

THE EUROPEAN UNION'S GREAT OPPORTUNITY

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Abstract

The economic, social and normative fears that in Europe and elsewhere are producing a backlash against open borders, against diversity and against transfer of national sovereignty, have a strong space dimension. Inequalities within countries and within regions have been increasing. Divides are growing between people living in rural and urban areas, in metropolitan towns and in medium-size cities, in the suburbs and in the core-centres of metropolitan areas. The European 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 place and to the fundamental social rights of all European citizens. The results were disappointing for too many Europeans. The very future of the Union is uncertain. In this paper, I argue that this is the result of three wrong policies adopted to deal with world-wide system changes: space-blind structural reforms; passively accommodating agglomerations; compassionate compensations. An alternative approach is needed. I argue that the Union has the Great Opportunity to implement it, now.

In 2013, Union cohesion policy (about 40% of the EU budget) was radically reformed. A knowledge-based approach was adopted, aimed at giving all people the chance to cope with system changes, by empowering them and their communities, by tackling, place by place, the obstacles to market and social innovation, by promoting space-aware institutional changes: a "place-based approach", i.e. a policy for people in places. Implementation of the U-turn has taken time, but information on the operational use of its main tools – orientation to outcomes, strategic approach, conditionalities, public scrutiny – confirms that the new policy design has the potential for achieving its goals. But it also suggests that this potential is largely unexploited. For two reasons: the lack of political commitment by the European leadership; the constraints preventing the Commission from fully playing the role of "fair and impartial spectator" required by the approach. I put forward five proposals to tackle these problems. While basically confirming the current Regulatory framework, they would make it possible for the Union, to exploit its Great Opportunity. They would also give a European dimension to the new European Pillar of Social Rights, a mission where the Union cannot afford to betray expectations.

This is no ordinary time. Profound fears and new divides among citizens within and between nations are the order of the day. They are not only economic (about job, income and debts) and social (about the access and quality of fundamental services and about unjustified inequalities) but also of a normative nature¹: a sense of threat to the values of the national and local community; a

¹The role of normative fears is stressed by Karen Sennert in her theory of authoritarian dynamic: according to it, normative fears trigger an authoritarian behaviour in people predisposed to group authority as opposed to individual autonomy and to homogeneity as opposed to diversity. In presenting her theory back in 2005, Sennert predicted the backlash which we are living now through. The authoritarian dynamic, she argued, "anticipates a future in which the increasing license allowed by the evolving cultures [of greater respect for individual freedom and difference] generates the very conditions guaranteed to goad latent authoritarians to sudden and intense, perhaps violent, and almost certainly unexpected, expressions of intolerance". (p.137). See K. Sennert, *The Authoritarian Dynamic* (Cambridge

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 a renationalization of sovereignty.

This scenario is particularly threatening for a Union-in-progress – the European Union – a would-be-federal form of government which needs visible and continuous support to move ahead, or else it falls back. In spite of the Union’s achievements in terms of peace and free movement², its commitment to environment, and the welfare systems of most of its Member States, 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 an EU-wide commitment both to productivity growth in every region and to the fundamental social rights of all European citizens. This would be achieved either directly, via the multiannual EU budget, or indirectly, via the open method of coordination and the judicial protection. Expectations grew even further for citizens of Member States taking part in the Monetary Union, due to the loss of national sovereignty and of policy instruments.

The results were disappointing for too many Europeans, even before the crisis³.

When the crisis arrived, the responsibility for tackling its most devastating consequences was entrusted to monetary policy, while the budgetary adjustments collectively agreed were tackled by most Member States by cutting public investments and welfare expenditures. Together with a procyclical effects, these cuts eroded the European buffer against the negative redistributive consequences of open economies⁴. Unlike what Commissioner George Thomson wished back in 1973⁵, many European citizens⁶ have today much “cause to doubt the common will of all to help each Member State to better the conditions of its people”. This curtailed the reciprocal identification⁷, or functional solidarity⁸, and therefore also the responsibility, among citizens of

University Press, 2005). Sennert does not discuss the issue - which I raise here - of whether and how wrong policies have amplified the threats originating for some people by the “evolving culture for individual freedom and difference” and whether and how alternative policies can avoid that effect.

