

IN SEARCH OF COMPETITIVENESS: THE EU COHESION POLICY

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Abstract: One of European Union main objective, considered by the Cohesion Policy, is to support economic and territorial convergence in such an extensive area with so many disparities in terms of development. From another perspective, European Union has shifted its interest more and more towards competitiveness, which has become the key word in most references regarding EU objectives, plans and strategies for future. In this context, the paper aims to analyse the approaches in which the EU cohesion policy responds to the challenges of competitiveness, in order to identify the ways in which these two apparently contradicting concepts can work together with long term benefits for all member states.

Keywords: social cohesion; competitiveness; cohesion policy; convergence

1. Introduction

One of European Union's greatest challenges in its history has been to achieve cohesion and competitiveness, distinctive features of EU as main actor in our globalized world.¹ In this context, the paper aims to address the issues arising from the way in which the two concepts are combined in theory and practice so all member states and EU, as a whole, can benefit on the long run.

2. Cohesion and Competitiveness: Contradicting or Synergetic?

Both cohesion and competitiveness, popular goals in the lexicon of development, are very complex concepts, difficult to be clearly defined due to the many perspectives in which they can be approached, interpreted and considered. They are typically used in ways implying general agreement on their meaning.

¹ Agh, A., *Regional competitiveness of the EU in the global context: EU developments from regional policy to cohesion policy*, chapter in Agh, A (ed.), *European Union at the crossroads: The European perspectives after the global crisis*, Budapest College of Communication, Business and Arts, 2011.

The concept of social cohesion has received growing academic and policy attention and although progress has been made in defining the concept, it still has a wide variety of meanings, not only in academic literature, but also in policy use, preventing its meaningful measurement and application².

OECD acknowledges that even though promoting *social cohesion* and combating *social exclusion* are central social policy goals in many of its member countries, there is no commonly accepted definition of either of these terms.³ The concept includes multiple dimensions such as solidarity, social integration or social participation. Social cohesion refers to a state in which components *stick* together to form a meaningful whole, therefore it is considered a cultural orientation, expressing senses of identification with and membership of the local community (Chan et al., 2006⁴). In other approaches, it is considered attached to the existence of equal opportunities, limiting social inequalities and exclusion.

We also identify in literature criticism of the concept, some authors suggesting it is little more than a catchword for the most pressing social issues of the day: unemployment, poverty, discrimination, exclusion, disenchantment with politics, along with any other social problem (Chan et al., 2006). Similarly, Bernard expresses his critique considering social cohesion as a “quasi-concept” that, while grounded in data analysis, is flexible enough to follow the meanderings of everyday policy-making.⁵

In their attempt to clarify the range of ways in which the term is used, Beauvais and Jenson identified five different conceptions of social cohesion⁶: common values and a civic culture, social order and social control, social solidarity and reduction in wealth disparities, social cohesion as social networks and social capital and social cohesion as place attachment and identity.

² Bruhn, J., *The Group Effect. Social Cohesion and Health Outcomes*, Springer US, 2009.

³ Organisation for Economic Cooperation and Development, *Society at a Glance*, OECD Social Indicators, 2005.

⁴ Chan, J., To, H.P., Chan, E., *Reconsidering Social Cohesion: Developing a Definition and Analytical Framework for Empirical Research*, Social Indicators Research, 75(2), 2006, pp. 273-302.

⁵ Bernard, P., *Social Cohesion: A Critique*, CPRN Discussion Paper No. F09, 1999.

⁶ Beauvais, C., Jenson, J., *Social Cohesion: Updating the State of the Research*, CPRN Discussion Paper No. F22, 2002.

The World Bank states that a country's social cohesion, i.e., the inclusiveness of its communities, is essential for generating the trust needed to implement reforms.⁷

In European policy, social cohesion is a nodal point in the contradictions of equality and diversity, unity and autonomy, as well as on the concern of building social order and repairing the damage caused by capitalist modernisation (Berman, 1988⁸; Cowen and Shenton, 1996⁹).

It has become a key concern for European integration, in the first place through the pursuit of territorial cohesion (Faludi, 2007¹⁰; Servillo, 2010¹¹). Therefore, cohesion policy is “the most explicit and most visible expression of solidarity within the EU” (Ahner, 2009¹²). Healthier Member States must show solidarity to less healthy in order to achieve the more homogeneous material basis required to build cohesion.

Competitiveness is another concept excessively used, while its definition still remains ambiguous. The competitiveness's main objective is represented by the growth of the prosperity level of a nation and of the individuals.¹³ At micro level, competitiveness is well defined, referring to a firm's ability to compete, to grow and to be profitable. However, the use of the term competitiveness at macro level or with a spatial connotation is questioned by some scholars (Krugman, 1991¹⁴, 1994¹⁵; Bristow, 2005¹⁶) arguing that a competition between places is difficult to define.

