



European Economic and Social Committee

ECO/096
The contribution of other
Community policies to
economic and social cohesion

Brussels, 25 September 2003

OPINION

of the European Economic and Social Committee

on

The contribution of other Community policies to economic and social cohesion

(Exploratory opinion)

On 23 July 2002, **Mr Michel Barnier**, European Commissioner responsible for regional policy, acting on behalf of the Commission, asked the European Economic and Social Committee to draw up an exploratory opinion on

The contribution of other Community policies to economic and social cohesion.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 11 September 2003. The rapporteur was **Mr Dassis**.

At its 402nd plenary session (meeting of 25 September 2003), the European Economic and Social Committee adopted the following opinion by 66 votes to 21, with ten abstentions.

1. **Introductory remarks**

1.1 Highly significant recent events have demonstrated that the road to political union is still going to be a long and arduous one. Certain European governments seem to have forgotten the stance that was constantly promoted in the 1970s and 80s, i.e. that European integration was the only option for European countries, as none of them could influence world developments alone.

However, economic and social cohesion is one of the basic aims laid down by the Treaties and confirmed in the draft European Constitution, along with EMU and the completion of the internal market.

There are certain factors in the current environment, primarily:

- the intensification of market globalisation,
- EU enlargement and its opening up to the countries of central and eastern Europe,
- the predominance of a knowledge-based society and economy, and
- the more general social and political features of the 21st century,

that call for efforts to establish a more up-to-date approach to the issue of economic and social cohesion.

1.2 These efforts should centre on:

- analysing the commitments of Member States and of the Community regarding economic and social cohesion that originate in the Treaties establishing the European Union and the European

Community, with a view to providing the fullest possible explanation of the meaning of the relevant Treaty provisions and regulations,

- enumerating and examining Community and Member State practice in interpreting and implementing the cohesion-related provisions and regulations of the Treaties and of the European Constitution when it enters into force,
- identifying the impact on economic and social cohesion of current Community and Member State practice in interpreting and implementing the relevant Treaty provisions and regulations, and
- identifying any need to shift from current practice in the interpretation and implementation of cohesion-related Treaty provisions. Such a shift may be approached as a matter of changing priorities or of finding additional options during the planning, mapping out and implementation of each individual Community policy.

1.3 The EESC has already produced relevant opinions, including one on *The future of cohesion policy in the context of enlargement and the transition to a learning society*¹, in which it expanded on the issue of the consequences for cohesion of the shift to a knowledge-based economy, and on the *EU's economic and social cohesion strategy*², in which it emphasised the contribution of the structural policies conducted under Article III-111 of the draft Constitution to strengthening cohesion.

1.4 The present opinion is of a complementary nature and aims, for reasons that will be explained below, to make an in-depth analysis and evaluation of other, non-structural policies, i.e. the policies listed under Article III-112 of the draft Constitution, in relation to economic and social cohesion.

2. Definition of cohesion

2.1 The cohesion-related provisions and regulations are to be found in part III of the draft European Constitution, where they are more detailed and substantive.

2.2 Under the provisions of the Treaty, the Member States and the Union must also consider the economic and social cohesion factor before making any decisions relating to any Community policies and activities. In other words, the need to bolster economic and social cohesion is not just limited to specific Community policies and activities, but permeates all of them.

2.3 A more detailed analysis might lead us to the following three conclusions:

¹ OJ C 241 of 7.10.2002, p. 66

² OJ C 241 of 7.10.2002, p. 151

2.3.1 First: the Treaty articles mention economic and social cohesion, but without clarifying in specific provisions the meaning of the "economic" and "social" dimension of cohesion. However, the fact remains that the articles of the relevant treaty provisions do not refer just to cohesion generically, but distinguish two dimensions: economic and social.

2.3.2 Second: the only provision that contains a generic reference to cohesion (i.e. combining the economic and social dimensions) is Article 158 (overall harmonious development of the Community, reducing regional disparities and addressing the backwardness of the poorer regions).

