

**SELECTED ISSUES FROM  
"AN AGENDA FOR A REFORMED COHESION POLICY"**

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**PROLOGUE 1: THE LOSS OF CONSENSUS ON COHESION POLICY**

Cohesion policy has lost consensus over the last ten years due to:

- increasing misconceptions on its task:
  - "financial redistribution between Member States and Regions"
  - "convergence" of per capita income
  - "a price to pay to keep markets unified"
- unresolved tensions between subsidiarity and conditionality
- surprising lack of knowledge on "results" followed by:
  - failure to debate results
  - inadequate perception of "EU value added" by people
- an increasingly self-referential language and debate within the high walls of the Cohesion Policy House

## PROLOGUE 2: A PARADOX

- A paradox then arises: when the opportunity and need for the EU to use cohesion policy is higher, because
  - the financial and economic crisis calls for innovation and a stronger effort to fight social exclusion
  - the social issues are back on the European agenda
  - mainstream economic theory has provided fresh backing to cohesion policy
- the prevailing mood in Brussels is one of disintegrating cohesion policy in sectoral-federal Funds
- and the prevailing reaction to this view in the cohesion policy community is: "more of the same" (possibly with some "simplification")
- This is the context in which the Report came out

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## PROLOGUE 3: CONCLUSIONS OF THE REPORT

- Cohesion policy, if interpreted as a "place-based development policy", is the modern and only way for the European Union to perform a task which is indispensable for its existence
- In order to play this role, cohesion policy needs a fundamental change of direction
- Relaunching requires:
  - I. The adoption of a strong political concept to provide the basis of a new political compromise
    - ⇒ inside this compromise the idea of a "territorialized social agenda" plays a central role
  - II. A reform of the priorities and governance based on:
    - concentrating resources
    - orienting grants to results
    - mobilizing and learning
    - strengthening the Commission
    - reinforcing political checks and balances
  - III. A change in the negotiation calendar

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## THE POLICY CONCEPT: THE "NEW PARADIGM OF REGIONAL POLICY" OR PLACE-BASED POLICY

- **Two separate objectives**
  1. promoting a greater utilization of potential (efficiency)
  2. promoting social inclusion (equity)
- **Unit of intervention**
  - places or functional regions, set through the policy process (places = projects)
- **Rationale – Why do places need exogenous interventions? For 3 separate reasons:**
  1. appropriate institutions fail to be chosen by the local elite
  2. institutions have a strong inertia
  3. high uncertainty on efficient agglomeration patterns calls for verifiable public action ⇒ self-proclaimed "space-blind policies" assume that the State (or some large corporations) knows best
- **Instruments**
  - supply of bundles of integrated public goods and services
  - triggering institutional change
- **Method ⇒ combining subsidiarity and conditionality**
  1. external intervention through conditional grants
  2. eliciting and aggregating local information and preferences

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## MISCONCEPTIONS AND CLARIFICATIONS

A place-based strategy is not:

1. A policy for "financial redistribution"
  - the fallacy of the renationalization critique
  - the need for intervening in all regions
2. A policy aimed at "convergence"
3. A policy restricting people's mobility
4. A policy constraining "natural" agglomerations

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### WHY DOES THE UNION NEED A DEVELOPMENT POLICY?

- No Union of States (with unified markets) can do without a development policy that enables all its citizens to reap the benefits of the Union and to cope with its risks
- The survival of the Union requires a gradual (very gradual) loosening of national bonds and the creation of an "identification" or "feeling of community" among citizens of different nations (*1932 letter of Freud to Einstein*)
- The EU is blamed if expectations of equal opportunities are not met:
  - citizens will oppose labour mobility
  - firms will oppose market liberalization
- The case of the United States confirms that development policy is an indispensable ingredient of a Union

### WHAT IS THE MODEL OF DEVELOPMENT POLICY SUITABLE FOR THE EU?

- ⇒ *Sectoral-federal model: EU-wide sectoral Funds for Innovation, Transport, Climate Change, Social Inclusion, Employment, etc., allocated by the Commission to individual projects*
- ⇒ *Place-based model: a multi-sectoral Fund allocated to Member States and Regions through "contracts" whereby their grants to projects are made conditional on a set of EU-wide principles*