²These first two results are both considered (according to Eurobarometer, Autumn 2016) “the most positive [ones] of the EU” by 56% of EU citizens.

³The gap between promises and achievements became increasingly clear even before the crisis made it more blatant. It was the centre of attention of the Report *Taking forward the EU Social Inclusion Process*, commissioned in 2005 by the Luxemburg Presidency of the Council of the European Union and prepared by the late Anthony Atkinson, together with B. Cantillon, E. Marlier and B. Nolan, and of several other analysis and proposals aimed at mainstreaming the social inclusion process. It was the punch-line of the 2006 *Joint Report on Social Protection and Social Inclusion* and the starting point of *An Agenda for a Reform of Cohesion Policy* commissioned by Commissioner Danuta Hubner in 2008.

⁴In *Populism and the Economics of Globalization*, draft (June 2017, https://drodrik.scholar.harvard.edu/files/dani-rodrik/files/populism_and_the_economics_of_globalization.pdf), the economist Dani Rodrik, in examining the well-known negative effects of trade liberalisation on inequality within-countries, writes: “the European welfare state is the flip side of the open economy”.

⁵*Report on Enlarged Union (Thomson Report)*, May 1973.

⁶Two thirds of the citizens of Member states belonging to the EU consider themselves “citizens of the EU” (Eurobarometer, Autumn 2016).

⁷In September 1932, answering a letter by Albert Einstein who was asking his views on how to prevent “wars between nations”, Sigmund Freud pointed, as a way forward, to the possibility of building among citizens of different nations a “bond of sentiments ... by way of identification”. It amounts to the broadening of the “feeling of community” beyond the national borders.

different EU nations and among their very leaderships⁹. The trust and satisfaction of European citizens in the EU, in spite of a recent rebound, is lower than at the turn of the century, while in most Member States – not in Southern Europe – the opposite is true for the satisfaction in the national democracy. The future of the Union is uncertain.

What about the role of cohesion policy? Most analysts agree that on the whole it has contributed to boosting growth in the areas where it was used, that it has reduced the effects of the crisis¹⁰, and that it is channelling investments in projects that would not otherwise have been made. Its continuation with no cuts is also strongly supported by several Member States where EU funds cover 20, 50 or even 70% of all public investments, and by those sub-national areas which are concerned about not receiving similar support from their national government, were cohesion policy to be discontinued. But we must also face up to some hard facts. Cohesion policy is not perceived by citizens as the distinctly *European touch* that adds “value” (not just money) to domestic policies, by tackling obstacles to innovation and giving them the chance to engage in a new development path 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, in designing a budget which stretches into the end of the ‘20s, they can be addressed only after asking ourselves a more basic question: Is cohesion policy – its objectives and revised governance – suitable for the tough challenges facing the Union now and in the next decade?

I am aware that the atmosphere is today more in favour of cohesion policy than eight years ago. But this is not enough. Not enough to guarantee the results and the distinctly *European touch* that we need today for tackling the current fears. Not enough to convince Member States – as Commissioner Oettinger put it at the Forum – to invest adequate financial resources on the policy. So let’s go back to the basic question by starting from the current fears.

They have affected people not only along class divides – different social origins, skills and degrees of autonomy on the job – but also along spatial divides¹¹. We can neither understand nor address these fears if we don’t take into account their spatial dimension, which is very often reflected in people’s voting patterns.

⁸ This definition points to the awareness of the ultimate purpose of solidarity itself: preserving an otherwise heterogeneous community. For a discussion and the use of this concept, see M. Jouen, *Solidarity 2.0*, Notre Europe, June 2017 (<http://www.institutdelors.eu/media/solidarity2.0-marjoriejouen-june2017.pdf?pdf=ok>).