2.3.2.1 If the provisions of Treaty Article 159 were not clear, the following questions might arise. Should other, non-structural, Community policies - before they are announced, but while they are being finessed and implemented - be forced to conform to the requirement of furthering economic and social cohesion, which would probably make it impossible to derive the anticipated general benefits from their implementation? Or should other, non-structural, Community policies be implemented with the exclusive objective of deriving the maximum anticipated benefit for the Community as a whole from their implementation, regardless of whether their full and uncompromising implementation increases regional disparities, exacerbates the development lag of the poorer regions and ultimately creates regional divergence and new disparities rather than cohesion?

2.3.2.2 But these questions do not arise, because of the way Article 159 is formulated: other policies must be adapted, as they are framed and implemented, to the requirements of cohesion, which means it may not always be possible to derive maximum benefits for the Community as a whole, if those benefits would increase regional disparities and exacerbate the relative position of the Community's poorer regions.

2.3.3 Third: the issue of how the Community has so far interpreted and implemented in its activities the Treaty provisions relating to cohesion has not yet been clarified. As will be discussed below, the Community has followed a different approach so far. When other, non-structural, Community policies are being designed, framed and implemented, no account is taken and no assessment is made of their potential implications for cohesion (i.e. for reducing regional disparities and backwardness); only their impact on the Community as a whole is assessed. This approach means that the Community accepts the risk that a widening of regional disparities, i.e. economic and social divergence, not cohesion, will result from the implementation of certain Community policies (e.g. competition policy, internal market policy, monetary policy) and subsequently takes steps, by drawing up and implementing structural policies, to eliminate or limit and mitigate the effects of other policies that are harmful to cohesion. In Community practice, therefore, ensuring economic and social cohesion appears, like structural policy, to follow after other Community policies.

3. Combining economic and social cohesion

3.1 The term "economic cohesion" implies the cross-regional convergence of specific economic indicators, especially indicators relating to GDP per capita.

3.2 In principle, "*social cohesion*" means the system of social protection and social welfare that is included within the European social model.

3.3 The combined reference to the two concepts in the Treaty, and more specifically in Articles 158-162, without clarifying any differences in meaning between them, was not the best solution, because it makes it very difficult to look specifically at the substance and scope of one or the other.

3.4 The basic issue is to clarify the acceptable (tolerable) sequence for attaining the two (complementary) aspects of cohesion. The question could be framed as whether economic cohesion should be given priority over social cohesion.

3.5 This question must be approached on the basis of the explicit terms of Articles 158-162 of the Treaty establishing the European Community, and not random theoretical debates or decisions. In other words, it is necessary to clarify whether the terms of Articles 158-162 require parallel and concurrent pursuit of both economic and social cohesion in the context of framing and applying Community policies in general, or whether on the contrary there is an order of priority of economic over social cohesion.

3.6 Per capita GDP is an average, and measuring cohesion exclusively with this quantitative indicator means importing the known distortive effects of statistical averages into findings.

3.7 As a result, trends in cohesion cannot be assessed on the basis of per capita GDP alone. Other parameters and criteria must also be taken into account when assessing the true and precise scale of cohesion and its development (convergence or divergence).

3.8 The purpose here is to produce a more representative indication of cohesion, and this requires:

- first, deciding on other, non-GDP parameters to be assessed. The new cohesion indicator should be a composite: in addition to GDP, it should include parameters such as employment and unemployment levels, the extent of social protection, the level of access to general interest services etc.,
- second, the issue should also be addressed of how each factor should be weighted in the composite cohesion indicator as a whole.

4. General assessment of the implications of structural policies for economic and social cohesion

4.1 With respect to defining, researching and evaluating regional policy, there is a clear connection between regional policy and structural policies.

4.2 Expert studies have been done and are still ongoing to measure the impact of the structural policies.

4.3 This has made it possible to flesh out the Second Report with a wide variety of reliable data, as well as a well-rounded overall picture of the contribution of the structural policies to cohesion: in the 1988 – 1999 period, the four poorest countries' 32 percentage-point (68%) disparity in relation to average European per capita GDP, was reduced by a third, i.e. to 21 percentage points (79%).

4.4 In other words, over an 11-year period (1988-1999), the disparity between the average per capita GDP of the four cohesion countries and that of the EU shrank at an average rate of 1% per year.

