is the *Youth Employment Initiative.*
- The *European Territorial Cooperation* goal is generally dedicated to supporting cohesion across European national borders. The sub-goals concern: *cross-border cooperation* tackling challenges in border regions, such as poor accessibility and poor performance resulting from border-related remoteness, *transnational cooperation* strengthening an integrated territorial

Box 2: Common Provisions Regulation – CPR, and funds-specific regulations (Reg. No 1299/2013 – 1304/2013)

The Common Provisions Regulation defines *11 thematic objectives* for cohesion policy (similar to the "priority themes" under the Lisbon Strategy), and *2 goals* with sub-goals, the latter being explicitly endowed with ESI financial resources (Art.9 and Art.89ff. of Reg. No 1303/2013; Table 1). Among the *sub-goals* are three classes of eligible regions at different development levels (less developed, transition and more developed, respectively with a GDP/capita <75%, 75-90% and >90% of EU average).

The funds-specific regulations establish the *conjunction* between the two sets of objectives of the CPR, differentiated according to the level of development of the respective regions. Thus, under the Investment for Growth and Jobs goal,

- the more developed regions have to allocate at least 80% of their ERDF resources to the technology-related thematic objectives 1-4 and at least 20% alone to the thematic objective 4 (low-carbon economy; Art.4 of Reg. No1301/2013);
- the transition regions and the less developed regions have to allocate at least 60% / 50% to the thematic objectives 1-4 and at least 15% / 12% to the thematic objective 4;
- Cohesion Funds resources (for less developed countries only) are to be allocated to the environment- and transport-related thematic objectives 4-7 and to the thematic objective 11 (enhancing institutions of public administration; Art.4 of Reg. No1300/2013);
- ESF resources are to be allocated primarily to the social-affairs-related thematic objectives 8-11 and at least 20% of these alone to the thematic objective 9 (social inclusion; Art.3f. of Reg. No 1304/2013).

Also in the funds-specific regulations, the thematic objectives are further detailed into almost 75 so-called *investment priorities* (similar to the "priorities" under the Lisbon Strategy), which are exhaustive in that each suggested cohesion policy intervention needs to address these investment priorities, at least one.

The CPR also defines *rates of support* for cohesion policy interventions from the ESI funds, again differentiated according to development levels (Art.120 of Reg. No 1303/2013): These rates stretch

- from at least 20% for interventions in more developed regions,
- up to a maximum 85% for interventions under the Cohesion Fund, for interventions in favour of less developed regions in less developed member states, and for interventions under the European territorial cooperation goal.

National *co-financing* is always required to fill up the remainder. Further provisions of the regulations concern the requirement of *additionality* in relation to national policies, the implementation, management and control of the financial instruments, an institutionalised *performance reserve* of 6% of the resources (to be allocated only if certain milestones of an intervention are achieved).

The CPR also regulates the *Partnership Agreements* between Commission and member state governments (Art.14ff. of Reg. No 1303/2013). The Partnership Agreements are to be prepared in dialogue with the Commission and with competent regional, local and urban authorities, other economic and social partners and relevant bodies of the civil society. They are to start from the ex-ante analysis of disparities and growth potentials, they are to proof in considerable detail the fulfillment of ex-ante conditionalities for funding (such as strategical and risk management plans already existing, infrastructure already at place, actions already taken), they are to specify some focal points addressing a limited number out of the list of investment priorities, and they are to develop integrated approaches to the territorial development of those areas to be supported by the ESI funds.

Based on these, the CPR also regulates the *Operational Programmes* drawn up by the member states at the national or regional level, and approved of by the Commission (Art.26ff. and 96ff. of Reg. No 1303/2013). Following the over-arching ambition for thematic concentration, the OPs are supposed to address so-called *priority axes*: These usually correspond each to just one fund, one type of region, one thematic objective, and comprise one or a few of the investment priorities related to this thematic objective. The OPs are supposed to describe for each priority axis the intended actions, the expected results (incl. their contributions to the respective objectives), the target groups, areas, beneficiaries and the envisaged output indicators.

An extensive *reporting and monitoring* is also provided for. The funds-specific regulations define precise *output indicators* for each investment priority to measure the success of the cohesion policy interventions; some examples are: employment increase in supported enterprises in full time equivalents, additional waste recycling capacity in tonnes/year, population benefiting from flood protection measures in persons, capacity of supported childcare/education infrastructure in persons. Such indicators need to be produced and delivered in *Annual Implementation Reports* for each OP (Art.50 of Reg. No 1303/2013). Moreover, some external auditing reports are prescribed for each OP (any one can easily span more than 400 pages). Regarding the Partnership Agreements, member states are to submit *progress reports* on their implementation by mid-2017 and mid-2019.

development of the Union, including maritime cross-border cooperation, and *interregional cooperation* encouraging exchange of experience between regions on thematic objectives and urban development.

The conjunction between the two sets of policy objectives in the CPR is established by the *funds-specific regulations*: These regulations provide that each class of regions is required to spend a certain amount of its allocations to certain thematic objectives (Box 2).

The CPR also regulates the second step in the cohesion policy procedure, the *Partnership Agreements* to be concluded between the EU Commission and the national governments, covering the complete programming period.[11] These are to be linked to the CSF and the NRPs, and thus once again to be subjected to the Europe 2020 Strategy. The Partnership Agreements provide a frame to the funding, select the areas to be funded and prepare the ground for the policy interventions. Based on the Partnership Agreements, *Operational Programmes* (OPs) with clearly-defined objectives, targets, and actual interventions are then drawn up at the national or regional level (cf. Box 2 for detail). The OPs are submitted to the Commission for evaluation and approval. At present, 389 OPs are in force,[12] each of them between some 100 and more than 600 pages "heavy". National or regional authorities are then responsible for implementing these OPs in specific projects.

Further provisions in the regulations guide the third step in the cohesion policy procedure, the *reporting and monitoring* requirements. To put strain on the alignment of the cohesion policy with the Europe 2020 Strategy, the member states have to submit Annual Implementation Reports on the OPs as well as periodic progress reports on the Partnership Agreements, rendering account on the achievements with respect to the thematic objectives.

Thus the policy thread of the cohesion policy proper, although legally put under rather equalisation-oriented objectives clearly deviating from the growth-oriented Europe 2020 priorities and targets, is inextricably intertwined with the Europe 2020 Strategy at all steps of its implementation. This results in a vast array of manifold goals, objectives, targets for the actual work plans, with little to none attention paid to inconsistencies and conflicts between them. It also results in very complicated procedures for drawing-up programmes, operating the interventions and reporting on successes – producing an amazing amount of paper work.

3.1.3 State Aid Control

The third policy thread concerns the control of state aid that has to be observed when designing Partnership Agreements and OPs (Figure 1, Box 3), insofar national regional aid is included to satisfy the co-financing condition.

The EU state aid control by the EU Directorate-General Competition aims at safeguarding undistorted competition between all enterprises in the EU; as a rule, therefore, all kinds of state aid to enterprises are prohibited. Regional state aid, however, is seen as utile, even essential, for sustaining and stabilising the EU development. It is therefore exempted from the general prohibition rule if it complies with several rather detailed conditions and restrictions in the Guidelines on Regional State Aid that are newly issued for the 2014-2020 programming period. In differentiated regulations, they provide for areas, sectors, projects and cost categories that are eligible or not eligible.

[11] Partnership Agreements of all countries are to be found here: http://ec.europa.eu/contracts_grants/agreements/index_en.htm. Predecessors under the Lisbon Strategy were the so-called National Strategic Reference Frameworks (NSRFs).

[12] Even 531 OPs, if including those under the EAFRD and EMFF funds. All Operational Programmes are to be found here: http://ec.europa.eu/regional_policy/en/atlas/programmes/.

Box 3: Guidelines on Regional State Aid (Information 2013/C 209/01)

The basic legal foundation for regional state aid in *Art.107(3) TFEU* reads: "*The following may be considered to be compatible with the internal market: (a) aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment, and of the regions referred to in Art.349 [outermost regions], in view of their structural, economic and social situation; (b) aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State; (c) aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest; ….*"

The *Guidelines on National Regional Aid*, therefore, in their current version determine so-called

- *predefined 'a' areas*, with a current GDP/capita ≤75% of EU average; these areas are eligible for aid at a maximum 25%-50% of a project's eligible costs (the maximum intensity depending on the development level of the greater region the area belongs to);
- *predefined 'c' areas*, with a GDP/capita ≤75% of EU average during the former programming period, or with very sparse population; these areas are eligible for aid at a maximum 15% of a project's eligible costs;
- *other 'c' areas*, with a GDP/capita below or unemployment rates beyond their national averages, and with further peculiarities (such as being adjacent to a border, being in serious decline or undergoing major structural change), up to an overall coverage ceiling; these areas are eligible for aid at a maximum 10% of a project's eligible costs.

In order to contain the overall extent of regional state aid, the guidelines define a *ceiling for the population covered* by the eligible areas. This coverage ceiling varies for different member states, depending on the development level of the respective member state and on the magnitude of its internal disparities; it is calculated according to a complicated formula. It spans from 7.5, 7.97, 8% of the population (Netherlands, Denmark, Luxemburg) up to 100% (most of the new member states, Greece).

The guidelines exclude certain *sectors of economic activity* from regional state aid such as fisheries, agriculture, airports, and energy, moreover firms in difficulty – for all these apply different specific guidelines. The guidelines also provide rules as to what kind of *projects* and what kind of *costs* are eligible. Thus, investment may be eligible under the frame of an over-arching aid scheme such as the OPs of the cohesion policy, also individual investment if a substantial number of jobs is created or if clustering effects are reaped or if technology and education are improved; even operating aid may be awarded under specific conditions. In any case it needs to be proven that without the aid the investment would not have taken place or would at least not have been located in the relevant area (incentive effect). Eligible costs are, inter alia, investment costs in the form of acquired real estate and production facilities (which usually should be new) or intangible assets under certain conditions, or in the form of wage costs for newly created jobs. Different rules apply to *large undertakings* and to *SMEs*.