⁹ As pointed out in the *White Paper on the Future of Europe* (March, 2017 http://eur-lex.europa.eu/content/news/white_paper.html), finger-pointing among Member States gave “stark images of disunity”.

¹⁰ See for example G. Pellegrini, *Measuring the Effects of European Regional Policy on Economic Growth*, Papers in Regional Science, 92(1), 2013; and S. Merler, *Income Convergence during the Crisis: did the EU funds provide a Buffer?*, Bruegel Working Papers, 2016 (<http://bruegel.org/wp-content/uploads/2016/10/WP-06-16-1.pdf>). For the latest list of studies on this issue, see J. Bachtler, J. Oliveira Martins, P. Wostner, P. Zuber, *Towards Cohesion Policy 4.0. Structural Transformation and Inclusive Growth*, Regional studies Association, June 2017 (par. 6.1) (http://www.regionalstudies.org/uploads/documents/RSA_Report_Web_22-6-17.pdf)

¹¹ On the relevance of the space component of discontent see: J. Bachtler et al (2017) and M. Jouen (2017), especially the Appendix.

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 56%”¹². 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 – which are now clearly measured by the worthy *State of European Cities*¹³ – 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: interaction among skilled workers, networking; concentration of education, innovation centres and knowledge-intensive activities. The “losers”, due to the same factors, are largely excluded from these advantages and bear all the negative externalities: expensive and crowded housing; high level of perception of insecurity; air and noise pollution; pressure of diversity leading to increased urban segregation; loss of control over one’s time regime.

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%¹⁴), are under pressure on all fronts, with a different mix of challenges in each Member State or Region. Their economic structure has been hit by deindustrialization, an outflow of innovative young people and, often, a displacement of labour-intensive agriculture-forestry-grazing activities by capital intensive ones.

Since the crisis, the share of people at risk of poverty and social exclusion, has actually fallen in the rural areas of most (though not all) Member States: its average value is just above that of cities, where it has meanwhile grown. But the social and the normative fears are remarkable, as the evidence collected within Italy confirms¹⁵. On the social front: a move of private and public services to major cities and an inadequate quality of essential services. On the normative front: lack of consensus in group values; a perception (often founded) of a sense of superiority by urban elites – sometimes embodied in the language of otherwise compassionate interventions, as when rural areas are told to specialize in “amenities”; and a strong urban-bias in legislation and regulation, 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”¹⁶, are often claimed to be the culprit: technological trends (increasing the role of immaterial capital, changing skill requirements and making them unpredictable, allowing for a piecemeal decentralization of the productive *filière*), shifting consumer preferences (increasing demand diversification, possibly a secular fall in demand), trade liberalization and the come-back of China and India (challenging, with other newly industrialised countries, the manufacturing West). I do not subscribe to this point of view. The responsibility belongs to the policies we have used to deal with these system changes.

¹²See data reported in J. Bachtler et al (2017), p.17.

¹³ See European Commission and UN Habitat, *The State of European Cities, 2016*, (http://ec.europa.eu/regional_policy/en/policy/themes/urban-development/cities-report)

¹⁴See again the *State of European cities* Report.

¹⁵ Data, analysis and circumstantial evidence is available through the Italian Strategy for Inner Areas (see <http://www.agenziacoesione.gov.it/it/arint/>).

¹⁶Following an extensive inquiry conducted in 2002 by the UK House of Lords, globalization can be defined as “a state of world affairs where distance between places and between individuals is reduced, markets become more integrated, branded products are widely spread and closer interconnectedness exists between countries. See also the following note.