5. General assessment of the contribution of other Community policies to economic and social cohesion

5.1 The claim that regional policy is connected with structural measures is based on the observed lack of any kind of statistical data on the impact of other, non-structural policies on economic and social cohesion.

5.2 The issue is how to use the experience of choosing indicators and quantitative measurements that has already been gained in the field of structural measures and apply it to other Community policies.

5.3 The need to apply Article 159 after EU enlargement is becoming more urgent. Published estimates predict that Community per capita GDP will fall by 13% with the accession to the EU of the new members, which would mean the probable exclusion of 15 European regions from Objective 1 support. If this happens, the structural policies will play a less important role in strengthening economic and social cohesion in those regions.

5.4 It is important to avoid undermining the process of strengthening economic and social cohesion in regions no longer eligible for Objective 1 support after enlargement. There are two ways of achieving this, and they are not mutually exclusive:

5.4.1 first, the regions can be allowed to stay within Objective 1 by lowering the 75% threshold for Community per capita GDP, and

5.4.2 second, the contribution of the other, non-structural policies to economic and social cohesion can be increased.

5.5 If the first option is not feasible, application of Article 159 and use of other, non-structural policies to bolster economic and social cohesion (in the poor European regions in particular) could be particularly effective.

6. **Inconsistencies in the implementation of other Community policies – adapting them without calling them into question**

6.1 It should be made clear that no Treaty provision allows a Community policy to be reversed.

6.2 In the specific context of the Treaties, it makes no obvious sense to consciously obstruct the operation of a specific Community policy: any Community policy may involve positive or possibly negative consequences (e.g. with the introduction of a single currency it might be assumed that there will be certain negative consequences, but these do not overshadow its broader beneficial effects).

6.3 This implies that the Community policies listed in Article 159 very probably – to a certain extent - have contradictory consequences and results; while the overall effects for the EU as a whole may be beneficial, it cannot be ruled out that there may be unfavourable consequences for certain regions.

6.4 In addition, the effects of the remaining, non-structural Community policies can be expected to differ, sometimes widely, from one region to another.

6.5 The *Second Report on Economic and Social Cohesion* points out that while convergence is observed between the Member States, disparities may be noted between the European regions.

6.6 The European Commission's study on employment³ goes much further, stating that the years since 1950 can be divided into three periods, each with different characteristics.

6.7 In the period from 1950 to 1970, there was clear convergence between European regions, in terms both of income per capita and of productivity levels, with poorer regions developing over four times more rapidly than richer regions.

³ Employment in Europe 2002, Chapter 4

6.8 The reverse is true of the following periods (post 1970). More specifically:

6.8.1 In the period 1971 – 1994 (and even more so between 1995 and 1999), there was a clear slowdown in convergence between regions, with the poorer regions failing to catch up with the richer areas.

6.8.2 Likewise, the final period (1994-1999) was a period of growth for Europe, but it is clear that not all the European regions benefited from that growth. On the contrary, the European regions present different results:

- in growth in per capita GDP (measured in PPS terms),
- in productivity,
- in employment, and
- in unemployment.

6.9 It is significant to note that European integration is hindered by differences existing between regions:

- in productive capacity,
- in skill structures and labour force specialisation,
- in the sectoral specialisation of the products produced, and
- in employment and functioning of the labour market.

6.9.1 At the same time, the geographical situation in each region influences its capacity to gain access to big markets and to knowledge spill-overs.

6.9.2 These differences lead the European regions to specialise in different production sectors on the basis of their specific comparative advantage.

6.9.3 This specialisation, however, leads to a variety of further consequences depending on the specialisation in question; sectors that are more knowledge-intensive have the greatest advantage, as well as lower costs and increased labour mobility.

6.10 As a result, technological development and the persistence of certain features of the economy (high unemployment, low per capita income and the sectoral composition of output) not only depend on the distribution of production factors between regions and their mobility, but also contribute to shaping production factors in a highly dynamic process.

6.11 The *Employment in Europe 2002* report also places considerable emphasis on "asymmetric shocks", i.e. shocks in demand for certain products or types of labour. These shocks,

which are a decisive factor in the development of regional inequalities, affect particular regions rather than the EU as a whole, since they are related to the structure of each region's economy.

