

THE EUROPEAN UNION'S GREAT OPPORTUNITY

(abridged version)¹

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This is no ordinary time. Profound fears and new divides among citizens within and between nations are the order of the day. These fears and divides are not only economic and social but also normative: a sense of threat to the values of the national and local community; a perception of uncontrolled diversity; a loss of trust in authorities. Under this triple pressure, sudden and persistent outbursts of political, moral and racial intolerance have come to the fore, together with a rising call for closed borders and for renationalization of sovereignty.

This scenario is particularly threatening for a Union-in-progress – the European Union – which needs visible and continuous support to move ahead, or else it falls back.

In spite of its achievements in terms of peace and free movement, the expectations of too many Europeans have not been met. Since the late '80s, the Union has repeatedly signalled, in Treaties and Strategies, that the removal of barriers and the transfer of power by Member States would be accompanied by its commitment to productivity growth in every region and to the fundamental social rights of all European citizens. Expectations grew even further for citizens of Member States taking part in the Monetary Union.

The results were disappointing for too many Europeans, even before the crisis. When the crisis arrived, the budgetary adjustments collectively agreed were tackled by most Member States by cutting public investments and welfare expenditures. This curtailed the reciprocal identification, the solidarity, and therefore also the responsibility, among citizens of different nations and among their very leaderships.

What about the role of cohesion policy? Most analysts agree that cohesion policy has contributed to boosting growth, has reduced the effects of the crisis and is channelling investments in projects that would not otherwise be made. Its “continuation with no cuts” is strongly supported by several Member States where EU funds cover 20, 50 or even 70% of all public investments. But we must also face up to some hard facts. Cohesion policy is not perceived by citizens as the distinctly

¹A complete version (with full argumentations and appropriate references) is also available.

European touch that adds “value” (not just money) to domestic policies, by tackling obstacles to innovation wherever they live. And it has failed to take slow-growing regions out of their underdevelopment trap (for example, in my country).

When discussing the future of cohesion policy, we must thus resist the temptation to jump ahead to the ever-alive issues of “simplification”, “proportionality”, “flexibility”. Of course, they matter. But they can be addressed only after asking ourselves a more basic question: Is cohesion policy suitable for the challenges facing the Union now and in the next decade?

I am aware that the atmosphere is today more favourable to cohesion policy than eight years ago. But, in designing a budget which stretches into the end of the ‘20s, this is not enough. Not enough to guarantee the results and the distinctly *European touch* that we need today. Not enough to convince Member States – as Commissioner Oettinger put it – to invest adequate financial resources on the policy. So let’s go back to the basic question, by starting from the current fears.

These fears have affected people not only along class divides but also along spatial divides. We can neither understand nor address these fears if we don’t take into account their spatial dimension.

In the 20 years up to 2014 the gap in productivity level between the frontier regions of Europe and the bottom 10% ones increased by almost 60%. The pace at which innovation has spread throughout the economy is absolutely inadequate.

Within cities, further divides exist, along clear territorial boundaries, because the positive and negative externalities of agglomerations do not accrue to the same people. The “winners”, due to their location, social origin and skill, benefit from the matching, sharing and learning externalities of agglomerations. The “losers”, due to the same factors, are largely excluded from these advantages and bear all the negative externalities.

Even more challenging and manifest in voting patterns is the divide between rural and urban areas. Residents in rural areas, still a large share of Europe’s population (about 30%), are under pressure on all fronts, with a different mix of challenges in each Member State or Region. They have been hit by a vicious circle of: displacement of labour-intensive activities; outflow of innovative young people; private and public services moving to major cities; and a strong urban-bias in legislation and regulation, which is eroding rural people’s respect for authorities.

What is the cause of all these widening divides? Major system changes, summarised in the elusive concept of “globalization”, are often claimed to be the culprit:

technological trends, shifting consumer preferences, trade liberalization and the come-back of China and India. I do not subscribe to this point of view. The responsibility belongs to the policies adopted for dealing with these system changes.

