

Italian Memorandum on Economic and Social Cohesion

The enlargement of the European Union is a historical opportunity. This process will consolidate peace and stability, strengthen social and economic progress. Disparities between regions in the enlarged EU will be wider than in the present Union. European cohesion policy will take an even greater role. This change and the serious limits of present policy call for a reform.

The *Second Report on Economic and Social Cohesion* has opened a debate on the future of cohesion policy after 2006 in an enlarged Union with the aim of preparing the ground for later proposals. Building on this Report and on the current debate, three objectives should shape the reform of cohesion policy:

1. ensuring the impact of EU cohesion policy on the competitiveness of lagging regions;
2. addressing the needs of candidate countries, while guaranteeing highly concentrated interventions in the lagging regions of present Member States;
3. ensuring greater quality, simplification and subsidiarity of EU cohesion policy.

Moves in all these three directions are indispensable. These objectives are deeply interconnected and should be tackled together in the reform process which will take place in accordance with the procedures and timetables established by the European Council at Berlin in March 1999.

1. European cohesion policy should aim at increasing the competitiveness of regions in candidate countries, as well as in present Member States, by promoting the use of their endogenous resources – natural, cultural and human resources – and enhancing local potential opportunities.

Productivity growth in Europe is lagging. Cohesion policy can help increasing productivity in both lagging and advanced regions by removing the structural obstacles for development and reducing the underutilisation of resources in lagging areas. By focusing on the improvement of framework conditions, cohesion policy can create *additional* profit and investment opportunities, rather than shifting a *given* amount of private investments among regions. Rent-shifting conflicts among regions of Member States through the use of subsidies can thus be avoided, consensus for cohesion policy in the advanced areas can be increased, while productivity and long-term sustainable growth of the Union can be enhanced.

Steps should be taken to ensure a shift towards a competitiveness-oriented cohesion policy. A relevant component of this policy could take place through measures which involve regions from several Member States in fields where high externalities arise from broadening the scale and scope of intervention (tangible and intangible networks, research, etc.). A stronger link should also be ensured with the EU policies explicitly aimed at increasing competitiveness (R&D, SMEs, etc.).

2. A cohesion policy that is more focused on framework conditions can be of significant help in accelerating the economic and social convergence of candidate countries. It should also provide a further contribution to the lagging regions of present Member States.

Enlargement to regions whose per capita income lies in the tail end of the European income distribution introduces a bias in the EU arithmetic average level of GDP per head as a standard for allocating resources to regions. An adequate support towards the lagging regions of present Member States, together with an adequate resource concentration, should be guaranteed by one or more of

the following means: the use of alternative accountable indicators measuring underutilisation of resources (such as the employment rate) or spatial handicaps, while avoiding fragmentation of resources; a suitable statistical method to measure the prevailing European standard per capita income. The provision for adequate phasing-out might also be considered.

3. Three reasons lie behind the role of a cohesion policy at EU level: the *quality* of interventions can be enhanced by a high degree of integration among policies implemented in different regions; the *credibility* of policies can be increased if the compliance with agreed rules is guaranteed by a common authority; the *consensus* on cohesion policy, which implies resource redistribution, can be strongly reinforced through the co-ordination process allowed by a common policy.

These reasons, as well as the enhanced role that EU cohesion policy is asked to play in the enlarged Union and past unsatisfactory results, make it necessary to improve the effectiveness of the policy. Steps should be considered in the following directions: simplification of procedures; wider use of evaluation procedures selected according to the principle of subsidiarity; reduction in the segmentation of funds; more clear-cut division of roles between the Commission and the national managing authorities, the former being in charge of fixing general standards in specified fields, the latter being left the task to translate them into detailed rules; improved vertical institutional partnership among levels of government; improved horizontal networking among national and regional authorities in order to increase the exchange of experiences and methods.