6.12 The regions hit by these shocks enjoy less favourable conditions and are less productive than other regions, especially if adjustment is slow, for instance because unskilled or poorly skilled workers are less flexible than those with more skills.

6.13 It follows that the interdependence of the various elements (production factors, skills, geographical situation, technological development, asymmetric shocks) means that the various regions have differing capacity to generate new jobs and to promote growth.

6.14 The same report also observes that if the poorer regions do not manage to cross a threshold of strategic inputs (human resources, public infrastructure, etc.) they can become trapped in situations of low economic growth and may not be able to catch up with the richer regions.

6.15 Europe's regions are therefore obliged to follow different paths, with the result that, in principle, convergence will be achieved only within the context of "clubs" of regions, whose upper and lower limits are determined by the strategic factors available to them.

6.16 Attempts to bridge the gap between the European regions are essential preconditions for strengthening cohesion throughout the EU, providing that this is done in such a way as to avoid all possibility of aggravating regional inequalities and disparities.

6.17 It is not always clear whether the planning, framing and, above all, implementation of the Community policies listed under Treaty Article 159 lead to benefits for all the European regions, or whether on the contrary they help only regions whose structures are more suited to reaping the benefits of European integration.

6.18 After considering the various characteristics of the European regions and their various labour markets, the *Employment in Europe 2002* report identifies five "*regional clubs*" that are characterised by different patterns of utilisation of human resources and labour skills.

6.19 However, over and above the differences in patterns of utilising human resources and labour skills, the further inequalities between the European regions are so great that there is a clear difference between the results and consequences of the Community policies listed under Article 159, by region and by regional club.

6.20 The discussion does not end here however. Under Article 159 of the Treaty we must not just identify but also measure the positive and negative effects of Community policy on economic and social cohesion for each region. So far these have not been measured or more specifically, the task has not been undertaken.

6.21 As a result, it is also clear that it is not satisfactory to make general and rather vague statements of the kind that competition policy helps to generate new jobs. A statement of this kind must be backed up with specific measurements of potential new jobs per region, so that it can be ascertained whether new jobs really have been created.

6.22 It is also possible that the EESC did not back up certain statements in earlier opinions to a sufficient degree with statistics, e.g. the statement that disadvantaged regions are affected by concentrations.

6.23 There are various possible ways of addressing this issue, for example:

6.23.1 First measure the impact by region of Community policy under Article 159.

6.23.2 Second, on no account question Community policy as a whole, even if it has unfavourable consequences for regional cohesion.

6.23.3 Third, adapt this Community policy for an individual region, or apply it gradually (over a specified transitional period) in that region, so as to measure its effects.

6.23.4 Fourth, if adapting or gradual (transitional) application of the Community policy in one or more regions is not feasible or not considered effective, or jeopardises the expected benefits of the Community policy for the EU as a whole, then decide to implement complementary policies in specific regions (including policies of a structural nature), so as to eliminate, or mitigate the negative effects for cohesion in these regions.

6.24 It should be stressed that putting the above into practice requires:

6.24.1 first, that the effects of the complementary policies be assessed beforehand;

6.24.2 second, that the complementary policy for eliminating negative consequences for one or more regions is effective, i.e. that it covers all the negative consequences and that these have been assessed.

6.25 It should be noted that the *Employment in Europe 2002* report uses a number of indicators to measure regional performance and thus to group the regions into "regional clubs", i.e. groups of regions with similar characteristics, systems and performance.

6.25.1 Chapter 4 of the *Employment in Europe 2002* report could be very useful for drawing up a set of indicators that would provide a statistical evaluation and description of the effectiveness of other, non-structural Community policies in strengthening cohesion.

7. Relationship between the structural policies (Treaty Article 158) and the remaining Community policies (Treaty Article 159)

7.1 It has been observed⁴ that the Community Support Frameworks (CSFs) work in three ways:

- by improving basic economic infrastructure,
- by enhancing human capital (by improving skills and the general education of the workforce), and
- by directly strengthening the private sector through investment support.

7.2 Studies to assess the impact of the structural policies have measured the effects of the first two approaches by designing specific models.