Two development policies have dominated the scene. And by now we have enough evidence to see that they have both failed:

The first dominating policy calls for: Space-blind structural reforms. This approach assumes that, in reforming institutions, from justice to education and research, experts in “the capital cities”, or in a single international headquarter, have the know-how and democratic legitimacy to recommend one-size-fits-all best practices. No regard is taken for the knowledge and the preferences of persons living in different contexts. An identical impact in every place is also assumed, as well as a full compliance by the local elites.

The second dominating policy calls for: Passively accommodating agglomerations. Following this approach, the State fully entrusts development choices to large corporations: rather than making the most of their knowledge within a strategy developed through public scrutiny, public investments required by agglomerations directly adapt to their decisions. The assumption is that these decisions are made in everybody’s interest, and that knowledge-spillovers and labour mobility automatically spread growth and bring about social inclusion. The weight of the negative externalities of agglomerations is minimised.

The assumptions of both approaches have clearly been proved wrong. And when faults and failures arose, a third device was called to the rescue, which caused even further damage:

I call it: Compassionate compensations. There is no “theory of change” here. Public investments or financial instruments are just aimed at avoiding social tensions in places which are falling behind, by *de facto* transferring funds – for infrastructures, incentives, training, no matter what – through the local elites of those places. They actually produce a perverse effect, since they promote the aversion of local elites to innovation and competition, turn them into rentiers and erode the values of local communities. (The hard-to-be-reversed story of most areas in the Italian *Mezzogiorno*)

These three policies played a major role in creating renewed class and space divides, in turning globalization into “hyper-globalization”, in producing a backlash against open borders, diversity and transfer of national sovereignty. They eroded trust in the European Union. If we want to reverse the backlash, we should then stop those policies and adopt a new approach.

This is where the Great Opportunity comes into our story. Back in 2008, the diagnosis and the therapy that I have just summarised became clear to most of us engaged in cohesion policy on the ground. We saw cohesion policy degenerating into compassionate transfers and mere financial redistribution among Member States. And we conceived a knowledge-based turnaround, called “place-based approach”, aimed at giving all people the chance to cope with system changes by tackling the obstacles to market and social innovation. The approach and its instruments animated the 2013 Reform.

Let me summarise the approach:

- I. *The objective.* “Harmonious development”, the mission of cohesion policy, should not be interpreted as the convergence of incomes of all places to a metaphysical point of “equality”, but as giving as many Europeans as possible, independently of where they live, the opportunity to be included, i.e. to make truly free choices.
- II. *Innovation and public scrutiny.* The trigger of development in every place is economic, social and institutional innovation. Much of the knowledge needed for such innovation is dispersed among persons in places: entrepreneurs and would-be-entrepreneurs, patients, teachers, students, workers, volunteers. For innovation to occur they must be empowered and engaged in developing strategies and projects through *heated, informed and reasonable* public scrutiny, *open* to external knowledge and values.
- III. *Obstacles and traps.* Obstacles exist to this public scrutiny and creative thinking, due to the poor quality of institutions and the lack of will of the existing local elites, who are concerned that they may be displaced by innovation. When these obstacles are particularly strong, the place falls into an underdevelopment trap, combining low growth and high social exclusion.
- IV. *Local ownership and the impartial spectator.* In order to unleash development in any place, an external authority is needed - the European Commission - to strike a fine “glocal” balance. (We circled around it in these two days ...) On the one hand, it must entrust policy ownership as much as possible to local sub-regional authorities, which “in four out of five Member States [represent] the most important subnational level” and are increasingly cooperating with one another. On the other hand, it must prevent “local parochialism” by destabilising, along Union-wide guidelines, the existing barriers to public scrutiny, barriers which are often created by the local authorities themselves. This role of a “fair and impartial spectator” can be performed by the

Commission by adopting an array of methods: orienting action to measurable outcomes; setting open-ended conditionalities; enforcing a partnership truly open to all citizens; accompanying implementation on the ground. All these tasks require highly trained human resources and perseverance.

