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***"Future Cohesion Policy in the new budget perspective after
2013"***

26 November 2010, Paris

There is little doubt about the seriousness of the current crisis and we see today that there are not only benefits but also costs of the use of unprecedented policy methods. We did not anticipate nor did we prevent the crisis. Our punishment should be to at least to learn from it as it is. And we have done our job as institutions, as the Union. As economists, it will take us probably many years to write all the books and link things together. The task of regulators and policy makers is to undertake actions that would allow to restore equilibrium shattered by market failure but also to correct failed government policies. This is being done but it is still to be seen how fast and through what policy measures global and EU economies will return to their paths of growth.

Across the world, politicians have engaged in bringing more regulations into the real economy. More regulation is not a guarantee for avoiding the risk of recurrent crises. It can also lead to less transparent markets and a more crisis-prone environment. In the EU we have also chosen the path of more regulation, compensating for decades of hardly any regulation in some markets and building the second leg of the EMU.

Still, uncertainty about final destination remains. In the EU, the uncertainty relates both to new economic governance of the EU, and ways of reforming

the financial sector. It can take some time before the financial sector resumes its task vis-a-vis the real economy at an adequate level. We are in the process of reforming financial sector and getting it back to what its duty should be. We do not really know when new laws will enter into effect with effectiveness we hope for. What will be their impact on real growth. There are and will be new European laws but new national regulation might have to follow. Then, adjustment process in financial institutions will last for a while. Banks will have to be restructured, recapitalized, re-privatised. They will be repricing their products and looking anew at their market offers. How long will it take? It can take years.

As citizens we live in - and as policy makers we operate in a reality characterised by uncertainty and deep change. Today, the world and Europe are dramatically different than yesterday. Nearly every day we are waking up in a new reality. This is also because the crisis hit the world and Europe at a time when existing economic and social landscapes have already been under transformation. Economic, social and political proportions, to which citizens had been accustomed and taking for granted have started to shift. When we look at the global world we can see that emerging economies restructure with a speed that cannot be compared to any European or American industrial revolution. They have also become very assertive – G20 and Copenhagen confirm this. They play a much bigger role in the global context. Institutional frameworks and proportions change as well. This is true for global order where reforms are pending as well as for the role of governments in national economic and social landscapes. Unemployment grows even if economic activity improves. It is very likely that for a while growth will be disconnected from net employment increase. Insecurity feeling influences consumers' behavioural patterns, including the propensity to put savings into financial instruments known from the pre-crisis times. New savings are badly needed but I have serious doubts whether reforms of financial sector and system that we have designed take into account their role in promoting growth. Funding real businesses is not yet on the banks' agenda. It is neither true that sufficient energy is invested in marketing new financial instruments that could attract gradually recuperating savings without new instruments.

It would be hard to assume that all economic, financial and social challenges coming with the multifaceted crisis will have no impact on people, their expectations, actions and fears. Particularly important can be the damage to the quality of social capital, without which European social market economy would lose an essential element of its foundation. Tolerance to inequality, never too high in Europe, can further be reduced. People get more sensitive to social and revenue divide. There is a risk of a new populism finding ever more rigorously its way to all political families. Intergenerational solidarity seems also weakened. This is not only about the climate change. It is about many other budgetary trade offs (e.g. pensions vs education, research vs state aid for industries, etc), leading to contradictory budget demands and making budget consolidation even more difficult.

There are moments when trust in public institutions is particularly needed. We are in such a moment. This trust depends on the perception of effectiveness and fairness of those institutions in getting us out of the crisis and putting economies and social services on a long term sustainable track. But post crisis public institutions, and in particular governments might be much bigger than those of yesterday which will translate into higher costs for citizens. Public policies face the challenge of focussing not only on the elimination of production gap generated by the crisis. Equally important is putting the productivity gains high on the economic agenda, in a way that would not generate a trade off between innovation and job creation.

Society is ageing with all the consequences for new markets, public finance and risk culture. There are new expectations of consumers, and there are new markets emerging to respond to those expectations. Jobs, if at all created, are being created in new sectors. It is a major challenge for policy makers to strike the right balance between the jobs that should be protected and the new ones to be created.

New growth factors emerge; the culture of innovation must be nurtured in circumstances which are not very friendly to innovation. The new European

growth model, being shaped gradually through new strategies and policy initiatives, must incorporate a number of new elements (creative sectors, ageing, innovation culture, new consumers' demands, low emission economy, mobile culture, energy, water and raw material efficiency).

As Europe, we have to address demography. It works and will continue for a while to work against us. It requires actions to change the proportion between working population and those living from social security. When social security systems were invented back in the nineteenth century, they were supposed to provide income for the last three years of one's life. Now there are not only more people but the time span grew to around twenty years. It points to the rationale of extending working age probably by 10 years and it puts on the agenda the issue of attracting immigrants. And this will have to take place in an environment of growing intolerance and radicalization which is threatening values we care for and openness of our society.

