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Cohesion Policy

The aim of cohesion policy in the European Union is to create economic and social cohesion and reduce disparities in regional development. Due to economic developments and the enlargement of the Union, this task has now become a community-level objective, moving from intergovernmental cooperation to community-level cooperation. However, the uneven dynamics of regional development and the slower capacity of the bloc to respond to crises show that the European Union still has some way to go in this area in the future. The present paper traces the evolution of this policy. It describes the main stages in the history of cohesion policy and demonstrates how reducing regional disparities in development has become a community priority. It also examines the achievements of a policy that has been in operation for several decades and highlights the main challenges in this field. The Hungarian Presidency in 2024 can play an important role in addressing these challenges and shaping new directions for development.

A brief history of the policy

Although it was an important aspect of the creation of the common market from the very beginning for the founding fathers of European integration, the 1957 Treaty of Rome only minimally addressed the objective of reducing regional disparities. In the preamble of the Treaty, the signatories pledged to reduce disparities in development between regions and to reduce the development gap for less developed regions. Article 2 of the Treaty entrusted the future European Economic Community with the task of stimulating the harmonious development of economic activity across the continent and promoting steady and balanced expansion.¹

While the objective was shared by all, the emergence of the policy at community level was hampered by the fact that the criteria and policy framework were completely new in post-war Europe. In earlier periods, regional development issues had rarely been a specific issue on the policy-making agenda. Traditionally, the problem of regions was largely a part of economic policy, as one of its sub-questions. It was regarded as a problem that market mechanisms would be able to correct, without state intervention. It was only with the rise of the idea of the interventionist state that it became clear that the government could also be responsible for helping regions that are lagging behind, to help them to catch up. This is linked to the development – in the post-war period – of a policy framework that soon made the territorial dimension of government policy meaningful at community level.

It is thus reasonable to state that regional policy was in its infancy in the 1950s. The *Cassa per il Mezzogiorno* in Italy was the first dedicated cohesion fund to attract

¹ MANZELLA–MENDEZ 2009: 5.

much attention and capital in Europe. It had a credible effect on the policy development which was slowly emerging in other western European countries, as it was included as an objective in the Treaty of Rome establishing the European Economic Community, although it did not become a community policy for some time.

Member States during this period were determined to keep regional policy within national competence and therefore only entertained the possibility of harmonising policies, not of creating Europe-wide priorities and objectives.² For instance, the central objective of regional development in post-WWII France was to counterbalance the predominance of Paris, an approach which played a major role in the development and growth of regional policy. To this end, a ministry was set up and the so-called DATAR system was created in 1963 to coordinate the territorial development activities of the various ministries.³

Economic problems at the turn of the 1950s and 1960s, including the coal crisis, created the need for an increasingly tangible community-led solution. The first steps in this direction were taken at the conference on regional economies organised by the Commission in 1961 and in the first Commission communication on regional policy in 1965.⁴

The next step was the creation of the Directorate-General for Regional Policy within the Commission in 1968.⁵ At the turn of the 1960s and 1970s, the reform of agricultural policy once again drew attention to the regional cross-section of problems. In this vein, at the 1972 Paris summit, the Heads of State and Government of the Member States committed themselves to tackling regional problems. It was then that the idea of setting up the European Regional Development Fund, the first Community regional policy institution, was born.⁶

The first wave of enlargement in 1973 brought three new Member States – Denmark, the United Kingdom and Ireland – to the European Community, and the need to tackle regional disparities became even more acute. As a sign of this, the *Report on an Enlarged Europe* published that year – colloquially known as the Thomson Report after the first British Commissioner, George Thomson – made it clear that reducing disparities between regions was of paramount importance, because no community could survive if it was marked by significant differences in development from within.⁷

As a result of this realisation, and after lengthy negotiations, the Council decided in March 1975 to create the European Regional Development Fund (ERDF).⁸ Increasingly strong cooperation in the second half of the 1970s and the first half of the 1980s gradually shifted the focus of regional policy away from strictly intergovernmental cooperation towards an ever-stronger Community-level approach.⁹ The growing importance of the

² MANZELLA–MENDEZ 2009: 5.