⁷ Ritzen, J., Easterly, W., Woolcock, M., *On 'Good' Politicians and 'Bad' Policies: Social Cohesion, Institutions and Growth*, Keynote address given at the 56th Congress of the International Institute of Public Finance, Seville, Spain, 28–31 August 2000.

⁸ Berman, M., *All that is solid melts into air*, New York: Penguin Books, 1988.

⁹ Cowen, M.P., Shenton, B.W., *Doctrines of Development*, London: Routledge, 1996.

¹⁰ Faludi, A., *Territorial Cohesion Policy and the European Model of Society*, *European Planning Studies*, 15(4), 2007, pp. 557-583.

¹¹ Servillo, L., *Territorial cohesion discourses: Hegemonic strategic concepts in European Spatial Planning*, *Planning Theory and Practice*, 11(3), 2010.

¹² Ahner, D., *What do you really know about European cohesion policy?*, 2009 http://www.notre-europe.eu/fileadmin/IMG/pdf/ECP_rational_and_objectives.pdf (accessed on Nov. 2015).

¹³ Hațegan, A., *Literature review of the evolution of competitiveness concept*, *Annals of Faculty of Economics*, 1(1), 2012, pp.41-46.

¹⁴ Krugman, P., *Geography and Trade*, Leuven University Press, Leuven, 1991.

¹⁵ Krugman, P., *Competitiveness: A Dangerous Obsession*, *Foreign Affairs*, 73(2), 1994, pp.28-44.

Competitiveness in a macroeconomic perspective is expressed in the performance improving the living standards and the real incomes; the liberalisation condition of markets for the goods and services produced by the nation in charge and on short term, competitiveness should not generate imbalances (Hațegan, 2012).

Another way of approaching competitiveness is by adding a regional dimension to the concept. Regional competitiveness is an economy's ability to optimize its local resources, to compete and prosper on international and national markets and to adapt to the changes present on these markets. In other words, regional competitiveness is the ability of companies, industries, regions, nations or supranational regions to generate, while being and remaining exposed to international competition, relatively high factor income and factor employment levels on a sustainable basis.¹⁷

In this respect, industrial structure, innovation, accessibility, environmental quality, human resources, good governance are seen as the main drivers of competitiveness.¹⁸

In the nineties the starting point for competitiveness was just the productivity, but in the 2000s the concept was significantly widened to a more complex approach in the effort to unify it with social cohesion. Despite significant achievements in this approach, regional competitiveness still proved to be *a key but elusive concept* (Kitson et al., 2004¹⁹) and some of its difficulties have become apparent when trying to measure it. Some of the measurement difficulties arise from the complex, circular cause-effect mechanisms operating at different spatial levels, making it difficult to disentangle the fundamental determinants of economic progress from the many contingent conditions and consequences of economic change.

How are cohesion and competitiveness connected? Several political coalitions at a diversity of spatial scales made an effort to tackle the problems of growing disparity by linking

¹⁶ Bristow, G., *Everyone's a 'winner': problematising the discourse of regional competitiveness*, Journal of Economic Geography, 5(3), 2005, pp. 285-304.

¹⁷ OECD, *Framework Conditions for Industrial Competitiveness*, The OCDE Industry Committee Project, DSTI/JND, 94(4), 1994.

¹⁸ Molle, W., *Cohesion and Growth: The Theory and Practice of European Policy Making*, Routledge, 2015.

¹⁹ Kitson, M., Martin, R., Tyler, P., *Regional competitiveness: An Elusive yet Key Concept*, Regional Studies, 38(9), 2004, pp. 991-999.

competitiveness and social cohesion (Ache and Andersen, 2008²⁰, Boddy and Parkinson, 2005²¹, Fainstein, 2001²², Turok, 2006²³).

The two concepts are sometimes linked in controversial and thought-provoking ways.

One opinion is that there are tensions between competitiveness and cohesion. For example, neo-liberal economics suggests that social inequality reflects differential incentives and penalties for enterprise, investment and innovation, which stimulates economic efficiency and growth, especially in the context of global pressures on wages, taxes and social overheads.²⁴ There is a trade-off between growth and cohesion as a core-periphery-type of growth tends to increase regional disparities at low levels of development (Williamson, 1965²⁵). In the same line of argument, cohesion is aimed to enable low performing regions to catch up, while competitiveness priority is expected to enable best performing regions to strengthen their competitiveness more globally.²⁶

An alternative view is that the two goals can be complementary and mutually reinforcing. The relationship between economic competitiveness and social cohesion at local level has long been considered as circular and potentially synergetic.²⁷ For example, cohesive societies are

²⁰ Ache, P., Andersen, H.T., *Cities Between Competitiveness and Cohesion - Discourses, Realities and Implementation: Introduction*, in Ache, P. et al. (eds.), *Cities Between Competitiveness and Cohesion - Discourses, Realities and Implementation*, pp. 3-18, Springer, 2008.