The guidelines also require *transparency* of regional state aid to the public. Accordingly, lists of beneficiaries are to be published (http://ec.europa.eu/regional_policy/index.cfm/en/atlas/beneficiaries/) including the exact amounts of their support.

The regulations of regional state aid thus add on the already highly complex rules and procedures for cohesion policy, particularly regarding the geographical scope of eligibility. Overall, the amazing variety of objectives to be considered, the bewildering amount of rules to be observed and the huge number of institutions to be involved, evoke severe questions on the consistency, appropriateness and usefulness of such policy.

3.2 The tradition of cohesion policy and its new ambitions since 2006

To understand when and why EU cohesion policy started to get so complicated, and why there is such an enormous quantity of objectives it is supposed to follow, it is useful to look into the history of cohesion policy. The following section of the paper commemorates shortly the tradition of the EU cohesion policy up to the most recent changes in the balance between various objectives.

3.2.1 The tradition of cohesion policy up to the Agenda 2000

Financial instruments and initiatives to address economic and social imbalances at Community level did exist since the beginning of European integration, the aim being to offset undesirable effects that were expected to emanate from integration. From the foundation over the first and second enlargement, the completion of the Single Market and the formation of the European Monetary Union, up to the eastern enlargement, every major new integration step was accompanied by the establishment of new or extension of old financial instruments, often as part of a deal in the respective negotiations. The creation of the European Social Fund (ESF) in 1958, the European Agricultural Guidance and Guarantee Fund (EAGGF) in 1962,[13] the European Regional Development Fund (ERDF) in 1975, the Cohesion Fund (CF) and the Financial Instrument for Fisheries Guidance (FIFG) in 1993, as well as the extension of funds with the so-called *Agenda 2000* (running in the programming period from 2000-2006) were cases in point.

Concomitantly, the EU attitude towards this kind of policy changed from a relatively passive stance towards an active designing of cohesion policy. Starting from simple co-financing of national policy measures according to annually negotiated national quotas, the cohesion policy was based on genuine legal foundations by the *Single European Act* in 1987/88. The Single European Act explicitly inserted the goal of strengthening economic and social cohesion and of reducing regional disparities into the EC Treaty (Art.2 and Art.174 TFEU in present count). Accordingly, the EC adopted a more active role in cohesion policy pursuing no less than six different objectives for the various funds (without, however, consolidating objectives and funds to combine just one objective to one fund), and complementing them by further specific objectives laid down in numerous Community Initiatives (CIs; Figure 2).[14] As the rules of eligibility became more and more differentiated, cohesion policy actually started dealing with the detailed problems of regions or even much smaller rural or urban zones (villages, boroughs). Only with the Agenda 2000 the numerous objectives were condensed into three remaining objectives plus four remaining Community Initiatives (Figure 2), supplemented by the new Cohesion Fund for the support of trans-European environmental and traffic infrastructure projects in poorer member states.

In the endeavour to avoid fraud, mismanagement and waste, the Commission also advanced towards ever more complex regulations and procedures. Accordingly, ever more steps of scheduling and negotiating plans and programmes were inserted, before monies actually started flowing. Already since the start, the ERDF interventions were required to be part of some national plans on regional development. With the enacting of the Agenda 2000, these plans had first to be transformed into Common Support Frameworks (CSFs), from which then Operational Programmes (OPs) were derived that substantiated the actual investment projects – all requiring negotiation with and approval by the EU Commission. Since 1979, the EU Commission created the Community Initiatives (CIs) and Innovative Measures (IMs) as its own-managed programmes with own budgets within the Structural Funds.[15]

[13] Of this fund, only the so-called Guidance section was regarded as being part of cohesion policy whereas the (much larger) Guarantee section was regarded as being the main instrument of the common agricultural policy.

[14] In 1988, Objectives 1 to 5 were agreed upon. In 1995, with the accession of Sweden and Finland, a further Objective 6 was included. For the years 1991-1993, also a specific programme for the support of the East German transition process was issued.

[15] The budget for CIs varied between below 5 and more than 12 percent of all Funds; the budget for IMs accounted for 0.4 percent of the Regional Fund ERDF. The IMs were not even subject to explicit cohesion policy objectives but pursued growth- or environment-oriented goals like supporting technological innovations, the “New Economy”, and sustainable development.

Figure 2: Changing objectives and instruments of EU cohesion policy, 1989-2020[a]

Single European Act — Programming periods 1989-1993, 1994-1999

Objectives	Financial instruments[b]
Cohesion[c]	CF
Objective 1 (Regions lagging behind)[d]	ERDF, ESF EAGGF(Guid.) FIFG[e]
Objective 6[f] (Regions extremely low populated)	ERDF, ESF EAGGF(Guid.) FIFG[e]
Objective 2 (Regions affected by industrial decline)	ERDF, ESF
Objective 5b (Rural areas)	ERDF, ESF EAGGF(Guid.)
Objective 3 (Long-term unemployment)	ESF
Objective 4 (Youth unemployment / adaptation to ind. changes)	ESF
Community Initiatives 16 in 1989-1994 13 in 1993-1999 e.g., INTERREG URBAN, LEADER	ERDF, ESF EAGGF(Guid.) FIFG[e]
Objective 5a (Adjustment of agricult., fishery)	EAGGF(Guid.) FIFG[e]

Agenda 2000 — Programming period 2000-2006

Objectives	Financial instruments[b]
Cohesion[g]	CF
Objective 1 (Regions lagging behind)[d]	ERDF, ESF EAGGF(Guid.) FIFG
Objective 2 (Areas facing structural difficulties)	ERDF, ESF
Objective 3 (Adaptation and modernization of education and employment)	ESF
Community Initiatives: INTERREG III URBAN II EQUAL LEADER+	ERDF, ESF EAGGF(Guid.)
Rural development outside Obj 1	EAGGF(Guid.) FIFG

Lisbon Strategy Orientation — Programming period 2007-2013

Objectives	Financial instruments[b]
Convergence	CF, ERDF, ESF
Regional Competitiveness and Employment	ERDF, ESF
European Territorial Cooperation	ERDF
Rural development outside cohesion policy	**EAGGF(Guid.) FIFG**

Europe 2020 Orientation — Programming period 2014-2020

	Objectives	Financial instruments[b]
Investment for growth and jobs	**Cohesion**[g]	CF
	Less Developed Regions[d]	ERDF, ESF
	Outermost and north. sparsely pop. **Regions**	ERDF, ESF
	Transition Regions[h]	ERDF, ESF
	Youth Employment Initiative	ESF
	More Developed Regions[i]	ERDF, ESF
Terr. Coop.	**Cross-Border Cooperation**	ERDF
	Transnational Cooperation	ERDF
	Interregional Cooperation	ERDF
	Rural development Fishery Most deprived	EAFRD EMFF FEAD

[a] Same colours refer to broadly comparable objectives. – [b] CF = Cohesion Fund; ERDF = European Regional Development Fund; ESF = European Social Fund; EAGGF(Guid.) = European Agricultural Guidance and Guarantee Fund, Section Guidance, today: EAFRD = European Agricultural Fund for Rural Development; FIFG = Financial Instrument for Fisheries Guidance, today: EMFF = European Maritime and Fisheries Fund; FEAD = Fund for European Aid to the Most Deprived. – [c] Since 1993/94. – [d] Regions with GDP/capita < 75 percent of EU average. – [e] Since 1994. – [f] Since 1995. – [g] Member states with GNI/capita < 90 percent of EU average. – [h] Regions with GDP/capita betw. 75 - 90 percent of EU average. – [i] Regions with GDP/capita > 90 percent of EU average.
Source: Own illustration based on EU Commission (2007, Guide). - Own complements.

Moreover, by the principle of additionality of all funding and the obligation for member states to co-finance EU projects (in order to preclude national resources simply being replaced by EU resources), the EU was able to direct further, national resources into an overall EU cohesion policy.

In addition to this, the EU increasingly exerted influence on national regional policy via the control for state aid. Originally, the control of all national state aid to enterprises had been designated as an instrument to combat such aid in order to defend competition in the Union (based on Art.107 TFEU – ex-Art.87 TEC). Regional state aid, however, has always been regarded as being less distortive, since the effects were supposed to be offset by countervailing exchange rate adjustments. Even though this argument lost its persuasiveness with the start of EMU at the latest, still regional state aid was seen as utile in accommodating the progress of EU integration (Art.107(3) TFEU – ex-Art.87(3) TEC). But as more and more member states jerked towards supporting regions that in EU-wide comparison were neither particularly poor nor problem-stricken, the EU administration since 1975 started imposing restrictions on regional state aid, to assure that the overall poorest regions receive the strongest support. In the guidelines released for each consecutive programming period, the rules on the eligibility of regions, on the generosity of grant schemes, and on an overall coverage ceiling for the population in eligible areas (see Box 3) became stepwise more differentiated and complex. In the combination of cohesion policy governance and state aid control, the EU administration thereby achieved a considerable degree of control on all cohesion policy from the European via the national to the local level (Krieger-Boden 2002).

In the forerun to the programming period 2007-2013, the traditional cohesion policy was criticised thoroughly (Sapir et al. 2003),[16] particularly because of its complex and confusing system of assigning competences between the Union, the member states, sub-national entities and private agents. In addition, tensions between goals and means were denounced, where the goals got lost in the "nitty-gritty of legal acts and budgetary choices" (Sapir et al. 2003:80). The suggestion concluded from this critique was to simplify cohesion policy radically by abandoning completely its regional approach and restricting it to low-income countries, and by attaching more commitment and autonomy to the member states. The Sapir report also recommended explicit growth policies for the EU, without, however, binding them in any way to cohesion policy. The Union, however, did not follow these recommendations.

3.2.2 The new approach since the Lisbon Strategy

Already at the Lisbon Summit in March 2000, the European Council had adopted an ambitious overall strategic agenda for the EU: The *Lisbon Strategy* was aimed at turning the EU into the "most competitive and dynamic knowledge-based economy in the world" within the next decade (European Council 2000: §5). Yet at first, the Strategy was little more than a slightly modified resumption of well-known existing policies such as the development of the Internal Market, the European Employment Strategy EES, and the improvement of research and innovation, further complemented in 2001 by the Sustainable Development Strategy (Danish Technological Institute

[16] The Sapir report (Sapir et al. 2003) was an independent report to the EU Commission in the advance of the eastern enlargement. The report, presented by a High Level Study Group under the lead of André Sapir, elaborates on all aspects of EU economic policy.