³ FALUDI 2006: 671.

⁴ MANZELLA–MENDEZ 2009: 6.

⁵ MANZELLA–MENDEZ 2009: 7.

⁶ MANZELLA–MENDEZ 2009: 8.

⁷ MANZELLA–MENDEZ 2009: 9.

⁸ BOURNE 2007: 293.

⁹ MANZELLA–MENDEZ 2009: 12.

policy is best illustrated by the fact that Jacques Delors, the new President of the European Commission, in his 1985 progress report, identified the growing regional disparities within the European Community as one of the most important problems of European integration. Following the accession of Portugal and Spain to the community, the gap in development between the regions made his words even more relevant.¹⁰

The realisation that the single internal market programme required regional disparities to be tackled at Community level was translated into action in the late 1980s. It was then that the Single Act of 1986 established the legal basis for community regional policy, allowing regional policy to formally enter the ranks of community policies.¹¹ Regional policy was introduced into the Economic and Social Cohesion chapter of the Single Act, with the task of ensuring overall coherent development. The three Structural Funds – the European Regional Development Fund, the European Agricultural Fund and the European Social Fund – were set up to serve this objective, and in February 1988 the Heads of State and Government agreed that it was necessary to develop a new regional policy.¹² 1985–1995 was the period when regional policy was developed on a community level. It was under the presidency of Jacques Delors, that the French dominance of policy, both in terms of staff and methods, was established, which determined the development of policy in general throughout Europe for decades.¹³

Following a decision of February 1988, a new regional policy system was gradually established in the second half of the year, based on five pillars. The first, the coordination pillar, required that the three separate funds for regional development – the European Regional Development Fund, the European Social Fund and the European Agricultural Fund for Rural Development – act in a harmonised way with regards to the development objectives of regional policy. The principle of concentration led to the prioritisation of the main objectives on a community-level and of community regional policy. The pillar for programming promoted systemic, multi-annual development programmes, as opposed to ad hoc interventions, and provided community support regarding their design. The principle of partnership required cooperation between central, regional and local entities in the planning and implementation of programmes. The principle of additionality stipulates that community funding cannot replace national funding.¹⁴ The 1988 reforms clearly pointed in the direction of regional policy becoming part of the institutional architecture of the emerging European political system. The reform of the structural funds in that period made the principle of cohesion one of the most important principles of EU policies.¹⁵

Although the reform of regional policy in 1988 placed it on a completely new footing, the subsequent steps to reform the policy in the following years, although not as important in scope and depth, also proved decisive. The 1993 and 1999 reforms were more of

¹⁰ MANZELLA–MENDEZ 2009: 13.

¹¹ MANZELLA–MENDEZ 2009: 14.

¹² MANZELLA–MENDEZ 2009: 14.

¹³ FALUDI 2006: 672.

¹⁴ BOURNE 2007: 298.

¹⁵ FAROLE et al. 2011: 1090.

a fine-tuning exercise.¹⁶ The importance of the 1993 reform lies in the fact that the Maastricht Treaty identified economic and social cohesion as one of the key objectives of European integration. To achieve this, the Cohesion Fund was set up to support infrastructure development in the less developed countries of the South, notably in Greece, Ireland, Portugal and Spain, to help them meet the convergence criteria for Economic and Monetary Union.¹⁷ The Maastricht Treaty also introduced the Commission's obligation to produce a so-called Cohesion Report every three years, which assesses the EU's cohesion performance and may also provide proposals for policy reform.¹⁸

