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"Strategic choices for Europe"

High-level Conference "Integrated approach to development - a key to smart, sustainable and inclusive Europe"

INFORMAL MEETING OF MINISTERS RESPONSIBLE FOR EU COHESION POLICY (REGIONAL POLICY), TERRITORIAL AND URBAN DEVELOPMENT

24 November 2011, Poznań, Poland

Excellencies, Colleagues, Dear Friends,

Let me start by saying how much we in the European Parliament, appreciate this effort of the Polish Presidency to get us here together to the beautiful city of Poznan to have a debate on the future regional policy while understanding at the same time that this policy cannot be debated in the isolation from the global and overall European context.

As we are meeting here to discuss strategic choices for Europe, there are most likely tens if not hundreds of other meetings across Europe where policy makers and experts, as well as civil society, business and academic communities get together and talk about the future of Europe and make decisions. Crisis has provided us with a space, both in conceptual and action oriented sense, needed to undertake reforms that would have been simply unimaginable in circumstances others than an exceptionally dire danger to the European project. The crisis has confronted us with such a possibility and it has become a source of great mobilization.

Europe has embarked on massive reforms giving its economic, political and institutional foundations a new, hopefully more resilient, architecture. The new formula of the Union, the reinvented Europe, still in making, comes about by sort of natural evolution, as a result of a necessity to respond to emerging challenges. We are still half way through the grand change, and it is an uphill struggle, but, if we do not give up on reforms, the result will be a better system of living together in a more deeply integrated and stronger Union.

There is no doubt that the eurozone needs considerably more integration. The Treaty is incomplete in this respect. But how to avoid expanding the gulf between member states that are “in” and those that are “out”? How to avoid diverging paths of change and evolution? We need not only political declarations but an institutional mechanism that would allow us to go further together. We cannot replace the EU 27 with the EU17. It should be obvious that the Union cannot afford a division for a euro club on the one hand and the euro dodgers on the other. It would be an expression of short sightedness on the part of the euro zone states if they thought that the defence of the common currency is a “clubby” thing and that this effort does not need allies from outside the club. In order to keep European project in the best possible shape, we must be politically willing and we need a broad united front and the support of all European Union members.

Building on the crisis to me also means understanding that Europe needs growth, based on new factors, new drivers, on future oriented investment and enterprises. How can it be financed? It is extremely important that the future Multiannual Financial framework for the years 2014-2020 assesses the necessity of particular policies according to their future oriented pro-investment potential and the added value that they bring to overall Union development not only in economic growth aspect but also in social, regional, local and participatory aspect of building a solidarity oriented and competitive society.

It is therefore essential that we stick when negotiating the 2014-2020 budget to the Polish presidency proposal of first looking at the challenges and policies, and only afterwards on the amount of funding needed. I am convinced that only through this approach we can find a common response.

National budgets have been cut, and most likely will face further cuts in the future as a result of budget consolidation imperatives and in order to ensure the long term sustainability of public finances that is necessary to ensure growth in the long term. It is easy to say that fiscal austerity must be implemented in such a way that it does not undermine the long term capacity of the European economy to create growth and sustainable jobs. It is more difficult to do it. Public finance strategies must look carefully into expenditure structures from this point of view. There is a serious risk that governments look to cuts on

education and research budgets, essential part of long term growth fundamentals. In short, austerity packages must have growth components.

It is my great fear that in place of the old East West division, we now have a risk of emerging North South fault line in Europe when it comes to growth, its long term potential and adjustment capability. Fiscal austerity, in the extraordinary circumstances when banking sector is dysfunctional and risk aversion undermines investment propensity, does not make much sense. Also, restrictive monetary policy as well as reluctance of surplus countries to move towards more expansionary fiscal policy, do not help either.

There is and will always be the question whether we are doing enough, whether we should not move faster, deeper and more decisively towards new system wide solutions. The answer is yes, we should. Many of us have doubts about the insufficient level of ambition in this small step policy of change. There are reasons beyond the famous buzzline of the last two years – too little and too slow – which is often used to assess the path of reforms. We seem to be too often too inward looking while at the same time the need to open more widely European windows and look outside, towards the global environment, is obvious for various, deeply justified reasons. Even when investing in domestic reforms, Europe must look outside towards global threats and opportunities. The world which is emerging might not be entirely in line with our Western tastes.