7.3 It was found that the structural policies contributed to growth – increase in per capita GDP – to differing degrees in each of the four cohesion countries, with Greece and Portugal benefiting more from the structural policies than Ireland and Spain.

7.4 The same studies found that the benefits of the single market were not so great for Greece and Portugal as for Ireland and Spain.

7.5 This raises the question of how the impact of structural policies relates to that of the other Community policies.

7.6 To arrive at a definite answer to the question of the combined effects of the single market and the CSFs, the Single Market Review states that it is necessary to choose among a series of alternative scenarios, for instance:

- to what extent, if at all, is the increased flow of foreign direct investment recorded for instance in Spain the result of the European single market?
- is financing through the structural policies and the CSFs temporary or permanent?
- are the economic mechanisms that generate the long-term supply responses to CSF support strong or weak?

7.7 These are difficult questions, to which definitive answers have yet to be found. A greater effort must be made to answer these questions, in view also of enlargement.

⁴ The Single Market Review – Subseries VI: Vol. 2, "The cases of Greece, Spain, Ireland and Portugal"

8. Specific shortcomings of other Community policies with respect to economic and social cohesion

8.1 Common agricultural policy - partial reform of the CAP and economic and social cohesion

8.1.1 The common agricultural policy was the first real Community policy, introduced by the founding Treaty of Rome. This policy was completely successful in addressing the food shortages that followed the end of the second world war and made a genuine contribution to strengthening economic and social cohesion⁵.

8.1.2 One of the main features of the common agricultural policy reform adopted on 26 June 2003 is the decoupling – or partial decoupling - from production of compensatory payments, in particular crop payments, premiums by head of cattle and compensatory payments for milk after 2005. The link between the compensatory payments and the current calculation method (by head of cattle or by hectare), will be replaced – or partly replaced - by a system of income support payments for farmers (payment by farm). The Member States decide in each case which form of decoupling to use.

8.1.3 The EESC notes that other CAP instruments, such as those for managing the supply of agricultural products (e.g. quota arrangements), have an important function. These arrangements go a considerable way towards curbing the process whereby agricultural production is concentrated in the most favourable areas. This is in the interest of small farms and is also necessary to secure production in disadvantaged areas.

8.1.4 Any appraisal of the CAP and its contribution to economic and social cohesion should take into account that the reforms implemented in 1992 and 1999 brought decisive changes. Market support payments have fallen substantially, while payments according to farm size and head of livestock have become much more widespread. As these are intended to compensate falling producer prices for agricultural produce, there has been no significant shift in transfers between regions or types of production. Some cases of unfavourable bias have remained, e.g. against arable land, which the EESC has criticised on a number of occasions.

8.1.5 The Agenda 2000 reform drew together the various flanking market policy support measures in the Rural Development Policy programme, the so-called second pillar. The EESC has expressed its approval for this new focus of the CAP in a number of opinions, as it can make an important contribution towards securing the multifunctionality of European agriculture and the viability of rural areas. The EESC has therefore repeatedly called for improved funding of the second pillar.

⁵

EESC opinion on the Communication from the Commission to the Council and the European Parliament - Mid-Term Review of the Common Agricultural Policy, OJ C 85 of 8.4.2003, p. 76

8.1.6 In its opinion on the CAP reform of 14 May 2003 (COM(2003) 23 final – 2003/0006+0007 CNS) the Committee underscored inter alia the need to take account of the impact on economic and social cohesion when undertaking further reforms. The extent to which this actually happens is significantly affected by the transposition of reform measures by the Member States.

8.1.7 Since second-pillar measures have an important function for economic and social cohesion in rural areas, actual requirements cannot fully be met even with the proposed redistribution under so-called modulation. This is why the Committee's opinion of 14 May 2003 advocated deploying additional resources for rural development.

8.1.8 The improvement in cohesion expected with the new CAP must be assessed statistically and measured by region, in accordance with Treaty Article 159.

8.2 **Economic policy: Stability and Growth Pact and introduction of the single currency**

8.2.1 The Second Report on Economic and Social Cohesion notes (Synthesis, Part II) that in order to sustain high rates of economic growth in the regions of the Union that are lagging, it is important for structural policies (i.e. policies covered by Article 158) to be allied with macroeconomic policies which ensure financial stability (i.e. policies covered by Article 159).