The 1993 reform was followed by the 1999 reform. This prepared the ground for the 2000–2006 programming period and was intended to respond to the problems that had arisen in the meantime. For example, it was at this time that tackling unemployment emerged as a priority, partly as a result of the introduction of a separate chapter on employment as laid down in the 1997 Treaty of Amsterdam.¹⁹ Another reform followed in preparation for the 2007–2013 programming period. In this regard it is crucial to note the impact of the enlargement of the EU to the East, with ten countries joining the European Union in 2004 and two more in 2006 – Bulgaria and Romania.²⁰ The primary objective of this reform, adopted in July 2006, was to help the Lisbon Strategy to be implemented alongside integrating the newly acceded Member States.²¹ Following these changes in 2006, the then seven-year financial cycle provided a stable framework for cohesion policy in the longer term. Thus, after several years of preparation, the latest reform took place in 2013.²² However, the changes made at that time only adapted the instruments of cohesion policy to the needs and objectives of the new financial programming period, without leading to fundamental changes in the functioning of the policy.

While the spectacular development of the policy appears to be a clear success story to the outside observer, in reality the effectiveness of cohesion policy has been a source of great controversy from the outset. Many analysts dispute whether the interventions have actually altered the growth trajectories that the regions would have followed under purely market conditions.²³ Especially since the 1980s, it has been argued that despite the European Union's significant efforts to promote convergence between Member States, disparities within Member States have in fact considerably increased. This is particularly true when comparing the development of rural and metropolitan areas. The data shows that the main beneficiaries from EU regional policy, and of other market-based investment decisions, are metropolitan and agglomeration areas.²⁴

This disparity is made clear in EU documents. The European Commission's eighth Cohesion Report identifies one of the greatest challenges facing cohesion policy today

¹⁶ MANZELLA–MENDEZ 2009: 15.

¹⁷ BOURNE 2007: 295.

¹⁸ MANZELLA–MENDEZ 2009: 16.

¹⁹ MANZELLA–MENDEZ 2009: 16.

²⁰ MANZELLA–MENDEZ 2009: 18.

²¹ MANZELLA–MENDEZ 2009: 19.

²² BACHTLER et al. 2017: 1.

²³ FAROLE et al. 2011: 1090.

²⁴ FAROLE et al. 2011: 1091.

as the need for development policy to find ways of making rural areas more dynamic in directions that have not yet been explored.²⁵ This does not mean, of course, that the European Union's cohesion policy is a failure. However, a review of the lessons of recent years will greatly facilitate the identification of the objectives of the Hungarian Presidency for cohesion policy.

The achievements of EU cohesion policy

One of the innovations of the Maastricht Treaty concerning cohesion policy is the obligation for the European Commission to produce a cohesion report every three years. These cohesion reports aim to present the achievements of the cohesion policy and to set the agenda for the next three years by identifying the main challenges Member States are facing and to find the appropriate instruments to address them.

The European Commission published its eighth Cohesion Report in February 2022, entitled *Cohesion in Europe towards 2050*.²⁶ This document was undoubtedly published in one of the most difficult environments experienced to date. Whereas in the past, successfully effecting cohesion policy has generally been challenged principally by successive waves of enlargements, on this occasion it was the two-year-long coronavirus epidemic and its economic and social consequences which set the framework for cohesion policy and the direction it should take in the near future.

Despite these challenges, the report concludes that overall, territorial disparities within the European Union have decreased. The main drivers of territorial convergence have been the regions of Central and Eastern Europe, which have been steadily catching up with the rest of the European Union since 2001. Generally speaking, an analysis of the internal structure of the European Union shows that metropolitan regions in capitals are performing better than other regions. As an illustration of this, between 2001 and 2019, real GDP per capita grew faster in metropolitan regions than in the rest of the EU.²⁷

The Commission's report also notes that the pandemic hit EU countries at a time when many of them were still recovering from the 2008 economic crisis. This is reflected in the data, which shows that while employment in Europe has improved in the last three years, regional disparities are still greater than before 2008. Nevertheless, a decrease of over 17 million people at risk of poverty and social exclusion between 2012 and 2019, mainly due to a clear rise in living standards in the eastern Member States of the EU, represents a major step forward in terms of social cohesion.²⁸ Looking at economic forecasts for 2023, GDP per capita is projected to be 2.6% higher in less developed regions due to the support provided under cohesion policy between 2014 and 2020.²⁹

²⁵ European Commission 2022.