2005: 32, 36).[17] Soon, the Lisbon Strategy turned out to be a programme with weak instruments (e.g., in terms of financial incentives and sanctions), with little commitment on the part of the member states, and therefore with meagre progress (Kok et al. 2004, Danish Technological Institute 2005: 54, Bongardt, Torres 2007: 35, Pisani-Ferry, Sapir 2006: 5).[18]

By March 2005, the European Council conceded the Strategy's failure and started a *re-launch*, sharpening the Lisbon priorities[19] – and subordinating the financial instruments of the cohesion policy, the Structural Funds, to these very priorities for the up-coming programming period 2007-2013 (Regulation No. 1083/2006). The re-launch thereby fell short of more fundamental reform ideas that had been suggested, such as reassessing very generally all EU budget priorities including the Common Agricultural Policy, and as strengthening strongly benchmarking procedures in the form of "naming and shaming" (Kok et al. 2004, Bongardt, Torres 2007: 38, Pisani-Ferry, Sapir 2006: 6).

Still, by the subordination of the Structural Funds, the re-launch had considerable impact, at least on the cohesion policy. It was the start of an *antagonistic approach* to the EU cohesion policy: Improving economic and social cohesion by fostering growth and creating jobs in the least developed member states and regions under the traditional Convergence Objective, <u>and</u> strengthening growth, competitiveness, employment and the environment in all other regions under the new Competitiveness Objective (Figure 2). Besides, the former objectives referring to areas in decline or to the modernization of employment were dismissed or subsumed under the Competitiveness Objective, and the issue of European Territorial Cooperation was upgraded to a separate objective. With these new objectives, for the first time, all regions were in principle eligible for funding though under different regimes and to different degrees. Moreover, in order further to enforce the Lisbon-Strategy orientation, the so-called "Lisbon Earmarking" was introduced. It provided that a considerable amount of all eligible expenditure was to be set for some key Lisbon priorities, and this not only for regions under the Competitiveness Objective (75 percent of their expenditure), but even for regions under the Convergence Objective (60 percent of their expenditure). These key priorities included expenditures for supporting research, technological development and innovation, building the information society, improving human capital, developing the telephone infrastructure and special parts of the transport and energy infrastructure. Under the Europe 2020 Strategy, the cohesion policy retained the antagonistic approach though differentiating the objectives further again (Figure 2). The Lisbon Earmarking has been continued in a modified way via the rules on pursuing the "thematic objectives" (cf. Table 1 and Box 2)

[17] Perhaps the only new instrument was a new governance mechanism, the so-called Open Method of Coordination (OMC). This rather soft form of coordination, first applied in EU employment policy, avoids binding member states inevitably, while still fixing Union-wide goals with specific timetables, establishing benchmarks as a means to compare best practice, translating the guidelines into national and regional action plans, and monitoring the results periodically.

[18] The Kok report (Kok et al. 2004) is an independent mid-term review report, presented by a High Level Group, headed by Wim Kok, the former Prime Minister of the Netherlands. In the words of the report, "Lisbon is about everything and thus about nothing. Everybody is responsible and thus no one" (Kok et al. 2004: 16).

[19] The prominence of social and environmental goals was thus first reduced, but later reinstated by the Renewed EU Sustainable Development Strategy (SDS), which dealt "in an integrated way" with economic, environmental and social issues.

To go roughly through other elements of the new approach: At least in the Lisbon-oriented period, endeavour was taken to decentralize, deregulate and simplify cohesion policy. Not only was the number of objectives once again condensed from seven to three (as mentioned above; Figure 2),[20] but also was the number of financial instruments concentrated from six to three: the ERDF, the ESF, and the Cohesion Fund (CF).[21] The number of steps from application to actual disbursement of funds was also reduced. In return, the responsibility of National member states within cohesion policy was strengthened and reporting and monitoring processes were introduced explicitly. Unfortunately, this path of simplifying cohesion policy has not been continued for the Europe 2020-oriented period, but rather the number of objectives increased again, and the rules to be observed have become perhaps more complicated than ever (cf. section 3.1).

To sum up, the new approach to cohesion policy is very ambitious and antagonistic in that it tries to embrace both efficiency/growth-enhancing as well as inequality-reducing objectives – plus various further objectives –, and tries to implement these simultaneously in the same regions. The procedures in this approach are, not surprisingly, multi-faceted and complicated; doubts remain whether it is at all feasible to observe all of them or whether they actually provoke cheap talking and even cheating. This enters into some more general questions: whether this approach really and substantially changed the orientation of actual cohesion policy or rather led to Euro-verbosity, and whether it is apt to reach its ambitious double/multiple objectives or will run the danger of first-round or second-round failures, as described in the theoretical background.

4 Practise of EU cohesion policy

The EU Commission seems to take it for granted that the new approach to cohesion policy prompted member states to implement the suggested structural reforms and helped them to increase their growth potential in return (EU Commission 2007, Communication to Spring European Council:3). To be sure, since the outbreak of the financial/debt crisis in 2007/2008, hardly any positive economic developments could be observed in most member states, whatever the results of the cohesion policy may have been. But even for the pre-crisis period, the actual implementation is difficult to assess, as there are generally few data on actions (that is, payments) but rather on intentions (that is, decided appropriations; see below). At least, it is possible to analyse in how far the intentions, as expressed in the allocation of appropriations, keep up with the overall ambitions.

In the following, I record stylised facts on the practise of EU cohesion policy regarding the allocation of the funds between countries and between the various objectives, and regarding the

[20] In addition, two transitional support arrangements were established. Under the so-called "*Phasing-out*" of the Convergence Objective, the respective, formerly eligible regions and member states received transitional support until 2013 on a decreasing basis. Under the so-called "*Phasing-in*", the former convergence regions whose per capita GDP now even outperforms the former EU15 threshold due to an accelerated growth received transitional support up to 2013 on a specific, decreasing basis down to the level of the regions under the Competitiveness Objective.

[21] The former EAGGF (Guidance) and the Community Initiative LEADER+ were replaced by the European Agricultural Fund for Rural Development (EAFRD) and the former FIFG was replaced by the European Fund for Fisheries (EFF). These funds got their own legal basis as part of the Common Agricultural Policy (CAP) and were no longer part of the European cohesion policy (Cohesion Policy 2007-13, p. 11; EU Reg. No 1083/2006: Art.3, 4 (?)). Other Community Initiatives were simply closed down.

actual implementation of the funds. I find some evidence pointing towards a high degree of Euro-verbosity and little reason to believe in the success of the ambitions.

4.1 Data

In spite of the EU Commission's numerous assertions towards the transparency of its cohesion policy, it is not easy to get at detailed, consistent, time-series data for this policy. The following stylised facts draw on data that are, or have been, publicly available from the EU Commission, usually from the Directorate-General Regio. Sources are in particular the ERDF and ESF Annual Reports, the Annual Reports on the Execution of the Structural Funds and the Annual Reports on the Cohesion Fund. These reports used to be informative with regard to the allocations between the different SFs and the different objectives, at least until about 2006, regarding appropriations (rather than payments) and member states (rather than assisted regions).[22] Even for that period, however, the figures provided vary in concept and alienation, and are hard to compare. Since, data are provided in a much more erratic and piecemeal fashion. Information on the financial execution of the Funds and for the allocation among the different goals and objectives for the periods 2000-2006 and 2007-2013 may be drawn from a more recent ESIF databank, from a further Regio website providing various statistics, and from a statistics collection on Operational Programmes.[23] Information on the scheduled allocations for the 2014-2020 period is taken from EU Commission (2014, Annual breakdown by Member State). Regional data (on NUTS2 or NUTS3 basis) are even more erratic, some data concerning the period 2000-2006, others some single years (e.g., 2013).[24] Concomitant information on GDP and population is drawn from Eurostat.

4.2 Stylised Facts on cohesion policy

4.2.1 Intentions: overall allocation of resources

Cohesion policy is regarded a financially powerful instrument now serving the Europe 2020 Strategy. The resources dedicated to it increased more or less in pace with the various steps of European integration from less than 2.5 billion ECU in 1975 over 5.7 billion ECU in 1985 to 54.9 billion EUR scheduled for 2020 (all at current prices; Figure 3). They have thereby multiplied about twentyfold. As a result, the proportion of the EU's budget allocated to the ESI Funds rose from, e.g., 18 percent in 1987 to 36.7 percent for the period 2014-2020.