We have to transform our economy into a low carbon economy. And it is clear that moving towards a low carbon economy implies huge structural transformation of the entire economy, not limited to energy and transport sectors. This means costs which we generously discuss and use to oppose competitiveness oriented transformation but this is also an opportunity which we do not discuss or work on. In China there is no discussion on climate change, they move and do it rather quickly. Business needs urgently certainty with regards to new climate change related standards to see opportunities in this area. Barriers for low-emission sectors have to be removed urgently. Incentives are needed for the more efficient use of natural resources, for climate-proof infrastructures, investment in new skills, new rules for public procurement (green), generating demand for low-emission products and services, support for eco-innovation.

I already mentioned innovation. We have to make innovation a systemic feature of the European economy. Of course, innovation is a state of mind, it is culture, it needs systemic Europe-specific solutions. It goes beyond recurring barriers, it is about generating incentives for new behaviour. We

need both knowledge and innovation oriented poles of competitiveness but, actually, the buzzline should be "the poorer you are, the more innovative you must be". So innovation is the duty of all.

Unfortunately, in nearly everything we must do there are costs of today and benefits of tomorrow. This implies an active role of public sector in participating in risk management. Public policies, public sector, public expenditure have a role to play in this new growth model. The most effective and efficient place for public actions should be identified. Experience shows that local and regional level interventions are decisive for dynamism and change, for promoting innovation, energy efficiency, job creation. Public intervention must be result-oriented and based on an integrated, not sectorial approach. 70% of public investment is today delivered at sub-national level. Local and regional authorities can be catalyst for structural transformation we need. They can involve citizens and encourage their feeling of shared responsibility. They can use public procurement to accelerate restructuring, promote greening and innovation. I hope new single market act will speed up the change in this respect.

Whatever we do to change Europe for better, we do it in the global context. There are many forces at work that are leading the global recovery and rebalancing the world economy. Major role is played by fundamental structural change which strongly influences European competitiveness. But the role of currencies and exchange rates as global adjustment mechanism has skyrocketed.

We are fixing Europe against the backdrop of the global world which is today very different than in 2008. At an unprecedented speed, new global monetary system seems to emerge. The number of players is increasing. To avoid the disaster of asymmetric adjustments, a dialogue and a collective action is urgent. The G20 was united for fiscal rescue two years ago. But unanimity was driven by fear. Today it is divided. The question is whether Europe is able to play its role in this collective action if it reaches the critical mass.

Allow me for a bitter comment on European reality here. I hope you would agree with me that a substantial progress towards more integrated financial markets in Europe has been achieved. The challenge is now to see that as of 1 January 2011, the transfer of supervision power to the European level works effectively.

I trust that the completion of European economic governance will allow Eurozone to better exploit its potential. I trust that more integrated financial market and temporary financial crisis management mechanism - hopefully soon to be replaced by a permanent one - will reduce crisis risk as well as moral hazard.

But what is clearly lacking – and here comes my bitterness - is a bold streamlining reform of external representation of the euro area. By delaying this reform we give up potential influence. In current global circumstances Europe can not afford it.

A few words on governance because this is the theme of today in Europe. We have started to move towards what I would call more federal solutions of European economic governance. Markets showed that they do not trust a monetary union with one currency and sixteen independent budget authorities. If we want to have similar risk on sovereign debts we need similar budgetary discipline across the euro zone. We are working now on enhanced SGP, we are adding to the governance the system of macro surveillance of potential internal imbalances. We are moving towards better enforcement of control measures and sanctions. We will have to be ready soon to replace the temporary crisis management mechanism with a permanent one.

The new system will have to be developed in such a way that a crisis can be handled cost effectively, that moral hazard will be eliminated and that tax payer financed bail outs will be excluded.

Imbalances both of global nature but also within EU will have to be coped with. And this is not only about the Chinese exchange rate and industrial

policy. In the EU, where competitiveness is strongly differentiated, we will need changes in micro policies fixing labour market, stimulating productivity, increasing wage and price flexibility will be needed as well. Internal market will have to be reenergized.

But for years, the Eurozone will continue as a very heterogeneous group. We can see this divergence even now in the recovery. Long term competitiveness conditions continue to be very different across the Eurozone. The underlying causes of imbalances in Europe are mostly linked to competitiveness. To address them effectively, it is not enough to only take into account the evolution of competitiveness factors but also their level (for example productivity and labour cost) and here disparities will last for decades. So structural causes for imbalances will continue to work while economic governance will still be weak because it is a process in the making.

What is clear today is that fiscal and monetary policies are not substitutes for structural reforms. Structural reforms have to address underlying weaknesses of the European economy, sharply growing debts and deficits, ageing, highly probable new surge of inflation, risks to industries generated by climate change policies, especially due to uncertainty about new targets and standards, low productivity and lack of competitiveness. With less public money more will have to be done. Hence, the efficiency of using public money, both European and national, will have to be higher. Across Europe we will need a business-friendly regulatory environment, efficient government, non-distortionary taxes, high labour participation rates, especially among women, good education system, research and innovation - all that constitutes a minimum core package of measures to bring growth, jobs and competitiveness.