²⁶ European Commission 2022.

²⁷ European Commission 2022: 4.

²⁸ European Commission 2022: 7.

²⁹ European Commission 2022: 8.

Catching-up is the result of aggregated investments in different regions, either in a coordinated way or as a result of measures taken in separate policy sectors. The most notable policy areas for catching-up are investments in infrastructure, skills and innovation. However, while there are grounds for optimism about the pace of catching-up, this optimism is clearly limited by the fact that the overall progress is mainly concentrated in regions with more educated populations with the capacity to absorb innovation, while development in some less innovative regions – despite some progress – seem to be stagnating. Therefore, for all its successes, EU cohesion policy is struggling with the problem that the more dynamic rate of progress in certain regions is not being passed on to other, neighbouring but less well-developed regions, and cannot boost their convergence.

The challenges of cohesion policy

The policy challenges for the upcoming years, some of which are strategic, can be broadly divided into two categories, stemming from the programme of the Commission chaired by Ursula von der Leyen, who took office on 1 December 2019.³⁰ The five-year work plan is essentially built around two technological developments, known as the green transition and the digital transition. Environmentally friendly and sustainable energy production and use, decreasing the pace of climate change and establishing a development policy in supporting the digital transition are thus among the plan's key objectives.

It is clear from the Commission's Cohesion Report that there is a strong correlation between the level of cohesion within the EU and the development of environmental infrastructure. The quality of the digital infrastructure has a major impact on the chances of a region to catch up and progress, as well as affecting the opportunities for social mobility of certain communities. It is no coincidence that, according to the Cohesion Report, the real dynamics of catching-up are to be found in metropolitan areas. This is where the critical level of infrastructure in both quantity and quality that enables tangible development has been built.

The construction of the infrastructure to enable the green transition has a similar regional and social weight. Sustainable, environmentally friendly, independent energy production and energy supply is not only important to strengthen the autonomous economic potential of a region but can also be an important factor for growth. This is particularly true during this time of the Russian–Ukrainian war, when the energy dependence of certain countries and regions, including their dependence on energy suppliers is a key factor affecting economic growth.

However, it is very important to bear in mind when considering cohesion policy that it is not only about infrastructure development in a general sense. The dilemma identified by the Cohesion Report should help to frame the policy of the future. A solution must be found to the problem of the areas which are dynamically catching up being almost exclusively metropolitan regions. In other words, the task of cohesion policy is not only

³⁰ European Commission 2019.

to encourage and effectively implement infrastructure development, but also to extend the spatial impact of development to rural areas and small towns.

There is good reason to believe that, as well as accelerating catching-up in metropolitan areas the implementation of the green and digital transitions at the highest possible level, would also increase the rate of catching-up of other types of regions. Cohesion policy in the coming period should therefore prioritise and enforce territorial equality and equilibrium when implementing infrastructure development programmes.

The realisation of this priority is made more difficult by the fact that infrastructure development is a national competence. As a result, it may be coordination rather than a single set of instruments for development policy which has a role to play in the execution of future cohesion policy.

Another set of challenges for cohesion policy in the coming period are the emerging issues Europe is facing today. The worrying demographic situation on the continent is addressed in the Cohesion Report, which highlights the responsibility of cohesion policy in relation to the depopulation of parts of the European Union. Migration of population to central cities and regions of the European Union has always been a natural consequence of the completion of the single internal market and the free movement of labour.