- V. *Space-aware institutional changes*. Quality of institutions at regional and local level is a vital factor for development, and wide gaps exist across Europe. Institutional change is the litmus test of the policy. If cohesion policy fails to bring about permanent improvements in institutions, its positive effects, if any, will be fully reversible. External authorities, in this case primarily Member States and Regions, must thus commit themselves to reforming institutions and sectoral policies, by taking into account the features of places. Once again, it is up to the Commission to play the role of a “fair and impartial spectator”.

This is the new paradigm of cohesion policy, as the 2013 Reform tried to design it. So the question now becomes: Is the Reform working?

Not an easy answer to give today, because the Reform has required time to sink in, and its implementation has just started. Still, thanks to the policy process being the most evaluated in Europe, we know enough to make ... an educated guess. I will anticipate the guess and spell out the recommendations. And finally, I will motivate them.

The current Regulatory framework of cohesion policy, however lengthy and verbose, is *suitable* to implement the place-based approach. It *can* give the innovative and creative persons at community level the chance to adjust with globalization and to make the most of the progressive loosening of national borders within Europe. It *can*, at the same time, give space-awareness and effectiveness to Union-wide principles, by allowing them to be shaped to contexts and to embark local knowledge.

But, at the same time, the European Union is not using the policy for what it can deliver. Neither “Inclusiveness”, nor “Closing the gap between people and elites”, nor “space-aware institutional change” are its trade-mark. Three of its most relevant 2013 changes - orientation to outcomes, conditionality, true partnership - are well known only within the domain of officials and practitioners, but have not become food for thought and public scrutiny for politicians and citizens. The increased role of the Commission has remained entrusted to the capacity of officials, and it has been

encumbered by the fragmentation of ESI Funds, the escalating burden of auditing and the lack of new human resources.

So, what should we do? Quite clearly, we should keep the framework and change drastically its politics. Here is the proposal.

First, the current regulatory framework of cohesion policy for all European Regions should be basically confirmed. For the first time in the history of cohesion policy, millions of officials, experts, firms, social partners, active citizens organizations and citizens would not have to learn about new rules, and no years would be “lost” in this process. Continuity would be reassuring and would reward all private and public actors and communities who have believed and invested in the new methodology.

Second, the European Parliament, the EC, and the Council should all make a forceful political commitment to the conceptual framework behind cohesion policy. This commitment should not be left only to high political declarations, but it should be manifested in the places where policy is being implemented. And it should be made soon, with reference to the current programming period, whose effectiveness needs to be enhanced, now. The policy should be presented for what it is: a distinctive “European touch”, for tackling the new divides and for delivering “inclusion and innovation for persons in places”. A policy, whereby the Union can pursue both a rise in productivity in all places and the improvement of fundamental social rights of all European citizens. A policy, which can give a much-needed Union dimension to the principles of the new European Pillar of Social Rights, because its unique multilevel governance allows Union-wide pilot projects to be launched in the social domain, without violating “sacred” national social contracts. A policy, which can turn Union-wide objectives, for improving the quality of institutions or for moving towards the 2030 Agenda for Sustainable Goals, into recognisable and desired outcomes for people on the ground, thus rebuilding the broken bridge between people and elites.

Finally, in order to turn this commitment into reality, the European Commission should take two steps back and one step forward. Within these steps the issues of “simplification”, “proportionality” and “flexibility” would *de facto* be addressed.

- *First step back.* The legality and regularity in the disbursement of cohesion policy resources is a great concern for all European citizens. Eurobarometer shows it. The system currently used to audit disbursements is cumbersome, has too many layers and is the source of uncertainty for administrators, creating what has been called an “error rate cycle”. The role now played by European Commission officials should be entrusted entirely to a European

System of Control, along the lines of the European System of Central Banks, where national authorities deemed competent to monitor and control irregularities and frauds would act as part of the EU institutions, just as National central banks act as part of the ESCB. This move would reduce uncertainty and improve results, and it would free-up room within the European Commission for concentrating on outcomes and effectiveness, and for the new human resources that the place-based approach requires.