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

- I. *Space-blind structural reforms*. These assume that, in reforming institutions for justice, education, health, communication, research and so on – quite rightly a decisive step for adjusting to system changes – technocrats and experts in “the capital cities”, or possibly 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 local elites.
- II. *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:

- III. *Compassionate compensations*. There is no “theory of change” behind this device. Public investments or financial instruments are aimed at avoiding social tensions in places which are falling behind, by *de facto* transferring funds – for infrastructures, incentives or 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”¹⁷, 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. We saw the policy degenerating into compassionate transfers and mere financial redistribution among Member States. And we conceived a knowledge-based turnaround, called “place-based approach”¹⁸, aimed at giving all people the chance to cope with system changes. It would do so by

¹⁷D. Rodrik, in *The Globalization Paradox* (W. W. Norton, 2012) and following papers, defines hyper-globalization as a state of world affairs where globalization has been overstretched – namely by the 1989 decision to remove all restrictions on cross-border financial flows, and the 1995 establishment of WTO, with wide-ranging implication for patents, and for domestic industrial policies, subsidies and health and safety rules – and has been accompanied by one-size-fits-all prescriptions on the institutional changes and structural reforms that should be implemented by each country. Notice that the latter approach is the international version of what I have called here “space-blind structural reforms”.

¹⁸ See *An Agenda for a Reformed Cohesion Policy* (2009), http://ec.europa.eu/regional_policy/archive/policy/future/barca_en.htm. Refinement and synthesis in the

empowering them and their communities, by tackling, place by place, the obstacles to market and social innovation, and by promoting space-aware institutional changes.¹⁹ The approach and its instruments animated the 2013 Reform.

Let me summarise the approach:

- 1) *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 “expand the freedoms they have reason to value”²⁰, in short to be “included”. For this to be the case, people should neither be compensated for living in places that are not viable, nor should their mobility be promoted. They should rather be enabled to make a truly free choice. The place-based approach is a “granular structural policy”²¹ aimed at “persons in places” in order to promote both productivity growth and social inclusion.
- 2) *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, peasants, researchers, etc. 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 values²². The very borders of the “place” must be endogenous to the policy process and sensitive to territorial complementarities, homogeneities and people’s willingness to cooperate with one another.
- 3) *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 they may be displaced by innovation²³. When these obstacles are particularly strong, the place becomes stagnant or even falls into an underdevelopment trap, combining low growth and high social exclusion. And it can stay there for a very long time.
- 4) *Local ownership and the impartial spectator*. In order to unleash development in any place, an external authority is needed - the European Commission - which is positioned to strike a fine balance. On the one hand, it must entrust policy ownership as much as possible to

presentation of the approach can be found in: F. Barca, *Alternative Approaches to Development Policies* in *OECD Regional Outlook*, 2011, http://www.keepeek.com/Digital-Asset-Management/oecd/urban-rural-and-regional-development/oecd-regional-outlook-2011/alternative-approaches-to-development-policy_9789264120983-17-en#.WUOmfWjyh1c#page1) and F. Barca, P. McCann, A. Rodriguez-Pose, *The Case for Regional Development Intervention: Place-based versus Place-neutral Approaches*, *Regional Science*, Jan 2012 (<http://onlinelibrary.wiley.com/doi/10.1111/j.1467-9787.2011.00756.x/full>).

¹⁹Of course, for this turnaround to fully take place, space-blind structural reforms should be brought to a halt, and macroeconomic policies and international agreements should change in the direction envisaged by D. Rodrik (2012).

²⁰For this definition of “substantial freedom”, see A. Sen, *A Theory of Justice*, Allen Lane, 2009

²¹For this expression see J. Bachtler et al (2017), who reiterate the need for such approach, although they prefer the expression “integrated territorial approach”.

²²These four operational requisites of public scrutiny are necessary for this process to lead to “agreements” and then to be effective. For the conceptual framework behind this argument, for the meaning of the four requisites and for some of the policy design drawn from it, see in particular: Sen (2009); J.Haidt *Why Good People Are Divided by Politics and Religion* Pantheon Books, 2012; M.C. Dorf and C.F. Sabel, *A Constitution of Democratic Experimentalism*, in *Columbia Law Review*, March 1998.

²³On this see D. Acemoglu, J.A. Robinson, *Why Nations Fail*, 2012, Crown Business.

local sub-regional authorities, which “in four out of five Member States [represent] the most important subnational level” and are increasingly cooperating with one another²⁴. On the other hand, it must prevent “local parochialism”, by destabilising, along Union-wide guidelines, the existing barriers to public scrutiny, which are often created by the local authorities themselves. This role of a strong, “fair and impartial spectator”²⁵ can be performed by the EC 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.