1. The **place-based model** is *the modern way to tackle economic and social development*, because
  - it allows to take into account people's preferences and knowledge
  - it avoids the "on-size-fits-all" syndrome
2. The **place-based model** is *the only model compatible with the EU's limited democratic legitimacy*
  - Sectoral top-down interventions would not be coherent with the role of Member States in social and economic development
  - Place-based interventions combine EU's responsibility for setting priorities and policy principles and Member States' and Regions' responsibility for implementing policy according to contexts

**IN PARTICULAR:  
A PLACE-BASED APPROACH IS THE ONLY WAY TO FULLFILL THE PROMISE  
TO "ADVANCE PEOPLE'S EUROPE"**

- The "**Political guidelines for the next Commission**" presented by President Barroso
  - focuses on the need to "advance people's Europe"
  - calls for "equal treatment for EU citizens"
  - argues that EU citizens should be enabled to "make use of their rights as EU citizens in the same way as they use their rights as national citizens"
- Any attempt to pursue these goals by mean of sectorial Funds (say: a **Fund for employment and social inclusion**) is doomed to failure:
  - the diversity of national normative aspirations prevents the EU to run any such scheme in a top-down "competitive" way
  - if the sectoral policy boils down to co-financing of national policy, it will be "a drop in the ocean" with no political return
- Only a **territorialized social agenda** pursued through cohesion policy in a few priority areas can allow
  - to concentrate funds on 1 or 2 priorities while respecting national social contracts
  - to tailor interventions to context
  - to implement methodologies needed for effectiveness

**THE MAIN GOVERNANCE ISSUE FOR A PLACE-BASED APPROACH:  
THE BALANCE BETWEEN SUBSIDIARITY AND CONDITIONALITY**

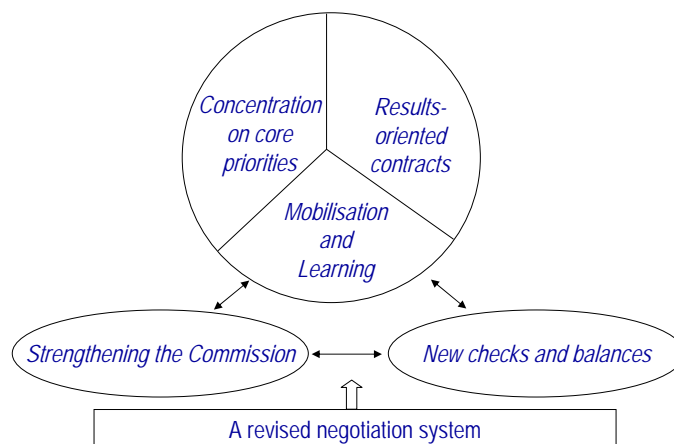
- On the one hand, a place-based approach calls for a high policy **subsidiarity**:
  - tailoring policy and institutions to contexts
  - by avoiding the tempting logic of "best practices"
  - and leaving project design and implementation to the level which is as close as possible to the "place"
- On the other hand, a place-based approach calls for effective **conditionality**:
  - giving the exogenous intervention enough leverage to break local institutional traps and to promote innovators
  - by setting (on the basis of past experience) guidelines and principles to be followed in the implementation
  - and ensuring that measurable objectives are set and monitored

### CORRENT FAILURES OF COHESION POLICY

- 1) An inefficient balance between conditionality and subsidiarity
  - I. a failure to adopt appropriate tools to "orient policy to result"
  - II. a failure to set the policy-principles which Member States and Regions must follow in shaping their institutions
- 2) A lack of critical mass of interventions on any issue relevant for EU citizens
- 3) A lack of experimentalism
- 4) A lack of political debate on results relevant for people's well-being
- 5) A Commission diverted by procedural issues and weakened on issues of substance
- 6) A wrong negotiation system

### A COMPREHENSIVE REFORM OF COHESION POLICY IS NEEDED

- First. A politically agreed and highly visible conceptual turn towards "place-based development"
- Second. Radical but pragmatic changes of governance to make the policy results-oriented