- *Second step back.* The five Funds through which cohesion policy is run should become part of a single Cohesion Policy Fund, entrusted, within the Commission, to a unified Directorate. It is a step back from bureaucratic sectoral silos towards knowledge-based place-level strategies. It does not mean renouncing to Union-wide guidelines and priorities in specific domains nor to guarantees of resources for specific areas (rural areas, metropolitan and medium-size cities, border areas). On the contrary, it means freeing the capacity of places within each of these areas to develop long-term integrated strategies, select expected outcomes and implement a policy mix, by interpreting Union rules, guidelines and priorities in a way that suits their context. This would take place under the strengthened and unified guidance of the Commission, which would redesign the current system of Geographic Units according to a matrix where expertise and responsibility for Member States is crossed with expertise and responsibilities for specific areas.
- Which leads us to the *Step forward.* As a necessary condition for the whole approach to work, the Commission should extend its pro-active role on the ground. It should do so in designing strategies, implementing conditionalities and partnership, accompanying and evaluating interventions. This new effort should be doubled in low-income and low-growth regions, where the quality of institutions is particularly poor (a *de facto* proportionality). For these conditions to be satisfied, the Commission, while redesigning its structure, needs to put to work on the ground a new generation of qualified development experts, coming from all the different fields required for this job, and carrying all over Europe the culture and the insights of their countries of origin. Just to be clear: I mean 500 new human resources, recruited for their competence, critical awareness and “mission publique” and responding directly to the unified Directorate or being part of it – however, not organised as “technical assistance”. They would be spending most of their time and energy in the places where strategies and projects are designed and implemented, and would soon be identified by the citizens of Europe as the

“European pioneers of a close and innovative Union”. It would cost no more than two or three megaprojects and its return would be incomparably higher.

This is the proposal that I want to leave with you. Now, finally and briefly, let's see its motivations for each of the five operational dimensions of the place-based approach.

First dimension: strategic thinking and outcome orientation. This is where the Reform has done most ... with a serious “wrinkle”. A major transition is taking place at technical level from action-based to outcome-based programming. It has been recognised that the size of projects is not what makes them useful, but rather whether they are part of a strategy. A system of outcome indicators is now in place which is finally putting people and their well-being into focus. Looking through the long list of Member States' choices, the potential looks extraordinary. A substantial body of both process and impact evaluations is expected by 2020.

In short, a bridge has been built to reconnect policy makers and citizens, on the basis of accountable visions and expected outcomes. But ... this bridge is still largely unused. Neither strategies nor outcome indicators have yet become daily food for thought or scrutiny by mass media, citizens organizations, local and European elites. The focus is still on spending, irregularities, frauds. Without a Union-wide political commitment, indicators will remain a “game for experts” and Partnership Agreements and Operational Programmes will fail to deliver political visions. We have the right rules. Now we need politics.

Second dimension: place level ownership of the policy process and Commission pro-activism. Conditions have been set or made possible by the Regulatory framework for places to play a relevant role: Sustainable Urban Development, tools for territorial integration, other governance designs – such as the Inner Areas Strategy in Italy or some truly place-oriented smart specialization strategies – that have allowed for a strong empowerment of local authorities and local partnerships.

It is thus clear that place-level ownership can be achieved within the new rules. But ... it has not happened often. Only 9% of funds are allocated to integrated territorial strategies. The delegation of management responsibilities to local level is very limited and the fragmentation of cohesion policy funds and of their management in Brussels still erects tough barriers against an integrated approach. Once again, no new rules are needed, but a clear-cut political will and a unified Cohesion Policy Fund.