- 5) *Space-aware institutional changes*. Quality of institutions at regional and local level is a vital factor for development, and wide gaps exist across Europe, with low-income and low-growth Regions trailing far behind²⁶. Institutional change (from justice to education, from legality to health and research) and of the behaviour of their administrators 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. They should not do it through an abstract and one-size-fits-all design, but rather by taking into account the features of places and by putting the human resource factor at the centre of change. Once again, it is up to the EC to play the role of a “fair and impartial spectator”, by ensuring implementation on the ground for broad principles outlined at EU level.

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

It is not easy to answer today, because the Reform has required a long 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. 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

²⁴See again *The State of European Cities* (p.210).

²⁵This expression by Adam Smith refers to the need for sentiments and commonly agreed beliefs to be challenged by the presence of a real external spectator, which can awaken “the man within the breast, the abstract and ideal spectator of our sentiments and conduct”. The quote is from Sen (2009), who builds from here his view on the role of public scrutiny in pursuing agreements on how to pursue justice. Sen is also explicit in pointing to the “relevance of global perspectives” such as those coming from “the experience of other countries and societies”. The full quote is: “each country, or each society may have parochial beliefs that call for more global examination and scrutiny, because it can broaden the class and type of questions that are considered in that scrutiny, and because the factual presumptions that lie behind particular ethical and political judgements can be questioned with the help of the experiences of other countries or societies” (p.71). This is exactly the value added of the European Union. But for the experience of Poland or Finland to bear on the choices of Madonie or Palermo in Sicily, or the experience of Italy to broaden the questions that are considered in the scrutiny being carried on in Cottbus in Brandenburg or in the Scottish Highlands, the EC must act through its people as the vehicle for such a reciprocal influence. See below in the text.

²⁶For the particularly relevant role of bad quality institutions in low-growth regions of Southern Europe see for example A. Rodriguez-Pose, T. Ketterer, *Institutional Change and the Development of Lagging Regions in Europe.*, mimeo.

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 results, 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? We should keep the framework and change drastically its politics. This is the proposal.

First, the current regulatory framework of cohesion policy for all European Regions should be basically²⁷ 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 systems. 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 be *de facto* addressed.

²⁷By “basically” I mean that the length and verbosity of the framework could be reduced, by recognising that no complete contract can be written which anticipates all possible circumstances and which thus rules *ex-ante* what all parts should do if they arise. The increased human resources of the EC would, on the other hand, allow it to manage in a shared way with Member States and Regions those circumstances when they arise, through a reasonable interpretation of the general rules. “Basically” also refers to the changes needed to accommodate the unification of Funds and the new European System of Control.

- *First step back.* The legality and regularity in the disbursement of cohesion policy resources is a great concern for all European citizens, as Eurobarometer shows. 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”²⁸. 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 Union-wide guidelines and priorities in specific domains and 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 insights of their country 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 EC 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 around 5% of all the ESI funds, and this should in no way be considered as an “overhead” expense, since it would deliver specific and indispensable outcomes.

²⁸ A Report by EPRC (*Evolution or Revolution? Exploring New Ideas for Cohesion Policy 2020+*, October 2016, http://www.eprc.strath.ac.uk/eorpa/Documents/EoRPA_16_Conf/EoRPA_Paper_16_4%20-%20Final.pdf) describes this “error rate cycle” as follows: the political pressure of the European Parliament and the Council on the error rate calls for new regulatory requirements which call on their turn for Commission guidance and interpretation, which is followed by adoptions of procedures, which lead to uncertainty, risk and administrative mistakes, which concern people, which then put pressure on the European Parliament and on their Governments, who demand still new rules. The cycle is widened by the existence of several layers of audit.

This is my proposal. Now, let's see its motivations. My educated guess on how the Reform is performing is drawn from EC documents, from some studies and from my own direct experience²⁹, and it touches on the five operational dimensions of the place-based approach.