However, the amounts are much less impressive if expressed as shares in contemporary GDP: They varied between less than a quarter percent to a half percent of total EU GDP, with an average of 0.4 percent. This size was largely determined by the ceiling for the overall EU budget fixed at 1 percent of GDP for long and raised to 1.2 percent only recently, in combination with the very large proportion of this budget reserved for the Common Agricultural Policy (CAP). These

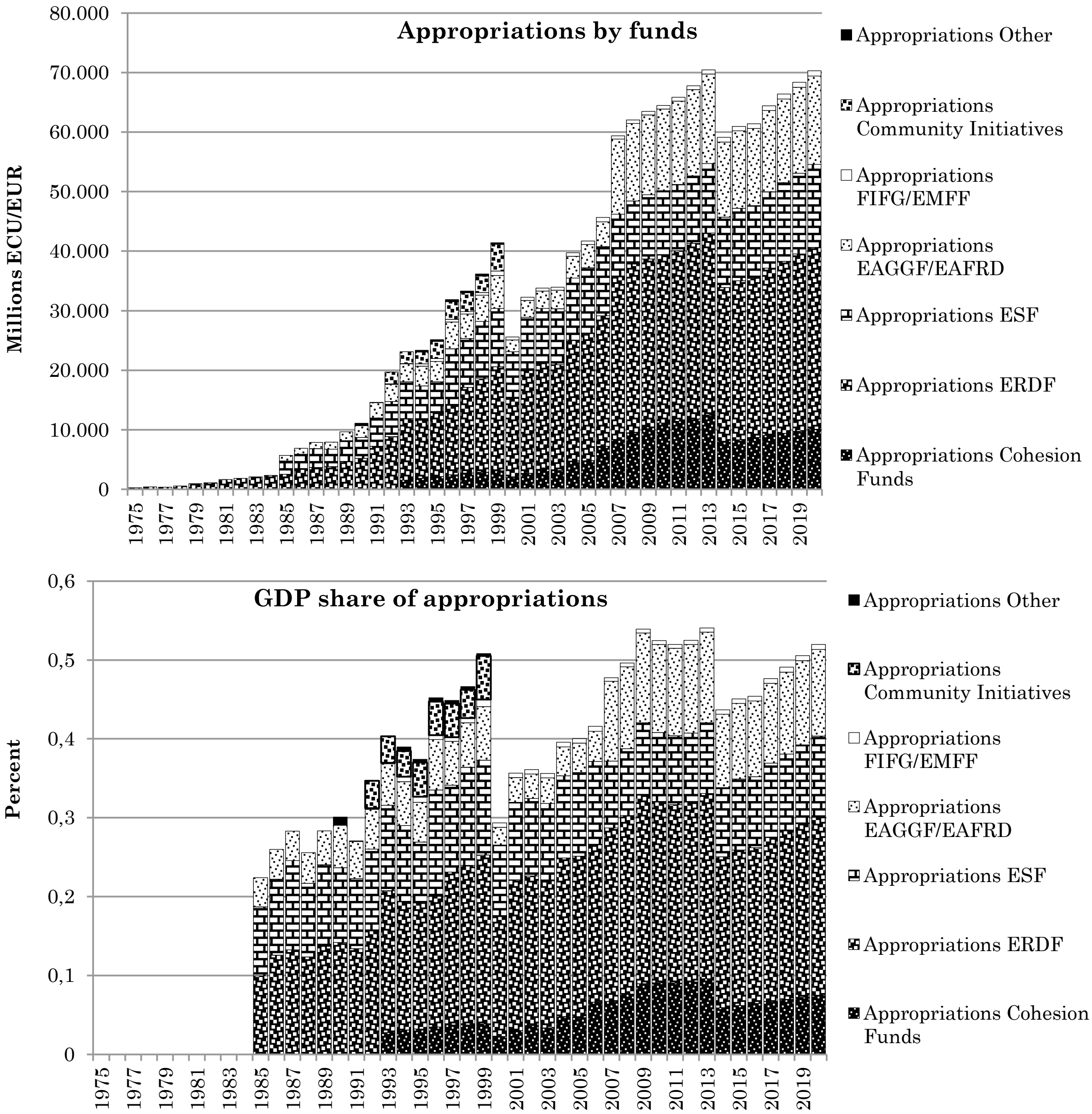
[22] For early years, some even broader data have been drawn from EU Commission (1989, Manual on EU SF reforms).

[23] Cf. https://cohesiondata.ec.europa.eu/browse; http://ec.europa.eu/regional_policy/en/policy/evaluations/data-for-research/; http://ec.europa.eu/regional_policy/sources/docgener/evaluation/data/financial_execution_by_period_fund_country.xls; EU Commission (2007, National Strategic Reference Frameworks); https://cohesiondata.ec.europa.eu/dataset/ESIF-FINANCE-DETAILS/e4v6-qrrq .

[24] For instance: http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2006/expenditure_final_annex2

small amounts put the actual importance of cohesion policy and any expectations of a large impact of it into perspective.

Figure 3: Significance of Structural Funds, 1985-2020



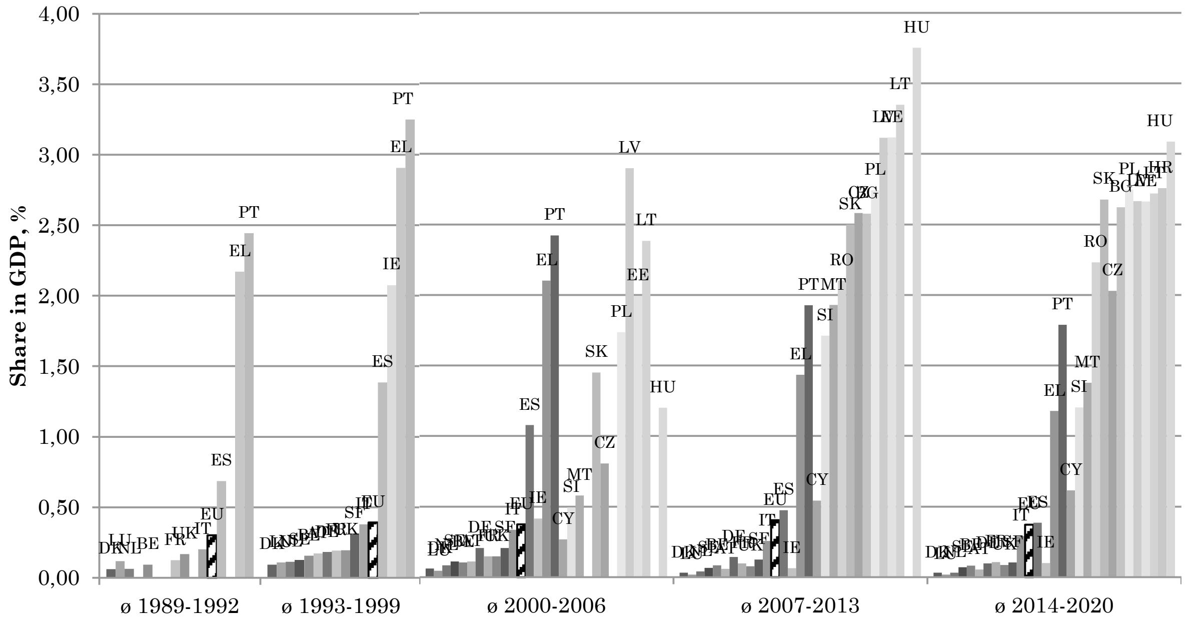
Source: Database cf. Section 4.1 of the paper. — Own calculations.

4.2.2 Intentions: allocation of resources by countries

The picture gets somewhat different, however, if one assumes the amounts allocated to some EU countries (and to some particularly retarded regions within some countries). The patterns of this allocation reveal a strong redistributive orientation of cohesion policy that even did not change with the new approach since 2007. Thus, the ERDF and ESF reach quite substantial amounts for the least-developed EU countries at any one time. In addition, the Cohesion Fund is directed exclusively to these very countries. Together, the Structural Funds take values of up to almost 4 percent of national GDPs for some countries and some periods (Figure 4) , i.e. for Ireland, Greece, Portugal and Spain in the earlier periods up to 2006 (declined considerably thereafter, particularly in the case of Ireland), and for the new member states since 2004 and 2007. Compared to the respective GDP, Hungary received the highest amounts ever, followed by Lithuania, Estonia and Latvia. If one reckons that the share in the respective state budgets is likely to be at least twice as high (even higher, if state budgets are lower than 50 percent of GDP) these quantities are far more than negligible.

By contrast, the broad majority of EU15 countries, those with higher development levels, always received, and receive at present, amounts of less than a quarter percent of their GDP. Thus, in the current programming period, the twelve least-supported member states (EU15 except Greece, Portugal and Spain) taken together are scheduled to receive only 25.6 percent of all Structural Funds resources, while they represent almost 66.0 percent of total EU28 population and 81.3 percent of total EU28 GDP (in 2014). Even of these small resources, in some of these countries more than one third is scheduled to support convergence regions, e.g. Eastern Germany and Mezzogiorno. In most of the least-supported countries, therefore, the Structural Funds can set only very small impulses towards whatever objectives, and their impact is therefore likely to be extremely small.

Figure 4: Significance of Structural Funds by countries, 1989-2020[a]



[a] Appropriations for commitments, revised data, current prices.
Source: Database cf. Section 4.1 of the paper. — Own calculations.

A strong redistributive focus of the Structural Funds is present even within some of the new member states. Take the example of the capital regions of Prague, Bratislava and Budapest (=Central Hungary): After having readjusted their economies quite successfully in the 1990s and early 2000s, they have dropped out of funding under the Convergence Objective in 2007. Accordingly, they then received only very small shares of the ESIF allocations to their home countries, particularly as compared to their population shares and GDP shares (Table 2). Prague, for example, then received only about 1.6 percent of the Czech Republic's total Structural Funds resources, whereas it inhabits more than 11 percent of the country's population and about 24 percent of its GDP.