At the same time, not only did the processes following the enlargement of the bloc to the East reinforce existing trends, but the opening of the labour market in Western Europe also posed new qualitative challenges for the catching-up and development of regions in Central Eastern Europe. In some countries, the outflow of young and skilled workers has reached levels as high as a quarter or more of the country's total population.³¹ Even for the most affected new Member States, the scale of emigration is not evenly balanced across territories, which means that the most disadvantaged regions of the worst affected countries have experienced a dramatic decline in population.

The demographic challenge therefore involves not only the problems of a declining general population due to a declining birth rate, which is common on the continent, but also the need to improve the survival chances of the particularly depopulating regions of Northern, Southern, Central and Eastern Europe. In this respect, the Cohesion Report is clear: the more remote a region is from the centre of the European Union and the more rural its settlement structure, the greater the demographic challenges it faces.

At the same time, the demographic problem features on the agenda of decision-makers not only as an internal structural imbalance, but also as a problem for social integration and externality in the form of immigration. This has been particularly prominent since 2015, when successive waves of mass migration reached the southern and eastern borders of the European Union. The admission and care of hundreds of thousands of people fleeing from the Middle East and Africa, for economic or security reasons, put extraordinary pressure largely only on border regions in the first months. Soon, however, all the regions of the European Union were confronted with the short- and long-term problems caused by mass immigration. The problem of addressing the reception and care of refugees was soon followed by the need to tackle the issues of their social integration.

³¹ O'NEILL 2022.

From the outset, the European Commission has supported Member States in their efforts to promote the integration of immigrants. The future agenda of cohesion policy also emphasises the development and financing of policies to integrate immigrants into society and contribute to the economic regeneration of areas facing labour shortages as a result of demographic changes.

One specific type of migration crisis affecting the European Union is the recent refugee crisis which has been triggered by Russian aggression against Ukraine and which poses a major challenge for the future of cohesion policy. The war that broke out at the end of February 2022 displaced millions of people in a matter of days, placing enormous pressure on the EU's eastern borders and border regions.

During the migration crisis, Member States have been hit by a flood of refugees. However, the tasks of reception and care were quickly replaced by support for the social integration of earlier arrivals. Learning from the previous migration crisis, this time the European Commission sought to help Member States in need as quickly as possible by rapidly reallocating resources and mobilising existing instruments.

A long-term solution to the problem, however, requires an approach and a toolbox that goes beyond ad hoc solutions. Consequently, flexibility is likely to feature more prominently in the future in cohesion policy. One important question for the future success of the policy is the extent to which the Commission can complement the still rather rigid funding system, which is currently based on mid-term programmes, with instruments that allow for rapid-response assistance.

Given the inadequate EU response to these challenges so far, it is clear that one of the most important structural challenges for cohesion policy is to ensure flexibility. The requirement for flexibility is an important challenge for the future of the policy in two ways. On the one hand, it is important to support interventions in crisis situations that require a timely response, and this requires that reallocating resources between programmes and priorities be as free as possible.

The requirement for flexibility is seen by many as a refutation of one of the fundamental principles of cohesion policy, the principle of programming. Since its inception, cohesion policy has consistently sought to favour institutionalised development, with a focus on multi-annual programmes rather than ad hoc, crisis-managing interventions. While programming can be a highly effective medium- and long-term approach to the internal development of individual Member States and regions, the increasingly uncertain international environment and the recent spate of crises has prioritised flexibility.

It is unlikely that policy developments in the coming years will lead to either programming or the requirement for flexibility becoming the exclusive approach. Finding the right and effective balance between the two principles may be the secret to the success of the future of the policy. Programming plays a very important role in shaping territorial and social developments and guaranteeing their stability, at least in the medium term. Flexibility is a way of supporting the need for rapid action in the wake of a crisis. Efforts in recent years by Member States have clearly called for more flexibility without compromising the principle of programming.

Another interpretation of the principle of flexibility seeks to answer the dilemma of cohesion policy, which has faced the EU for decades. As the eighth Cohesion Report points out, while relatively less developed regions are catching up in the European Union, the process dynamics are more significant in urban or metropolitan areas, while rural areas benefit less from catching up. It seems, therefore, that the instruments and forms of intervention of cohesion policy serve certain types of regions well but are of little help to others.