8.2.2 At the same point, the report argues that nominal convergence has been accompanied by real convergence, in so far as there was a substantial decrease in inflation during the 1990s matched by a rise in GDP (above the European average in the four cohesion countries during the second half of the 1990s).

8.2.3 Although this reasoning is theoretically sound, it can be objected that there are no data measuring the probable impact of applying the cohesion criteria on each country's GDP growth per capita.

8.2.4 This deficiency could be corrected by introducing indicators for measuring specific economic parameters, e.g.

- the fall in demand caused by applying the Stability and Growth Pact;
- effects on economic productivity of reduced demand;
- effects on investment spending of reduced demand;
- effects of reduced productivity in reducing jobs and increasing unemployment;
- statistical correlation between reduced demand and job losses/higher unemployment;

- statistical correlation between the level of unemployment and any change (rise or fall) in salaries and wages (introducing such an indicator means accepting the principle that any increase or decrease in wages must be related to a concurrent inverse – and measurable – change in the employment and unemployment indicators).

8.2.5 In the same section of the Second Report on Economic and Social Cohesion, the general, abstract argument was advanced that introducing the single European currency had reduced inflation and would enhance financial stability, with positive effects on cohesion. However, no further statistical evidence is provided in support of these claims. The Commission should carry out a quantitative study on this matter.

8.2.6 A correct approach would require selecting and elaborating a series of statistical indicators, such as for instance:

- correlating inflation with changes in per capita GDP by region;
- correlating inflation (and/or per capita GDP) with changes in employment, unemployment or poverty by region.

8.2.7 Recent discussions about the need to gradually shift the fiscal priority from budget deficit limits to public debt limits must not be confined to mere statements of opinion and result in rash political choices. Correct political decisions are always preceded by assessment of their implications.

8.2.7.1 As regards the consequences of the Stability and Growth Pact, and in particular the application of the specific criteria (budget deficit or public debt), it is necessary to try and provide a quantitative assessment of the effects to date of prioritising the first criterion (budget deficit), and to evaluate the anticipated impact of this, in the context of the current economic situation, on economic and social cohesion.

8.2.7.2 Moreover, switching the priority to public debt requires an evaluation of the relevant effects of this change on social cohesion.

8.2.8 It should be emphasised that these calculations and evaluations must be used not just to establish the extent of change generally but also to compare rates of development by region, focusing in particular on the poorer regions.

8.3 Competition policy

8.3.1 The Second Report on Economic and Social Cohesion contains a clear reference to the effects of national policies on the widening of disparities, with the obvious purpose of highlighting the need to coordinate national and Community policies in order to avoid exacerbating disparities within the Member States.

8.3.2 In fact, in the second paragraph on page V of the report a distinction is drawn between disparities between Member States and disparities between regions, and it is noted that the latter have narrowed by less, partly because of the widening of gaps between regions within certain Member States.

8.3.3 National development policies implemented by adopting country-specific laws based on national characteristics and needs include special development assistance packages with various combinations of development incentives.

8.3.4 These incentives may take the form of:

- tax exemptions and reductions,
- special credit terms (reduced interest or interest-free),
- free capital assistance,
- or various combinations of tax, credit, or capital measures and aids.

8.3.5 In addition to supporting the development of the poorest regions in each country, the choice of specific development measures and assistance must also aim to:

- boost employment, and
- strengthen comparative regional and national advantage.

8.3.6 It should be noted that the composition of these development aid packages is in each case overseen by the EU authorities with the aim of avoiding any potential conflict with Community policies. However, the aim of conformity to Community legislation does not include prior evaluation of the implications for enhancing economic and social cohesion.

8.3.7 It is now also necessary to change the approach followed to date and endeavour to:

- provide a prior statistical estimate in each case of the positive and negative effects of aligning national packages of development incentives to the requirements of the relevant Community rules on enhancing cohesion and

- correct as necessary the relevant adjustments of national policies so as to avoid any decision being taken that would widen disparities or fail to enhance cohesion.