First dimension: strategic thinking and outcome orientation. This is the dimension where the Reform has done most, with a serious “wrinkle”. A major transition is taking place at technical level from action-based to result-based programming where a vision of the future and a strategy come first, followed by the identification of the expected effects on persons' well-being (the outcomes) and, finally, of the actions to achieve them. It has been recognised that the size of projects is not what makes them useful, but rather whether they are part of a strategy which includes other interventions and institutional changes capable of triggering development.

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. Sometimes the indicators are still inadequate, measuring output rather than outcome. But, on the whole, a convergence emerges on a few categories of clear-cut indicators for each theme. In education, for example: satisfaction with services; share of students benefiting from rigorously assessed better services; share of drop-outs or of students above a given standard of measured competence. For research and innovation: impact factors; share of research with international cooperation; licensed results from patents or any other locally performed research. 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 whose achievement can be monitored. *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, and frauds. Without an 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 in the Regulatory framework for places to play a relevant role: earmarking of resources to Sustainable Urban Development; delegation of responsibility to local authorities; tools such as Integrated Territorial Investments and Community Led Local Development. Other governance designs – such as the Inner Areas Strategy in Italy or some truly place-oriented smart specialization strategies – have also allowed local authorities and local partnerships to own the policy process, including co-deciding the borders of the place where the strategy is being built.

²⁹See the already quoted Report by EPRC and, among others: EC, 2016 Summary Report of the Programme annual implementation reports 2014-2015, COM(2016) 812 final (http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf); EC, *Competitiveness Report in Low-income and Low-growth Regions – The Lagging Regions Report*, April 2017 (http://ec.europa.eu/regional_policy/en/information/publications/reports/2017/competitiveness-in-low-income-and-low-growth-regions-the-lagging-regions-report); papers prepared for the June 2017 Helsinki Conference on Maximising Europe's Innovation Potential. As for my direct experience, it refers in particular to the Italian “Inner Areas Strategy”, financed by all ESI funds and by national budget, covering 1/5 of the Italian territory (in both Northern, Central and Southern Regions), about 1.000 municipalities and 2mln people (objectives, methodology, implementation and open data available at <http://www.agenziacoesione.gov.it/it/arint/>)

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. Available evidence also shows that the delegation of management responsibilities to local level is very limited and that 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-active, 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, where the Smart Specialization Strategy has often actively promoted the implementation of those principles, 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 and for res-establishing a direct link between European elites and citizens. Accountability is not enough. Investments in culture are needed, aimed at promoting active cultural access and participation, which are in turn a trigger for commitment and innovation³⁰. 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”³¹ can make a difference if they are accompanied by citizens activism and training. It would be up to the 500 European pioneers to help design and set up this framework.

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, however problematic their initial introduction, have proved to be effective³². They have promoted a strategic turn in several fields (research and innovation, health, education, employment), ensured or accelerated regulatory reforms (public procurement, environmental legislation, agricultural standards) and boosted administrative capacity (managing projects,

³⁰For this indirect impact on development by investments in culture, see P.L. Sacco, G. Ferilli, G.Tavano Blessi, *Culture 3.0. Cultural Participation as a new Driver of Social and Economic Value Creation in Future European Cohesion*, mimeo, 2014, (<http://www.amoslab.fi/wp-content/uploads/2014/06/Pier-Luigio-Sacco.-Culture-3.0-JCE-circ.pdf>).

³¹Financial and output data are available in <http://www.opencoesione.gov.it/> for about 100.000 projects (all those financed by cohesion policy and those financed by national regional policy), in an open format and easily accessible and downloadable.

³²This is not the case for macro-conditionality, which creates an improper and paradoxically pro-cyclical linkage between cohesion policy and budget restraint.

organising tender procedures, antifraud strategy). A similar positive role has also often 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, place by place, conditionalities should be used to the full.