²¹ Boddy, M., Parkinson, M., *City Matters: Competitiveness, Cohesion and Urban Governance*, Bristol: Policy Press, 2005.

²² Fainstein, S.S., *Competitiveness, Cohesion, and Governance: Their Implications for Social Justice*, *International Journal of Urban and Regional Research*, 25 (4), 2001, pp. 884-888.

²³ Turok, I., *The Connections Between Social Cohesion and City Competitiveness*, in OECD (ed.), *Competitive Cities in the Global Economy*, Paris: OECD Publishing, pp. 353-366, 2006.

²⁴ Turok, I., Bailey, N., Docherty, I., *Cities, competitiveness and cohesion: evidence from Central Scotland*. In: Sassen, S. (ed.), *Human Settlement Development. Developed under the auspices of UNESCO*, EOLSS, 2006, pp. 208-223.

²⁵ Williamson, J., *Regional inequality and the process of national development: a description of the patterns*, *Economic development and cultural change*, 1965, pp.1-84.

²⁶ De Propriis, L., *Reconciling cohesion and competitiveness through EU cluster policies?*, *Policy Studies*, 28(4), 2007, pp.327-345.

²⁷ D'Ovidio, M., Ranci, C., *Social cohesion and global competitiveness: clustering cities*, chapter in Ranci, C. et al. (eds.), *Social Vulnerability in European Cities: The Role of Local Welfare in Times of crisis*, Palgrave Macmillan, 2014.

more productive because higher levels of trust, security, common values and institutional co-operation engender stronger commitment, longer-term decisions, higher investment and greater willingness to take risks (Turok et al., 2006).

European Union's strategies are struggling to bring "economic competitiveness and social cohesion" together, seen in a circular nature, both as a cause and a consequence. The Joint Report on Social Protection and Social Inclusion²⁸ notes that while strong economic and employment growth is a precondition for the sustainability of social programs, progress in achieving higher levels of social cohesion is, together with effective education and training systems, a key factor in promoting growth.

We tend to support this approach, considering that economic competitiveness seems to be a prerequisite for developing social cohesion and the lack of cohesion is considered detrimental to economic development (Vranken, 2008²⁹). However, it is difficult to provide empirical evidence on the extent which social cohesion increases economic competitiveness or the visa versa.³⁰

3. Cohesion and Competitiveness in European Union: A Historical Approach

In the European Union, the problem of cohesion has been present from its beginning³¹, anticipating somehow its diverse disparities in terms of wealth, employment, environment, etc., (Molle, 2015) across its countries and regions, which have deepened along with the enlargements. Economic and social cohesion was mentioned even in the Treaty of Rome³², stating that *reducing reduce disparities between the levels of development of the various regions and the backwardness of the least favoured regions* is one of the primary objectives of EU

²⁸ Council of the European Union, *Joint Report on Social Protection and Social Inclusion 2007*, 23 February 2007.

²⁹ Vranken, J., *Cities between Competitiveness and Cohesion*, Springer Netherlands, 2008.

³⁰ Maloutas, T., Raco, M., Tas,an-Kok, T., *Conclusions – Competitiveness and Cohesion: One Discourse, Multiple Realities and New Challenges for Policy and Research*, chapter in Ache, P. et al. (eds.), *Cities between Competitiveness and Cohesion*, Springer Science and Business Media, 2008.

³¹ European Spatial Observation Network, *Europe in the World: Territorial evidence and visions*, November 2007, www.espon.eu/mmp/online/website.

³² EC Treaty, *Treaties of Rome (in force 1 Jan 1958) establishing the European Community and the European Atomic Energy Community (EURATOM)*.

development policies. Then, in 1986 The Single European Act³³ institutionalized the genuine cohesion policy³⁴, aiming *to promote overall harmonious development*. Under the Lisbon Treaty³⁵ another challenging perspective, that of territorial cohesion, has also been added to the EU's ambitious objectives of economic and social cohesion, with significant consequences on the policy's future³⁶.