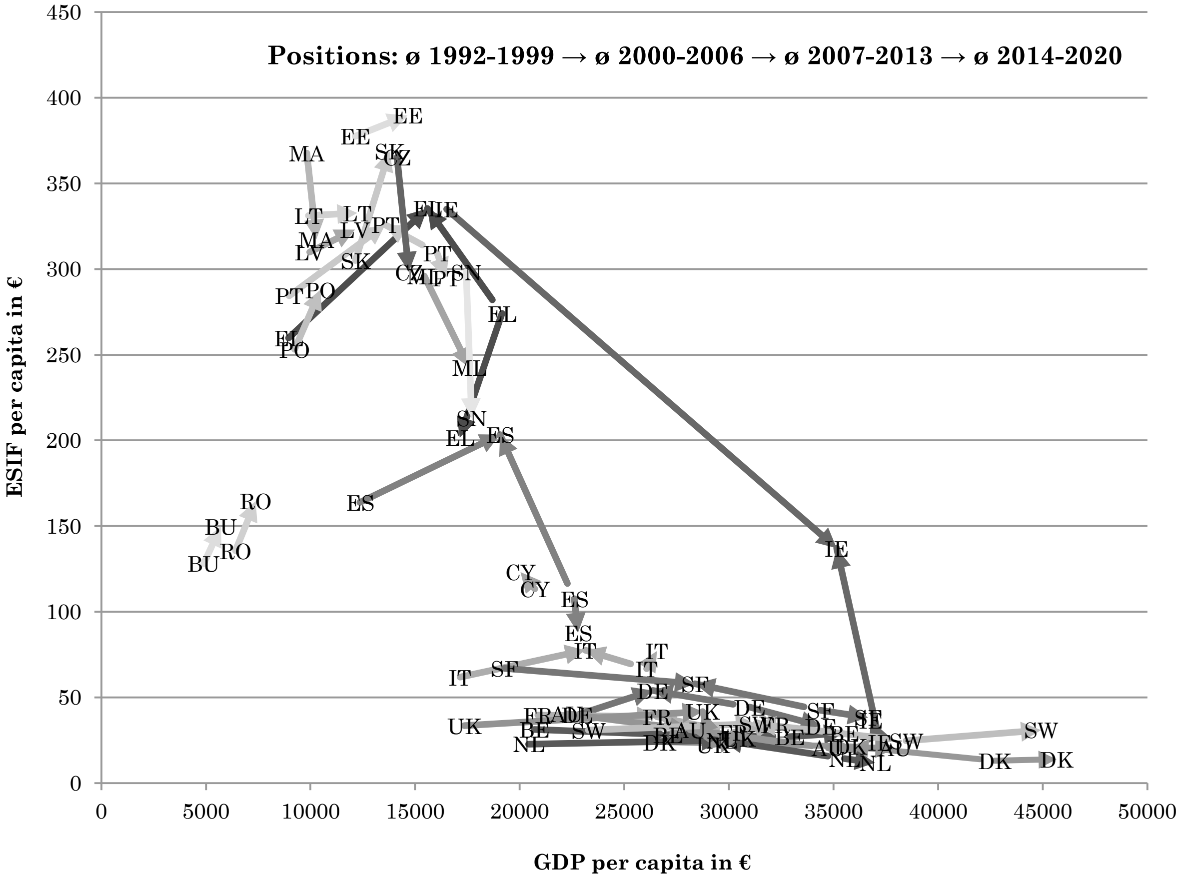
Table 2: Share of capital regions in ESIF appropriations in comparison to population and GDP

Capital region	Country	Structural Funds 2007-13	Population 2005	GDP 2005
		Region's share in respective country in percent		
Prague	Czech Republic	1.59	11.5	24.0
Bratislava	Slovakia	3.95	11.2	27.3
Central Hungary	Hungary	8.15	28.2	46.1

Source: Database cf. Section 4.1 of the paper. — Own calculations.

More generally, the redistributive orientation of cohesion policy is demonstrated by the close negative relationship between the GDP per capita and the Structural Funds per capita. Figure 5 displays the position of the EU member states regarding their average per capita GDP level and the average per capita support granted to them from the Structural Funds for different periods. This relationship indicates the high inclination of the Structural Funds towards low-income countries. Over time, the support by the Structural Funds usually declined markedly when per capita GDP levels increased in a given country – most strongly in the case of Ireland. This evidence indicates the strong redistributive orientation of the Structural Funds on poor instead of

Figure 5: Relation between ESIF/capita and GDP/capita by member states, 1992-2020[a]



[a] Funds for the accession countries for the period 2000-2006 are not considered due to the then only gradual inclusion of these countries into the EU cohesion policy. Luxembourg excluded as GDP outlier.
Source: Database cf. Section 4.1 of the paper. — Own calculations.

growth-intense and potentially competitive areas, even since the start of the new approach to cohesion policy.

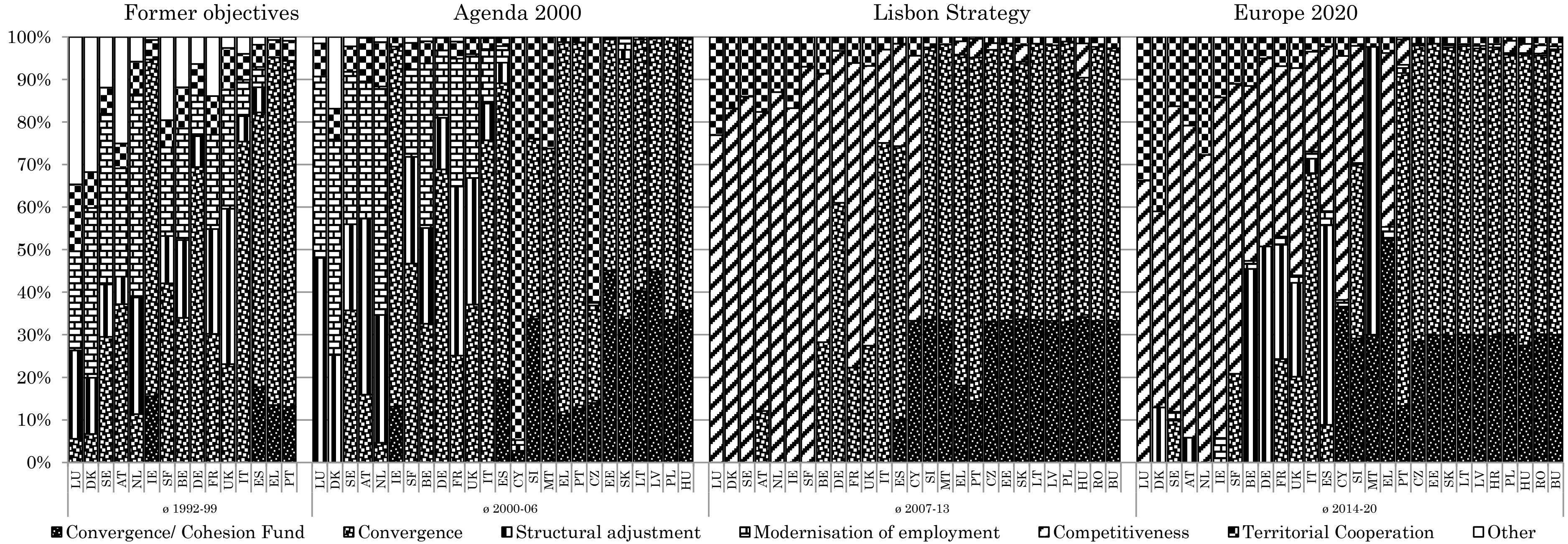
4.2.3 Intentions: allocation of resources by objectives and policy themes

The most important aspect of the new approach to cohesion policy since 2006 was the change of the objectives towards efficiency-/growth-enhancing, meant particularly for the more developed regions but nevertheless also even for the least developed regions. However, again, a decisive shift from a redistributive to an efficiency-oriented policy can hardly be detected.

Inferring from the asserted intentions of cohesion policy for member states (expressed by the allocation of appropriations to the objectives described in Figure 2), actually the objectives do change over time; moreover, their significance varies considerably according to the countries concerned (Figure 6). The least-developed member states, Portugal, Spain, Greece, Italy, Ireland (until 2006), the new member states (NMS), and Germany after reunification (until 2013) were always characterised by particularly high shares of their funding being assigned to the cohesion-related objectives (dotted parts in Figure 6). The more developed member states, before the Lisbon re-launch, were allotted funds for various objectives, particularly for structural adjustments of their ailing industrial areas and for the modernization of their labour markets (striped and bricked parts). After 2006, they were awarded funds primarily for the new Competitiveness objective (up to 90 percent of all their funds; hatched parts). The objectives of the current Europe 2020-oriented period are a bit more difficult to compare to earlier ones; but particularly strong support is allotted to the more developed regions of these countries, presumably expecting an orientation similar to the former Competitiveness objective. Some smaller amounts are awarded to the transition regions, where the expected orientation is more difficult to tell. Still, in view of these allocations of the financial resources, it looks like the new approach initiated a successful turn-around to a more efficiency-/growth-oriented cohesion policy.

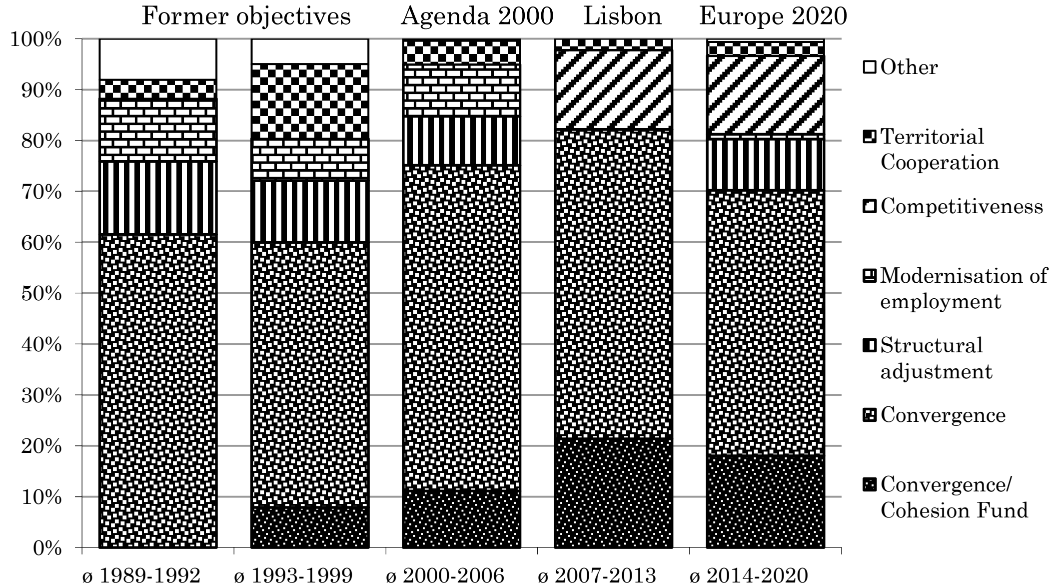
This view, however, disregards the extremely small amounts of resources for those countries with the seemingly successful turn-around. Considering the EU-wide aggregate data for the allocation of the Structural Funds on the various objectives reveals a high and mostly growing orientation towards the convergence-related objectives (Figure 7). The resources dedicated to these always accounted for more than 50 percent of all resources, and reached a peak of 81.6 percent just during the Lisbon-oriented period, of all periods, compared to only 15.6 percent for the Competitiveness objective. In the current Europe 2020-oriented period, 70 percent of all appropriations are scheduled to serve the least developed/outermost regions and countries, thus aiming at the cohesion-related objective. By comparison, 11 percent are scheduled for the intermediate so-called transition regions and for the Youth Employment Initiative, thus to objectives comparing to the former structural adjustment and modernisation of employment objectives that had been neglected in the Lisbon-oriented period, and only 15.5 percent are scheduled for the more developed regions, thus aiming at the efficiency-related objectives.