In early spring this year, the European Commission presented a new vision for Europe - the EU2020 strategy. The proposed directions do not offer a brand new perspective. Actually, we had made first steps along this path before the crisis hit. But without doubt the crisis has made all challenges much harder to cope with.

Europe needs a long-term strategy not only to respond to global change or to, indeed, lead the global change. This is, however, only half of the story. We need a long-term vision and a common progress of action also to cope with our own intra-EU problems and opportunities and to better organise ourselves for those common goals. We need a strategy to better link crisis exit policies - monetary, fiscal, structural - with goals of long term growth and structural change.

It must take into account the diversity of European territory which can allow us to better exploit diverse opportunities, comparative advantages and different potentials. The new strategy for Europe must be based on an active role of European citizen and an involved society. It must not exclude anybody from the pursuit of common European objectives. Multilevel governance and partnership, so well known from European regional policy experience, should be, therefore, the core of governance and delivery of the strategy.

If the ownership of the strategy is restricted to national governments and European institutions, it will simply not be delivered. Regional and local levels of European governance are important co-owners, capable to harness policy tools they have at their disposal as well as the enthusiasm of all partners: business, academia, civil society. And they have the capacity to translate European general strategic goals into their own territorial specificities.

Today there are many policy tools at local and regional levels of governance and there is also the capacity there to translate European general strategic goals into territorial specificities. Both innovation, that can bring productivity gains, and greening, that can create new demands and markets, require regional and local focus. They require place-based integrated approach to investment and growth policies. A region, a city, a town, a rural area happens usually to be such a place where all partners can be brought together and all elements needed to find a solution can be found.

We all agree that today it is important to identify new engines for growth and competitiveness and focus on them urgently. And we should look at the map more frequently to remember that Europe is too small to afford leaving parts of its territory with growth deficit. We have to broaden the growth base. We need leading growth centres but their role is also to pull others forward. That is why we must also enhance economic links between those growing faster and those lagging behind. Clearly, more networking and cooperation is needed to get us out of the crisis and put our economies on long term growth track.

EU2020 can not be seen as a green field strategy. Nothing it proposes starts from scratch. There is a European reality. There is an industry, with its structure and competitiveness. There are existing problems. The strategy is about launching new elements but also about changing old patterns and structures. There are promises made to people. There is a need to strike the right balance between which jobs should be protected and which should be replaced by new ones.

EU2020 is not about final results only, it is about launching a process which has its own value, which has to be well organised, in order to allow exploit synergies between different European and national policies and different levels of governance.

Growth in the years to come will be supply driven. Indispensable reforms will be channelled through re-activated and strengthened single market in line with the new Single Market Act recently presented by the European Commission, focusing on new measures for companies, in particular SMEs, consumers and employees, with a view to re-energise the European competitive social market economy.

If you think of instruments we have at our disposal to implement EU 2020, the reenergized internal market comes first to my mind. Secondly, we have national policies and budgets, which can be better coordinated and stimulated by the open method of coordination mechanism. I am not a great believer in

the effectiveness of OMC, it can take us forward a bit but not all the way we have to go. That is why, in the time of national cuts, populism and short termism, the EU budget is an essential instrument in terms of setting the direction for investment, as a catalyst for new patterns of growth and help coordinate elements of national budgets. We have to be innovative in enhancing new financial instruments for big European infrastructure projects through EIB.

We are now as European institutions looking for the way to avoid 2011 budget crisis that has already reduced the level of trust in European institutions.

But the real challenge is ahead of us. It is called multiannual financial framework for the period after 2013. In the European Parliament a special committee, SURE, has been established working on the position of the EP to be voted in June 2011. It will not work on the financial aspects of the framework, as this is the competence of regular Budget committee. Its mandate is to assess and propose reform of the framework, including the revenue side.

What seems to be broadly endorsed by Sure is the need to link budget with the EU2020 strategy. Views, however, on how the objectives of 2020 should be incorporated into the MFF are more diverse. There are those who would see the EU budget sliced into sectorial policies and financial instruments. Supporters of this view do not recognize obviously horizontal nature of all three goals of the EU 2020 – smart, sustainable and inclusive growth.

There are also those who believe that EU can overnight create a completely new mechanism of EU spending why basically there are two options: centralized programs and projects, based on competition, run by agencies or European Commission or shared management based on integrated, place based approach to policy, as cohesion policy.

5th Cohesion Report has just been adopted by the European Commission, providing major lines for future cohesion policy architecture, priorities, management system, conditionality. In the Commission proposal there is both

continuation and change. There is a strong link of the cohesion policy with the EU 2020, based on enhanced earmarking system.

Architecture includes three categories of regions, with a novelty – transitional arrangement for regions between 75 and 90% of average EU GDP per capita. New urban agenda, focused on metropolitan areas will be accompanied by actions enhancing local development.

New elements include first of all the system of conditionality, but also cross sanctioning in the context of Growth and Stability Pact. Conditionality, if remaining within the framework of cohesion policy could increase the legitimacy and efficiency of investment. It would complement the already achieved improvements with regard to financial management.