Although the concept of cohesion has been introduced in the policy without a precise definition, it is understood *as the degree to which disparities between the different regions or groups within the European Union are tolerable*, considered within the framework of the three identified dimensions: economic, social and territorial. Economic cohesion is generally associated with the competitiveness of economic activities; social cohesion is defined in terms of employment and inclusion, while territorial cohesion has not gained yet a generally accepted definition. However, territorial cohesion is considered to be increased when disparities are reduced (regional convergence) and vice versa (Molle, 2015).

Therefore, in this triangular approach of the cohesion policy, the main issues arise between the two pillars: economic competitiveness and social cohesion.

The launch of the Lisbon Agenda in 2000 introduced an additional priority to the EU policy agenda: by 2010 to turn EU into the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion and respect for the environment.³⁷ Five years later, Lisbon Agenda objectives were far from being achieved due to different factors such as overloaded agenda, poor coordination, conflicting priorities, the lack of political will and the shock of the +10 enlargement, as stated by the Kok Report³⁸. Therefore, with its renewed Lisbon Strategy³⁹ EU

³³ EC Treaty, Single European Act (SEA) (Luxembourg and The Hague, in force 1 July 1987) allowing achievement of internal market.

³⁴ Battler, J., Mendez, C., Who Governs EU Cohesion Policy? Deconstructing the Reforms of the Structural Funds, *Journal of Common Market Studies*, 45(3), 2007, pp. 535-564.

³⁵ EC Treaty, Treaty of Lisbon (in force 1 December 2009) ratified by the EU's 27 member states, and amending existing EU and EC treaties.

³⁶ Dheret, C., What next for EU Cohesion Policy? Going "beyond GDP" to deliver greater well-being, EPC Policy Brief, March 2011, http://www.epc.eu/pub_details.php?cat_id=3&pub_id=1243&year=2011.

³⁷ Council of the European Union, *The Lisbon Agenda*, 2000.

³⁸ CEC, *Kok Report: Facing the challenge*, 2004.

considered reinventing its cohesion policy (known also as the Lisbonization of the cohesion policy⁴⁰) as an effective instrument, in which more focus is put on the reconciliation between (economic) competitiveness and (social) cohesion, so that this “joint venture” would drastically increase the global competitiveness of the EU. But the focus on the knowledge - based economy in the Lisbon Agenda has reduced social cohesion to its functional role in achieving and maintaining competitiveness (Apeldoorn et al., 2009⁴¹).

Being considered that Lisbon strategy and cohesion policy go hand in hand, The Lisbon strategy did not receive dedicated support from EU budget, but its priorities were supported within the 2007-2013 programming framework comprising 329.4 billion euro (36% of the total EU budget for a seven-year period) allocated by the structural funds to support cohesion for growth and employment. Overall, 44% of the EU budget (409 billion euro) was to be spent on cohesion and competitiveness over the financial period 2007-2013.

Furthermore, the adoption of the Europe 2020 strategy⁴² shifted focus towards more specific objectives: *to foster smart, sustainable and inclusive growth*. Smart growth refers directly to innovation, targeting determinants such as research and development, education and training, entrepreneurship. Sustainable growth considers the environmental impact, addressing issues like climate change, greenhouse gas emissions and renewable energy sources. Inclusive growth seeks mostly to alleviate poverty, to promote employment and social inclusion (Molle, 2015).

The simultaneous pursuit of such a broad series of objectives is not easy to achieve; in some cases synergies are identified, in other cases conflicts arise. However, the success of the cohesion policy, aiming both economic competitiveness and social cohesion depends on the effectiveness of the linkage between the renewed cohesion policy, the EU2020 as a mega-project

³⁹ CEC, *A new partnership for growth and jobs*, 2005.

⁴⁰ Baun, M., Marek, D. (eds.), *EU Cohesion Policy After Enlargement*, New York: Palgrave-Macmillan, 2008.

⁴¹ Apeldoorn, B., Drahokoupil, J., Horn, L., *Contradictions and limits of neoliberal European Governance*, Hampshire: Palgrave Macmillan, 2009.

⁴² European Commission, *Europe 2020: A strategy for smart, sustainable and inclusive growth*, 2010.

and the Lisbon Treaty extended with strong economic governance (Agh, 2011). Still, we admit that might be too ambitious for the times we live in.

4. Conclusions

Cohesion and *competitiveness* in the European Union must be put on equal footing. EU has to move ahead in the global competition as one compact unit in the spirit of the economic, social and territorial cohesion with a new philosophy and new policies. Cohesion must be completed by a competitiveness approach, while competitiveness must be accompanied by a catching up program, both in quantitative and qualitative terms. A new model is needed and in such a construction, sustainability seems to be the key in combining competitiveness and cohesion.

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