Figure 6: Objectives of ESIF appropriations by member states, 1992-2020[a]



[a] For better comparison across the programming periods, the objectives aiming at broadly comparable directions (cf. Figure 2) are aggregated. Member states are arranged according to their GDP per capita in 2014, from Luxembourg to Portugal, to Hungary, to Bulgaria, respectively.
Source: Database cf. Section 4.1 of the paper. — Own calculations.

Figure 7: Objectives of ESIF appropriations for EU total, 1989-2013[a]

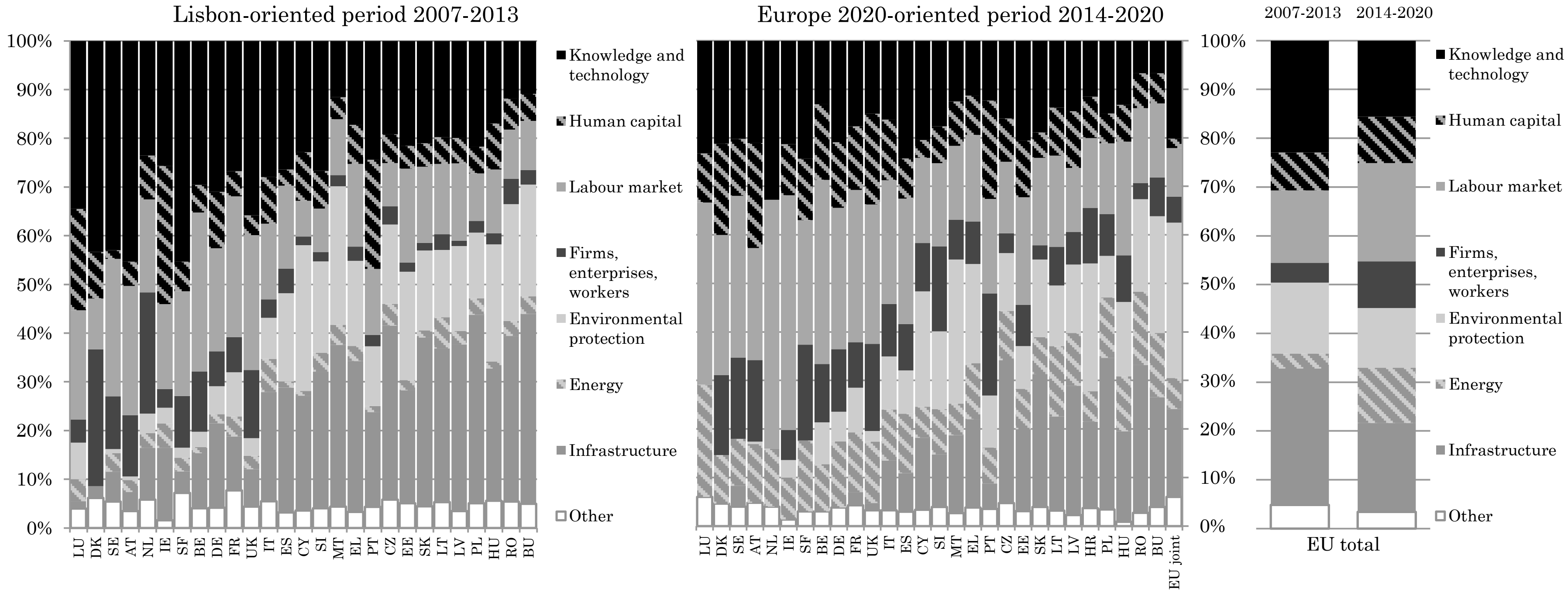


[a] For better comparison across the programming periods, the objectives aiming at broadly comparable directions (cf. Figure 2) are aggregated.
Source: Database cf. Section 4.1 of the paper. — Own calculations.

This is, however, not the end of the story, since the idea of the new approach to cohesion policy was to subdue even the less developed regions and countries to growth-enhancing policy themes – recall the selection of expenditure categories specifically eligible for funding, the Lisbon Earmarking procedure, and the more recent requirements of pursuing given thematic objectives (cf. Box 2). Nevertheless, in spite of these provisions, the thematic foci of the 389 OPs provided by the member states vary significantly, in line with the states' respective development levels. Thus, indeed, the higher-developed EU member states responded to the policy shift and focused their OPs, usually region-specific, explicitly on the policy fields of knowledge/innovation/R&D and human capital, moreover on the policy fields of the labour market (Figure 8).[25] By contrast, the less developed member states still focused their OPs, usually in the form of national programmes, on more traditional policy fields such as developing the infrastructure, and on environmental protection. Looking at the regional level and exploiting information of 1973 on all ERDF and CF appropriations by region types indicates a similar pattern (Figure 9).[26] The rich "Competitiveness" regions were highly inclined towards the knowledge and technology policy field (accounting for more than 50% of all appropriations), whereas the less developed "Convergence" regions were primarily inclined towards infrastructure and environmental objectives.

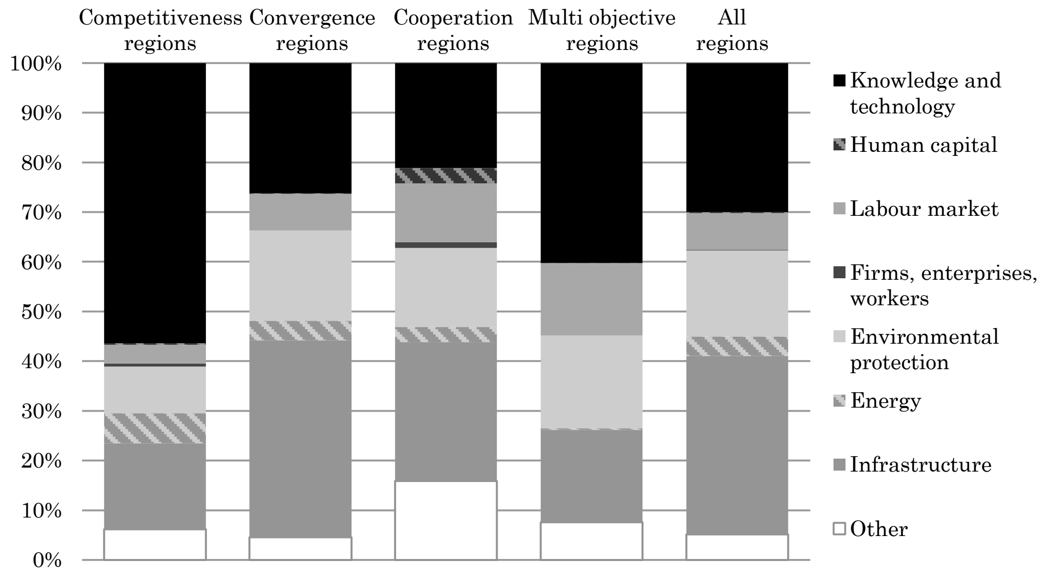
[25] This is stressed by Bachtler and McMaster (2007), who argue strongly in favour of the Lisbon Strategy approach.
[26] The small significance of the human capital, labour market, and firms and enterprises policy fields in Figure 9 as compared to Figure 8 is due to the absence of ESF appropriations in Figure 9.

Figure 8: Policy themes of ESIF appropriations by member states in 2007-2020[a]



[a] According to Operational Programmes. Countries are arranged according to their GDP per capita in 2014.
Source: Database cf. Section 4.1 of the paper. — Own calculations.

Figure 9: Policy themes of ERDF/CF appropriations by region types, 2013[a]



[a] According to Operational Programmes.
Source: Database cf. Section 4.1 of the paper. — Own calculations.

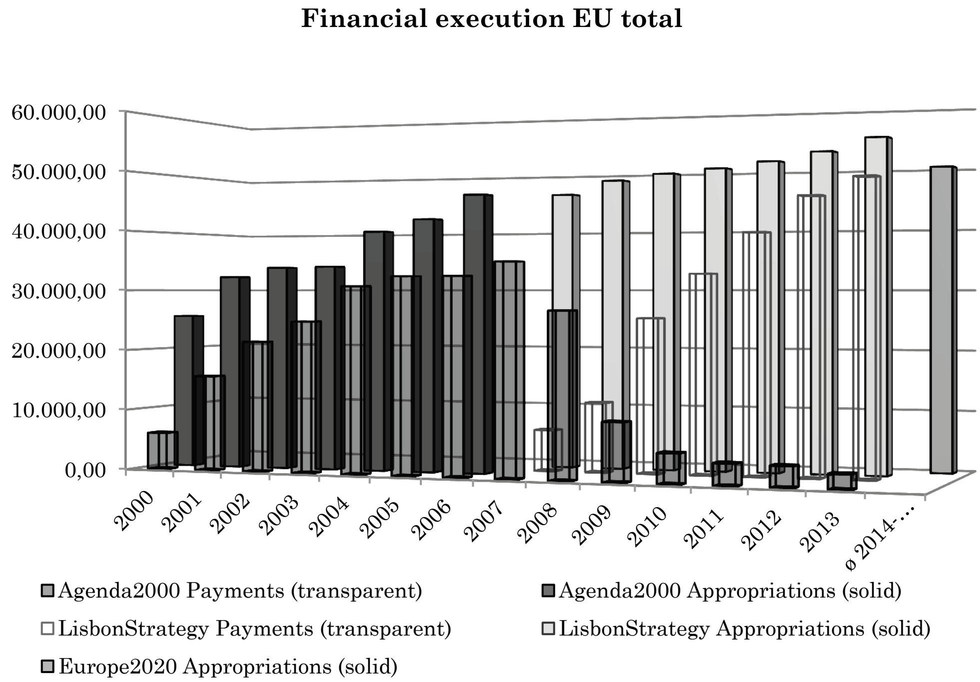
Again, the aggregate orientation of the funds (right-hand columns in Figures 8 and 9) is primarily driven by the traditional foci of the less developed member states and the less-developed regions, as these states and regions receive the bulk of the actual resources (e.g., 82 % of ERDF/CF resources for the Convergence regions versus 10 % for the Competitiveness regions). Overall, even with the new approach to cohesion policy, the traditional, distribution-oriented convergence objective and the infrastructure policy themes prevail over the growth-/efficiency-oriented competitiveness objective and the R&D policy themes.