8.3.8 At the same time it should be noted that in many cases supporting a particular business or sector essentially amounts to supporting a specific region, which means that discontinuing or reducing support ultimately exacerbates the economic and social lag of the region concerned.

8.4 Trade policy – the internal market

8.4.1 The Internal Market Strategy approved by the Helsinki Council is particularly important because it provides for ongoing review and improvement of the functioning of the internal market.

8.4.2 As part of this process it would be helpful to assess the utility of specific and predetermined comparative indicators of regional disparities.

8.4.3 Such assessments would ultimately establish the extent to which the cohesion goals have been achieved.

8.5 Transport policy

8.5.1 Transport policy is one of the most basic growth factors for the EU's peripheral regions. The lack of inter-regional links (road, air and sea links) is for many regions a major hindrance to growth. Not only has the liberalisation of transport failed to improve the position of the peripheral regions, but in certain cases there is a danger of their becoming economically isolated.

8.6 Education and vocational training policy

8.6.1 The skills and vocational knowledge that are embedded in a region's workforce, in conjunction with the type of employment available, is described as a "key variable" in shaping regional competitiveness, particularly in the light of the Lisbon Strategy⁶.

8.6.2 Furthermore, the European Council in Nice stressed that the pursuit of the goal of full employment implied ambitious policies for increasing the employment rate and for reducing regional disparities.

8.6.3 More specifically, the Nice European Council pointed out the local and regional dimensions of the employment strategy that required a concerted approach at all levels (Community

⁶ Employment in Europe 2002, Chapter 4

too), with policies tailored for each region, in terms of content and objectives, as a precondition for achieving the Lisbon goals and strengthening cohesion between the European regions.

8.6.4 Before the European Council's comments can be turned to account, a detailed approximation and assessment must be made of existing labour skills against what is required in each region, and the necessary support mechanisms developed for disadvantaged regions, so as to fill the skills gaps at the pace required by the production base.

9. Conclusions

9.1 Although the economic situation and more generally the standard of living in the peripheral regions of the EU has improved over the last two decades, in many cases the disparities remain the same or have worsened.

9.2 If economic and social cohesion policy is to be effective, European regional policy must be a horizontal policy so that all EU policies take into account their impact on the regions and their development.

9.3 Without underestimating the role of the remaining Community policies, transport policy and competition policy rules on state aids aimed at regional development must be reviewed. Inasmuch as there is not yet a common policy on taxation, national fiscal policies should take serious account of the regional dimension with a view to strengthening cohesion, with due regard for competition policy.

9.4 Inequalities in income are always accompanied by other, not directly income-related disparities and inequalities that make the situation even worse for the poorer regions. It is useful to note that in the Second Report on Economic and Social Cohesion (page XI), there is an explicit reference to the fact that lower per capita GDP is linked with:

- lower production per employee,
- lower levels of education and training,
- fewer research, development and innovation activities,
- slower introduction of new information and communication technologies.

9.5 The weaknesses of the Community policies listed under Article 159 (namely all the non-structural policies) should be identified in terms of a quantitative assessment of their impact on economic and social cohesion.

9.6 A procedure should be established for measuring the impact of the Article 159 policies on economic and social cohesion, and more specifically on the profile of GDP per capita per region, employment per region, unemployment per region and poverty per region (a procedure that is already applied for the Article 158 structural policies).

9.7 There is also a need for a special study to be carried out to establish the package of ex ante and ex post indicators for measuring the effectiveness of the remaining policies, similar to the package that is applied for measuring the effectiveness of the structural policies⁷, with the distinction that the choice of recommended indicators cannot be general for all the policies but must be specific to each individual policy.

9.8 The establishment of a procedure for measuring the impact of the Article 159 policies and the drawing up of a special study to establish a package of indicators for measuring the effectiveness of these policies must tie in with the framework provided for in the *Second Progress Report on Economic and Social Cohesion*, and more specifically:

- with the Commission's commitment to conduct further research on the coherence and consistency of Community policies, so as to secure the necessary compatibility of all policies in the new programming period (2007 – 2013) with the objective of economic and social cohesion, and
- efforts to keep to the deadlines for adopting the new legislative instruments before the end of 2005, so that 2006 can be devoted to negotiating with the Member States and the regions on the 2007 – 2013 programming period⁸.