As for the Commission pro-activism, a move ahead was made, both in presiding over the implementation of conditionalities and in enforcing and assisting Member States in the U-turn towards outcomes. But ... the failure to invest in new human resources skilled in economic and social development, the fragmentation of funds and the heavy duties in auditing, have prevented the Commission from playing a pro-active role at place level, where strategies and projects actually happen. For this role to be played, the two steps back and one step forward that I have proposed are indispensable.

Third dimension. Public and open scrutiny at place level. The new framework and the principles set in the Code of Conduct Partnership have potentially strengthened the role of organizations representing economic and social interests and civil society, including any group “significantly affected” by the policy. In most integrated territorial strategies and partly in the field of research and innovation, the “discovery process” seems to have responded to those principles. But ... there is no evidence of a generalised move in this direction.

To turn the new rules into action, there needs to be strong political understanding that active citizens’ participation is the condition for knowledge-based decisions. Data on projects and outcomes should be made available in an open format and spaces for public scrutiny should be promoted. Projects like Italy’s “Open Cohesion” can make a difference if they are accompanied by citizens activism and training.

Fourth dimension. Space-aware innovation of institutions and sectoral policies. Two moves have been taken in this direction by the Reform: ex-ante conditionalities and the linkage between ESI funds and the European semester.

Conditionalities, have proved to be effective. They have promoted a strategic turn in several fields, ensured or accelerated regulatory reforms, boosted administrative capacity. A similar positive role has also been played by country-specific recommendations endorsed by the Council. This is clearly the way to go. But ... for the quality of institutions to actually improve, implementation of the new rules must be strengthened.

The fulfilment of institutional changes within Member States and Regions should be actively monitored and accompanied by the Commission with a single objective in mind: ensuring that changes are space-aware and that, place by place, specific conditions are established for them to be effective. Ex-ante conditionalities should also ensure that national and regional sectoral policies are adjusted in order to make them adaptable to the different needs of places.

The link between cohesion policy and the European Semester should also be strengthened, by giving the Semester a strategic tilt, for example around what has been called ... a “European agenda for structural transformation”. This step could take place within the framework of the 2030 Agenda on Sustainable Goals, implementing the “invitations” contained in the recent Draft Council Conclusions on how to integrate the Agenda in post-2020 policies.

Fifth and last (but not least) dimension. Social inclusion as well as innovation. Back in 2008, when the design of the Reform took shape, it was already clear that Europe needed a strong concentration of funds and effort not only on research and innovation, but also on social inclusion, more precisely on a “territorialised social agenda”, centred – we wrote – on Children and Migration.

A shift of financial ESI funds has indeed taken place in the direction of both innovation and social inclusion. But, while the conceptual framework of the Smart Specialization Strategy is publicly perceived as a “European design”, the same can not be said in any way for social inclusion. In planning the post-2020 cohesion policy strategy, the opportunity and the duty exist to be much bolder.

After President Juncker’s first State of the Union speech, the 1990s “crescendo” towards a Social Europe has finally been resumed, with the launch of the European Pillar of Social Rights. Its objectives represent a task in themselves, possibly the most important task of the EU ... if it wants to survive. The question is: How do we expect this task to be achieved? What would be its European dimension, proving to all Europeans that they are citizens of the same polity?

The answer is twofold. The Union should introduce a Union-wide policy, such as the child benefit scheme, advocated by the late Tony Atkinson, or the highly needed unemployment insurance. At the same time, Union-wide pilot-projects inspired by the new Pillars should be systematically implemented through cohesion policy, in “similar” places throughout Europe: they would experiment solutions that might one day become part of a European social model, and could gradually erode the prejudice against it. This move would square with the announcement made by the Commission that “the Pillar will be a reference for the design of the post-2020 EU financial programming period”.

There would be no better way than these Commission words to close my remarks. Political will: this is what the future budget calls for. The framework of cohesion policy can provide the missing “European touch” we all long for. It can address

current fears and divides by empowering people and communities. It can help restore trust in a close Union. There is no reason to wait any longer for this to be done, convincingly and forcefully.