The fulfilment of institutional changes within Member States and Regions should be actively monitored and accompanied by the EC 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. Conditionalities should also ensure that sectoral policies, whether they are national or regional, are adjusted in order to make them adaptable to the different needs of places. Member States and Regions would be free not to do so, but then there would be no point in investing ESI funds, because they would have no chance of a permanent impact. Both improvements require the deployment by the EC of its new “development pioneers” on the ground.

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”³³. This step could take place within the framework of the 2030 Agenda on Sustainable Goals. The recent Draft Council Conclusions invite the Commission to assess how to integrate the Agenda in post-2020 policies and how “the programmes and instruments within the next Multiannual-Financial Framework can support [its] implementation”³⁴.

Fifth 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 innovation, but also on social inclusion, more precisely on a “territorialised social agenda”. It was argued that this agenda should be aimed “at guaranteeing socially agreed essential standards for one or two issues of high priority for European Citizens. While respecting the diversity of <<social contracts>> between citizens and their Nation States, it would establish some elements of a social contract between all EU citizens and the EU as a whole”, and it should focus on “children” and “migration”³⁵.

A shift of financial ESI funds has indeed taken place in the direction of both innovation and social inclusion³⁶. But, while the conceptual framework, the political visibility and the pro-active effort of the Smart Specialization Strategy seem already to be producing results³⁷ and are publicly perceived as a “European design”, the same cannot be said in any way for social inclusion. The list of

³³This proposal is put forward by J. Bachtler et al (2017).

³⁴See Draft Council Conclusions, *A sustainable European Future: the EU response to the 2030 Agenda for Sustainable Development*, June 2017,

³⁵An Agenda for a Reform of Cohesion Policy (p.xiii). “Given the scale of migration [and the] large number of Europeans involved – it was argued - the balance of its advantages and disadvantages depends on how communities adjust and [how] public services ... are adapted to the changes involved”: a EU-wide place-based approach would do the job.

³⁶In terms of thematic objectives, innovation and social inclusion receive, respectively, 12,3 and 9,8% of total ESI funds. The shares would be possibly higher, especially for innovation, if one were to consider some resources formally allocated to other themes (such as ICT and Climate Change Adaptation, for innovation, and Employment and Education, for social inclusion).

³⁷In about half Member States reforms have taken place which were needed to implement the strategy. In most cases a greater involvement of all stakeholders has actually taken place, while practice sharing through the Smart Specialization Platform set by the Commission is promoting a “European way” to boost innovation suitable to the different needs of different places.

expected outcomes looks significant, but concerns for interference with national social agendas, the lack of agreement on the role of the EU in this realm and the limited amount of resources, have prevented the cohesion policy social agenda from becoming a step towards a Social Europe. 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 and a wide consultation, the 1990s "crescendo" towards a Social Europe has finally been resumed, with the launch of the European Pillar of Social Rights. Its objectives are not only instrumental to the functioning of the EMU³⁸, but represent a task in themselves, possibly the most important task of the EU if it wants to survive. The questions are: how do we expect those objectives to be achieved, considering that, in spite of being highly normative, they are fully entrusted to Member States, with no EU-wide resources available for the implementation? In implementing the Pillar, what would be the European dimension proving 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 debated unemployment insurance.³⁹ At the same time, Union-wide pilot-projects 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. The multilevel governance of cohesion policy and its capacity to be place-based would both be exploited to the full. This move would also 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 this note.

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.

³⁸ On the risk of the European Pillar for Social Rights being presented and perceived, once again, as a mere "instrumental objective" see A. Brandolini, *Some thoughts on the European Social Pillars*, paper presented at the 2nd meeting of the Social Pillar EMU steering group, Brussels, May 23 2016, and A. Brandolini, *How to pin down the elusive significance of inclusive growth*, in OECD Workshop on Inclusive Growth, 2013 (pp.87-88) (https://www.oecd.org/inclusive-growth/events/Proceedings_Inclusive%20Growth%20for%20Shared%20Prosperity_03.04.13.pdf). The first paper discusses also the normative nature of the European Pillar.

³⁹ See A. Brandolini (2016).