The challenge for the period ahead is therefore to ensure that cohesion policy develops a flexible and nuanced set of tools and methods for intervention which support the various different types of regions while providing options that take their specific needs into account. Within the European Union, we can distinguish between regions with different characteristics, requiring different types of intervention. These include:³²

- metropolitan regions in the core territory of the European Union
- metropolitan regions in peripheral or less developed territories of the European Union
- regions linked to metropolitan regions
- peripheral regions with relatively large populations and metropolitan centres
- rural and peripheral regions with low population density

This list indicates that the current policy of allocating resources to all regions on the basis of the same intervention criteria cannot be maintained in the future, given the new challenges and the constraints of the process of catching up. The long-term challenge for cohesion policy is therefore to develop the logic of a flexible system of instruments and interventions.

What can be expected during the Hungarian Presidency in the field of cohesion policy?

The Hungarian Presidency will start in July 2024, less than a month after the European Parliament elections, where the agenda will largely be determined by the reshuffling of the EU institutions. This will be the time when the new European Parliament and European Commission is formed, the new President of the Commission is presented, and the new President of the European Council is elected. These major institutional changes are likely to allow for only less ambitious policy plans to be implemented. The new Commission traditionally takes office on the 1st of November – possibly 1st of December – which also means that the outgoing Commission, which will be a partner during the first part of the Presidency, will no longer be interested in policy innovation. The incoming Commission will thus not yet have sufficient political strength and experience to take substantive policy action before the end of the year.

³² FAROLE et al. 2011: 1101.

These circumstances, however, do not, of course, make it superfluous to set policy priorities for the Hungarian Presidency. All the challenges listed in the previous chapter will be on the agenda of cohesion policy in the second half of 2024. The implementation of regional policy programmes connected to the green and digital transitions, including their evaluation, will be as much a part of the discussions during the semester as proposals for dealing with demographic issues or migration.

Beyond the general tasks facing it, cohesion policy may well also be an important item on the agenda during the Hungarian Presidency. The European Commission's eighth Cohesion Report was due in 2021, and although its publication has been postponed to 2022, the Commission still expects the ninth Cohesion Report to be published in 2024, three years after its originally planned publication. This means that the Hungarian Presidency will fall within the period of the finalisation or publication of the ninth Cohesion Report.

Given the policy-shaping impact of the cohesion reports, the timing provides the Hungarian Presidency with a major opportunity to shape the future of cohesion policy. Through policy events, in cooperation with the Commission and Member States, the Hungarian Presidency can provide added value in this area. As it is likely that the major challenges of cohesion policy, which have already been outlined, will all be included in the report, the Hungarian Presidency should also be prepared to formulate its own views on each of these challenges and to make them heard in the upcoming debates.

The Hungarian Presidency can be a period of summarising and serve as a new beginning for the EU's institutional cycle. With the right preparation, this unique period offers a major opportunity to shape the future of EU policies in the initial preparatory phase of the 2028–2034 budget cycle. This is particularly true for cohesion policy, which in many aspects faces fundamental challenges and, in whose success, Hungary has a fundamental interest.

While it is not realistic to expect that the publication of the ninth Cohesion Report will provide the European Union with solutions to all the challenges facing cohesion policy, the search for solutions and the preparation of the cohesion report itself can provide important lessons and innovations for this particular area of policy. If at least partly accomplished during the preparation period for the Hungarian Presidency or during the Presidency itself, it could also – if successful – enhance Hungary's prestige. In addition, perhaps we can also find solutions to the difficult dilemmas of Hungarian territorial policy by drawing on European experience. All in all, we are looking forward to a game with a positive ending, for which the winners will be not only Hungary, the Member States of the European Union and the EU institutions themselves, but also the European Commission.

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