9.9 There is a need to establish a procedure, for the three-yearly review and evaluation of the impact of the Stability Pact, both for the EU as a whole and for the individual European regions. The aim of this evaluation should be the prompt and effective review of the prospects and commitments imposed by the stability pact national economies, in conjunction with the differing social and regional developments in the actual economy in each case, so as to prevent possible retrograde trends or so as not to exacerbate recession at Community level and also to minimise the risks of undermining cohesion at regional level.

9.10 The connection between the remaining, non-structural Community policies, and above all economic policy, with the objectives of cohesion is a fairly complex issue. An in-depth study is required and in any event oversimplifications must be avoided.

9.11 In 1999, the Community resources available for strengthening cohesion amounted to 0.45% of EU GDP. The level of cohesion in the regions of the 15-member EU has undoubtedly improved. However, in the light of the accession of ten new States, the EESC believes that a careful study must be made of both the level of the resources necessary to promote further cohesion and their rational use.

⁷ European Commission – DG XVI: The new programming period 2000-2006, Methodological working papers, no 3, Indicators for monitoring and evaluation: an indicative methodology

⁸ “Second Progress Report on Economic and Social Cohesion”, COM(2003) 34, 30.1.2003: III – The main topics of the debate on future cohesion policy – Other aspects – The contribution of other policies and IV – Future deadlines.

9.12 The EESC, in the context of its responsibilities, could examine this subject in further depth and attempt to answer the following questions:

- Which Community policies contribute towards cohesion?
- How can real improvements be made to economic and social cohesion within the boundaries of the European Union?

Brussels, 25 September 2003.

The President
of the
European Economic and Social Committee

The Secretary-General
of the
European Economic and Social Committee

Roger Briesch

Patrick Venturini

*

* *

N.B.: Appendix overleaf.

APPENDIX

The following amendments were rejected during the debate (Rule 54(3) of the RP):

Point 6.21

Amend point 6.21 as follows:

"As a result, it is also clear that it is not satisfactory to make general and rather vague statements of the kind that competition policy helps to generate new jobs in all regions (Second Report on Cohesion). A statement of this kind must be backed up with periodic evaluations of the impact of competition policy on employment.

Reason

To avoid an unrealistic expectation that the impact of competition policy can readily be measured in terms of the impact on jobs.

Voting

For: 28

Against: 53

Abstentions: 6

Points 6.24, 6.24.1 and 6.24.2

Delete.

Reason

To avoid an unrealistic expectation of these as practical proposals. The principle is outlined in 6.23.4.

Voting

For: 31

Against: 49

Abstentions: 9

Point 8.2.3

Replace this point with the following text:

"The impact of the introduction of the single currency and the Stability and Growth Pact on economic trends in Europe's regions should consequently be examined in greater detail."

Voting

For: 38

Against: 52

Abstentions: 3

Point 8.2.4

Delete.

Reason

The connection with the Stability and Growth pact is over-simplified and the search for economic indicators of the sequence envisaged would be unrealistic.

Point 8.2.4 establishes in advance a number of arguable cause-effect relations. Moreover, it proposes a specific methodology – the creation of certain arithmetical "indicators" – which may not be the most appropriate compared with other methods such as surveys, check-lists or a wide range of types of econometric model. It seems unreasonable to ask the Commission's specialist services to carry out a study and also to tell them which methodology they must use.

Voting

For: 39

Against: 48

Abstentions: 2

Point 8.2.6

Delete.

Reason

The linkage that may be significant is that between the stability of the single currency and the impact on cohesion. The references to causation through inflation do not seem to be appropriate.

It is for the Commission's specialist services to decide on the methodology.

Voting

For: 37

Against: 52

Abstentions: 4

Point 8.3.7

Delete first indent.

Reason

This would be difficult, if not impossible, to implement. The possible benefits would be exceeded by the costs and conceptual difficulties of the exercise whether retrospectively or in anticipation.

Voting

For: 31

Against: 53

Abstentions: 2

Point 8.3.8

Delete entire point.

Reason

Damaging to equal opportunities on the Single Market.

Voting

For: 23

Against: 58

Abstentions: 4