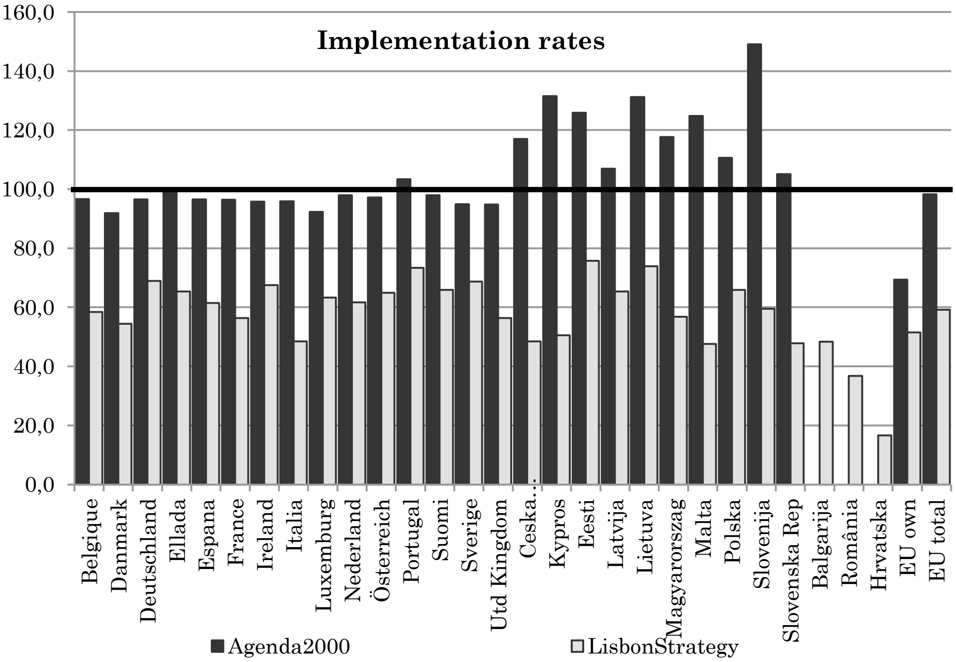
4.2.4 Actions versus intentions: overall execution of cohesion policy

One constant concern with regard to cohesion policy was always whether its intentions (appropriations) did at all turn into real actions (payments), given the fact of weak administrative capacities in some countries and the highly complex procedure. In fact, there were some years where in some countries almost no cohesion policy resources were spent, due to a lack of actual approved investment projects (e.g., Greece in 2000).

Information on payments of the EU cohesion policy is even sparser to get at than on appropriations. A least, there are some figures available on the financial execution of the Agenda 2000 programming period (2000-2006) and the Lisbon Strategy-oriented programming period (2007-2013; Figure 10, upper graph). Quite obviously, the implementation always lags behind the intentions expressed in the appropriations. In the starting year of the Agenda 2000, less than a quarter of the scheduled resources were actually distributed, in the starting year of the Lisbon Strategy programming period, even worse, only 10 % of the scheduled resources. Moreover, in none of the following years did the actual amount of payments surmount the scheduled appropriations for the same year in the respective programme. Accordingly, there remains a lot of carry-over after the end of the programming period, and payments keep on flowing for at least some further five to six years.

Figure 10: Financial execution of ESIF





Source: Database cf. Section 4.1 of the paper. — Own calculations.

The good news is that in the end all scheduled resources seem to arrive at their destination, as can be inferred from the implementation rates of the Agenda 2000 programme for all member states (Figure 10, lower graph). In all cases, the total payments up to 2013 reach at least close to 100% of the total appropriations. The new member states accessing during this programming period in 2004 received even more than the relatively small resources that had been scheduled for them in the appropriations. Of the Lisbon Strategy programme, around 60 % of all appropriations have been distributed up to 2013; since then, payments are likely to have continued flowing.

4.2.5 *Actions versus intentions: anecdotic evidence on actual projects*

In the end, the actually implemented projects count when assessing the success of the cohesion policy. Even if these projects are said to contribute to a given thematic objective, say, R&D in a region, this need not necessarily be the case, or even if they do contribute, the contribution may not be required and thus wasted, as e.g., the development of industrial estate that does not attract any settlements. Responding to the provision of state aid control to publish any beneficiary by name and amount granted, lists of beneficiaries of EU funding are available for each country. However, they are provided in each member state's language, which limits transparency across borders, particularly as it comes to countries like Greece or Hungary. Moreover, the lists are differently informative regarding details and backgrounds of the funded projects (Box 4).

It would be beyond the scope of this paper to exploit this information systematically. A broad impression is that the composition of beneficiaries, whether public or private, varies between countries. In Germany, for instance, most of the resources seem to go to investments of private enterprises. Such enterprises are often SMEs or start-ups or stand at the verge of launching a somewhat new product or process. Often the funds are used for modernizing, extending, relocating or diversifying plants; other examples include hiring an "innovation assistant", for acquiring an offset printing machine, or simply supporting the beneficiary himself. It is by far not clear whether such investment yields any social surplus beyond its private investment.

In other countries, for instance UK and Spain, most of the resources seem to go to communities and regional development agencies for public infrastructure projects. Resources are typically spent on developing technology parks and industrial estates, urban renewal, broadband access, rebuilding/refurbishing buildings, drafting tourism plans, ameliorating cultural and social infrastructure, also for enterprise coaching. Moreover, in all countries, considerable resources seem to be dedicated to research at universities and research institutions – these are perhaps most in line with the growth-enhancing approach of the new cohesion policy. Eye-catching are, however, the perhaps a bit strange examples that can be extracted from these lists such as developing a gasket ring for metal caps without PVC and emollient, developing an inflatable tent, or developing an audio-tracking for a long-distance cycle path (the world-wide first one set to music!).

One may thus wonder whether the realized projects are helpful to advance the European Union. Often, funds appear simply be pocketed for projects that would have been realised anyway, or wasted on projects with no use to anyone. In several cases, assisted regions may be unable to absorb the funds properly. Examples are new business parks, where the local public infrastructure has neatly been installed, only the business is lacking. Other well-known cases concern "white elephants", where a modern, capital or human-capital intense plant receives support for settling in a backward region with severe unemployment, and where the plant then hires just a handful of local workers while most of its benefit goes to the owners, investors, intermediate producers and customers located in any part of the world. In other cases, where a new plant actually does make ample use of the cheap labour available in the assisted region, the caravan is likely to move on farther to the East as soon as wages go up just a little, leaving behind the workers and the empty plant, an investment failed. In all these cases, there will be no improvement whatsoever for the assisted region itself.

Box 4: Examples of actually funded investments

Projects in Germany
The quality of the information provided differs between the various "Länder", but generally tends to be sparse. Most of the resources seem to go to *enterprise investments,* for modernizing, extending, relocating or diversifying plants, for "environmental consulting and auditing", for hiring an "innovation assistant", for "acquiring a five-color-offset printing machine", or for simply supporting the beneficiary himself (e.g., project "Wühr Karl" for beneficiary Karl Wühr, project "OWS Oberpfälzische Waggon-Service GmbH" for beneficiary OWS Oberpfälzische Waggon-Service GmbH, the latter at an amount of 1.8 million €). The State of Schleswig-Holstein, for instance, claims for the 2007-2013 programming period an amount of 374 million € ERDF funds to have initiated at least 1 billion € investments, supported at least 800 SMEs (thereof 10 start-ups), and created 5000 new jobs. Some striking or even a bit strange examples include developing a gasket ring for metal caps without PVC and emollient, or developing an inflatable tent.

Some resources go to *research at universities and research institutions* for research equipment. Further resources go to communities and regional development agencies for *public infrastructure projects* for drafting tourism plans, ameliorating touristic and cultural infrastructure, and developing industrial estate. For instance again, the State of Schleswig-Holstein claims four coastal protection projects, and an extension of cargo handling for an additional 605000 tons in some ports. Bizarre example: audio-tracking for a long-distance cycle path (the world-wide first one set to music!).

Projects in Spain
The information is sparse, restricted on what is inevitably required, and leaves much room for guessing. Huge amounts of funding go to *public administration* such as the Junta de Extremadura and the Generalitat de Catalunya (the central governance institutions in each region) for all kinds of public investments (e.g., 1.1 billion € in Extremadura, 1.2 billion € in Cataluña), and to government-controlled development agencies such as the Dirección General de Carreteras for highway construction and roadworks (e.g., 122 million € alone in Extremadura), or the Dirección General del Agua for improving water supply and distribution (e.g., 222 million € in Extremadura), or ICEX España Exportación e Inversiones promoting presentations of the exporting economy at international trade fairs (e.g., 16 million in Cataluña).

Funding for *enterprises* and (not-elaborated) *private persons* concerns, inter alia, establishing strategical development plans, extending the IT infrastructure of enterprises, developing a tool for a multidimensional data display in the web, improving the quality of services, acquisition of equipment, granting a loan (e.g., 186,08 € for Rosendo Garcia, Guisado), etc.

Projects in UK
The projects in the lists are explained quite elaborately. The support goes mostly to communities, other public authorities and development agencies with public mandate, and the projects funded concern technology park and industrial estate development, urban renewal and development, waterfront projects, broadband access, enterprise coaching, rebuilding /refurbishing buildings. Moreover, universities get funding for research equipment. A striking project: support to an NGO "People United Against Crime" for creating a "Business Crime Reduction Centre".