### A FOCUS ON “RESULTS-ORIENTED CONTRACTS”

### A FUNDAMENTAL METHODOLOGICAL CLARIFICATION

- “Result” is a very ambiguous word. “Orienting policy to results” includes four different functions:
  - i. *Ensuring that policy-makers comply with procedures and financial and output targets*
    - contracts are complete, automatic incentives and sanctions can be used
  - ii. *Promoting policy-makers’ focus on intermediate or final objectives*
    - contracts are not complete (causal link between intervention and results is unknown), but outcome (or output) indicators and targets can be used, although automatic incentives and sanctions are totally inappropriate
  - iii. *Learning about which interventions work*
    - impact evaluation is needed (not indicators!) to estimate causality
  - iv. *Learning about what interventions actually are*
    - evaluation of the implementation process is needed

### ON PROMOTING FOCUS ON OBJECTIVES VIA OUTCOME INDICATORS AND TARGETS (1)

- Following well-established protocols, indicators must satisfy a set of requisites, such as:
  - statistical validation
  - timely updating
  - clarity of interpretation (domain specific)
  - responsiveness to policy interventions
  - distinction between objective and subjective types
- Except for a few core-indicators (set at EU-wide level, as in the OMC)
  - indicators and targets should be set with reference to specific contexts and interventions
  - their choice should combine academic peer review, exam of existing data, consultation with local governments and community representatives
  - their identification should go together with programming and they should represent a central focus of both the National Strategic Framework and Operational Programmes
- The effective use of indicators and targets in public debate requires returning the data and results to the communities for verification and discussion

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### ON PROMOTING FOCUS ON OBJECTIVES VIA OUTCOME INDICATORS AND TARGETS (2)

- Progress (or lack of progress) towards targets should be the main focus of Annual Reports (after year 3) to be debated in a newly created Council for Cohesion Policy and in the EU Parliament
- Failure to more towards targets must not lead to any sanction, but failure to provide convincing explanations for progress should lead to ad-hoc evaluation analysis and to recommendations by the Commission (failure to respond to recommendations should lead to sanctions)
- The role of the Commission should be:
  - providing technical assistance and dissemination of literature and ideas
  - checking for requisites (as a condition to sign Contracts with Member States and Regions)
  - supervising and being responsible for the production of a set of core-indicators and their timely update
  - promoting/financing pilot surveys

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### ON PROMOTING BETTER PROJECTS VIA PROSPECTIVE COUNTERFACTUAL IMPACT EVALUATION

- All methodologies of impact evaluation addressing the question “what works?” must be promoted since they reduce our ignorance on the causal link between interventions and results,
- but a special effort must be made to promote counterfactual impact evaluation (CIE) designed while interventions are being designed (prospective CIE). Why?
  - A large body of practical experience is ready to be exploited
  - Prospective CIE can provide ex ante a **strong disciplinary effect** on the transparent identifications of:
    - objectives
    - mechanisms for selecting beneficiaries
- Cohesion policy poses **new challenges** to CIE (heterogeneity of interventions due to context-dependency, and multi-component nature of interventions) that call for a humble approach and a gradual learning process.
- The Commission should certainly **not make CIE compulsory**, but it should rather:
  - promote CIE and provide strong technical assistance
  - conduct CIE pilots
  - create an EU “clearing house” for making all studies accessible

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### ON HOW TO MAKE INSTITUTIONAL CONDITIONALITY EFFECTIVE

- There are no economic institutions fitting all **contexts**
- The very idea of “**best practices**” should be put aside
- But, the continuous experimentation has sedimented and continuously updates in each policy area some **policy-principles** which set the boundaries of what features the economic institutions supporting the policy should have for the policy to be effective
- It is the duty and one of the very value-added of a Union’s development policy to set these policy-principles and to make grants conditional on Member States and Regions committing themselves to adopt those principles in shaping their economic institutions
- These “conditionalities” must have a central role in the Contracts that Member States and Regions negotiate with the Commission

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### WHY SHOULD MEMBER STATES AND REGIONS ACCEPT THESE CHANGES

Member States and Regions could accept and even support those changes if:

- Changes were appropriately explained so as to **dismiss fears about a sanctioning or procedure-oriented use of innovations**
- **Changes were part of a more comprehensive reform** – as advocated by the Report – whereby Commission's discretionality
  - is accompanied by a radical investment of DG Regio and DG Employment on human resources
  - is kept at bay by new political checks-and-balances
- Member States and Regions themselves perceived that **there is no alternative:**
  - cohesion policy will not last – unless downsized to a “de-minimis” level – if no decisive move is made towards making its RESULTS measurable, known and debated and CONDITIONALITIES effective