Projects in Netherlands
The information provided in the Netherlands is particularly detailed and appealing (https://www.europaomdehoek.nl/projecten/?map=1): Each project is presented with a comprehensive explanation, with its location on a map, and stating the financial contributions from the EU as well as both the public and private co-financing at the national level. Moreover, the Dutch authorities organize open days, where visitors can get insight in the supported projects. However, it is not easy to gain a condensed overview from this on some general guiding principles of this policy.

Beneficiaries are *public administrations* (particularly at the community level), *non-profit foundations* and *private enterprises*. The former two get support for, e.g., preserving touristic highlights, establishing culture houses and community meeting points, running schools for disabled children. Support for private enterprises focusses on four thematic issues (regarding EFRE, translation from Dutch): "innovation in SMEs, making money with knowledge, carbon economy, and sustainable development in the four major cities." Examples include, e.g., developing specific techniques for storing apples, developing an app for patients suffering from multiple sclerosis, developing a software for handling cargo at a freight terminal, or establishing a business incubator for game developers.

Source: European Union, http://ec.europa.eu/contracts_grants/beneficiaries_en.htm.
http://ec.europa.eu/regional_policy/en/atlas/beneficiaries/

4.3 Assessment of cohesion policy

Returning to the question in how far the actual cohesion policy followed the ambitious intentions asserted, the assessments can be summarized as follows:

- The amounts of Structural Funds dedicated to cohesion policy are comparatively small – 0.4 percent of total EU GDP.
- Cohesion policy reveals a strong redistributive character, amounts reaching from almost 4 percent of national GDPs for less developed member states to less than 0.2 percent for the higher developed member states.
- The strong re-distributive character is confirmed in terms of objectives pursued and policy fields covered. Although the higher developed member states and the higher developed/Competitiveness regions seem to adopt the policy shift towards the new efficiency- and growth-orientation, the aggregate allocation of ESIF resources is coined by the less-developed member states and the less-developed/Convergence regions who largely do not.
- Some of the projects actually realised seem not to come up to the asserted intentions of the policy, in spite of the extended and complicated procedures. This may raise considerable doubt on the efficacy of the whole policy.

According to the evidence provided, a gap thus opens between the asserted intentions and actual practise of cohesion policy. While the asserted intentions have changed considerably towards the goals of growth and competitiveness (apparent particularly in the paperwork of the National Reform Programmes, Operational Programmes, Annual Implementation Reports and Progress Reports), yet the actual orientation of resources has grown rather more oriented towards traditional cohesion objectives, towards low-income countries and redistribution. This evidence thus points towards a high degree of Euro-verbosity and gives little reason to believe in the success of the ambitions. The actual choice of interventions seems arbitrary and in many cases not beyond doubt regarding their effectiveness. In order to deal with these problems, the EU Commission has initiated the extensive monitoring of quantitative scores for some precisely defined targets (cf. Box 2). Still this scoring leaves room for creative accounting.

Looking at this practise from a theoretical point of view yields that the amounts may be too small to contain agglomeration trends and thereby an increase of disparities. Many of the actual projects may even run the danger of first-round failures. As far as the cohesion policy does succeed in fostering backward regions and convergence, it may come at the cost of reducing overall growth perspectives.

5 Conclusion: Where to go?

The general upshot of this analysis is thus that EU cohesion policy has many deficiencies and shortcomings. It pursues too many objectives with a restricted amount of money. Moreover, many of these too many objectives are inconsistent one to another. A rush through the theoretical background suggests the existence of a substantial trade-off between growth objectives and convergence objectives: Accordingly, growth is best promoted in agglomerations, which implies the increase of disparities, whereas convergence, by contrast, requires the support of backward peripheral regions at the detriment of agglomerations and overall growth. Circumventing these inconsistencies, actual cohesion policy continues to primarily follow convergence objectives and to rather pay lip service to the others (a bit less so in the more developed EU member states, but there the amounts of funding are very small anyway), which could at the extreme even harm the overall growth perspectives of the Union.

In addition, the procedures of defining policies, negotiating on and approving of them, and monitoring them, are highly complicated, consuming much time and personnel resources on all administrative levels from the Commission down to local authorities. Even in spite of the comprehensiveness of these procedures, they are still not able to really accomplish the asserted intentions, to confine doubts as to the usefulness of the actually realized projects, to dispel suspicions as to the political-bargain nature of the whole process (Mohl and Hagen 2010), or to ensure the intended transparency of the policies to the public.

A different policy design may thus be required. A *first suggestion* would be to boost further steps of integration within the EU thereby further lowering trade costs, which could, according to theoretical considerations (Section 2.1) at the same time trigger overall growth and induce a re-dispersion of economic activity – admittedly under specific conditions. This suggestion, which, at the time being, seems to be extremely unpopular throughout most of the member states, has yet some encouraging evidence in its favor. Throughout the last 35 years, considerable progress in Europe-wide convergence between countries can be observed, and this regards industrial structures as well as income – though at the same time disparities within countries remained the same or even increased (Bickenbach et al. 2010, Krieger-Boden 2015).

A *second suggestion* would be to make a choice towards one policy objective, namely cohesion/convergence, and leave competitiveness and growth issues largely to the markets. Fiscal compensation may still be required, but it should be pursued by a much more modest approach. One reason is that cohesion is the objective clearly stipulated in the Treaty. At least within countries, agglomeration processes accelerated by further integration steps may continue to raise disparities and may require some sort of compensation. Another reason is that promoting growth instead of cohesion is a difficult task in it since it is directed towards influencing a future that is yet unknown instead of simply addressing needs currently uncovered; growth projects are therefore more than others endangered of being dismissed by the actual evolution.

A *third suggestion* would be to make a choice towards fighting inequality of individuals rather than of regions (in line with World Bank 2009). This is a matter of appreciating the preferences of citizens, even if they are inclined to run for the large agglomerations, be it because they expect higher incomes there, or be it because they like the specific vitality of an urban atmosphere, leaving behind the empty backward regions. In fact, in the past, trying to fight such passive redevelopment has proven a rather fruitless exercise.[27]

A *fourth suggestion* would be to disentangle the difficult-to-comprehend mixture of various objectives mingled over all ESIF funds. Thus, cohesion policy, enabling poor regions to fulfill their basic responsibilities, should be pursued via the ERDF only, while the ESF should be dedicated to specific employment and social policies organizing support activities for poor individuals wherever they live.[28] This would simplify the preparations of programmes and interventions for the administration, and enhance the transparency of the policy to the public

As a result of these suggestions, much less funds should be put into private investment and into infrastructure supporting this, but much more into public investment in human beings and in improvements of local institutions. Public infrastructure safeguarding basic needs of existence

[27] This is, of course, not to advocate a policy of putting a stoke in the wheel, if backward regions try to improve their situation by own forces.

[28] Whether and to what end specific funds for rural development (EAFRD) and for fisheries (EMFF) are required at all, might call for separate assessment.

and securing equity of opportunities should be prioritized: Minimum standards of education capacities, of medical services, of eldercare and care facilities, of transport routes and transport means should be provided everywhere in Europe, and regions too poor to afford these standards need to be backed financially by an adequately designed fiscal compensation scheme. To backbone integration progress, policies like fostering intra-European exchange of people – students, teachers, administrative staff, researchers, craftsmen, managers –, or generating further symbols and rites of a European identity (e.g., Europe-wide sporting or cultural events similar to Champion's league, European Song Contest, or the European Capitals of Culture) may be useful. Getting acquainted, learning from one another, and acquiring a feeling of European unity and solidarity could become a more important aspect of cohesion policy. A further policy field could be securing the well-functioning of public institutions, fighting against public fraud, waste and corruption, where regions in need should be offered training, mentoring, monitoring. More reliable policy institutions on all levels also may help to improve the mutual trust within the Union and thereby European cohesion.

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Annex

Table A1: Five targets of Europe 2020 Strategy, for Member States

	Target 1	Target 2	Target 3			Target 4		Target 5
	Employ-ment rate in %	R&D in % of GDP	Reduction of GHG [a] emissions in %	Renew-able ener-gy share in %	Reduction of energy consump-tion TOE[b]	School dropout rate in %	Gra-duates in %	Reduction of people in risk of poverty
EU	**75.0**	**3.00**	**-20**	**20**	**368 mill.**	**10.0**	**40**	**20 mill.**
AT	77-78	3.76	-16	34	7.16	9.5	38	235,000
BE	73.2	3.00	-15	13	9.80	9.5	47	380,000
BG	76.0	1.50	20	16	3.20	11.0	36	260,000
CY	75-77	0.50	- 5	13	0.46	10.0	46	27,000
CZ	75	1.00	9	13	–	5.5	32	30,000
DE	77	3.00	-14	18	38.30	10.0	42	330,000
DK	80	3.00	-20	30	0.83	10.0	40	22,000
EE	76	3.00	11	25	0.71	9.5	40	2.5%
EL	70	tba	- 4	18	2.70	9.7	32	450,000
ES	74	3.00	-10	20	25.20	15.0	44	1.5 mill
FI	78	4.00	-16	38	4.21	8.0	42	150,000
FR	75	3.00	-14	23	34.00	9.5	50	1.6 mill
HU	75	1.80	10	14.65	2.96	10.0	30.3	450,000
IE	69-71	2.00	-20	16	2.75	8.0	60	186,000
IT	67-69	1.53	-13	17	27.90	15-16	26-27	2.2 mill
LT	72.8	1.90	15	23	1.14	9.0	40	170,000
LU	73	2.3-2.6	-20	11	0.20	10.0	40	–
LV	73	1.50	17	40	0.67	13.4	34-36	121,000
MT	62.9	0.67	5	10	0.24	29.0	33	6,560
NL	80	2.50	-16	14	–	8.0	40	100,000
PL	71	1.70	14	15.48	14.00	4.5	45	1.5 mill
PT	75	2.7-3.3	1	31	6.00	10.0	40	200,000
RO	70	2.00	-19	24	10.00	11.3	26.7	580,00
SE	80	4.00	-17	49	12.80	10.0	40-45	14%
SI	75	3.00	4	25	–	5.0	40	40,000
SK	72	1.00	13	14	1.65	6.0	40	170,000
UK	–	–	-16	15	–	–	–	(existing law)

[a] Greenhouse Gas. – [b] Tonne of oil equivalent