Setting in place the new regulations for the reinvented Europe is, of course, a challenge. But we are just at the beginning of a process which will require a lot of political will with regard to its continuation and the enforcement of the new regulatory framework. The doubt is whether we can, through fines and penalties prohibit individual member states from pursuing policies that harm individual member states and the Union as a whole. The culture of fines and sticks becomes an important element of the new systemic solutions. Sticks, fines and penalties are those instruments that did not work in the past. And they are supposed to act now. Practitioners know that sanctions rarely generate ownership and responsibility. So I do have doubts. There are underlying discrepancies in terms of economic situation in the euro area. They are economies which grow dynamically and these are rather the rich economies and there are mostly poorer economies that are confronted with the austerity

packages and unsustainable debts. This makes it highly likely that the crisis will draw a new map of European economy where the gap between the rich and the poor will be widened. The truth is that not only the growth rates are less favourable in the case of those more strongly affected by the crisis but that they also suffer from more severe adjustment difficulties. The challenge of a two speed European economy and new growing disparities is real. And this is even more visible at local and regional level. The growing disparities will influence European politics.

Therefore, the question of how to finance the growth that Europe needs at all levels of its governance is a legitimate one. Additionally, it is not about growth that will merely take Europe back to the pre-crisis levels of GDP. Growth in Europe will have to be supply driven, based on structural change and productivity gains, with growing share of higher risk investment and delivering a more competitive economy. Without doubt our growth and specialization strategies will be changing substantially.

Poorer countries with adjustment problems and unsustainable debts are in particularly difficult situation with regard to the availability of resources needed to finance growth and restructuring. It will take some time till private sustainable funding will become available.

In general all EU states, not only eurozone, will require huge volumes of funding in the years to come. Governments, regions, municipalities will need access to large investment funds both to pay debts and to grow.

An important role as a public source of funding for growth will have to be played by the European budget. Decent, adequate funding for European policies through the EU budget is a precondition for the full use of their potential and achieving full impact. Policies funded by EU budget will have to be designed in such a way that the EU budget catalytic role, its quality and its leverage function are ensured. Its new role should be the one of coordinating funding available for some policy areas through different financial instruments, creating thus additional synergies. That does not mean that funds should be shifted between financial instruments. Soft coordination might be much more effective. By shifting money between policy areas we do not get more of it. Quite the contrary, we can trigger new disruptive factors. The challenge of careful selection of priorities for public funding through identifying new market failures

will also have to be taken seriously into account in making choices on growth policy. We will have to look carefully into new state aid rules, also in the context of regional aid.

Funding from EU budget should benefit policies that, in a measurable way, contribute to the achievement of objectives and interests of the Union, strengthen cooperation and integration, ensure the application of European law, relate to important aspects of EU citizens' lives, engage and use effectively the potential of civil society, strengthen European institutional capacity, promote mobility and mutual learning, prevent growing development disparities, and work towards economic, social and territorial cohesion of the European Union.

We need to reach out to the potential of innovative financial instruments, involving the EIB, EIF, as well as the EBRD and the World Bank. Blending grants and loans, venture capital instruments, new forms of risk sharing and guarantees, project bonds are examples of funding tools that should be more courageously developed and expanded. The EIB should play a more prominent role in enhancing the leverage function of the EU budget.

Europe's strategic tasks must be shared between European, national, regional and local levels in a well orchestrated manner. Multilevel governance is tailored made for times like these we live when all hands on board matter. It is socially inclusive for it involves various segments of civil society in the political and economic processes. It is also socially sensitive for it is combating the temptation of alienation of certain groups. In the situation defined by globalization, the old sectorial approach to public intervention is always too little and too late. Only the holistic model of public policy passes the stress test of good governance because it eliminates the dangers of fragmentation in decision making and possible lack of support when the decision is reached. It also makes it possible for local authorities and civil society to cope better with specific problems that derive from geographic handicaps or the lack of economy of scale.

Already today political, economic and social powers and responsibilities are increasingly being spread between all different levels of governance. Globalization and many other challenges (climate, energy, demography) encourage authorities at different levels to make decisions collectively.

Hierarchical or top down approach is disappearing from good practices of governance. This is a consequence of growing complexity of development.

Europe must not allow its development potential to shrink, to remain unused for too long. Regional policy is well placed to engage the unused potential. Civil society leaders, innovators, scientists and researchers, creative people in the arts, active women, mobile youth, small businesses – they form the largest pool of underused development potential. Now, with the turn towards an innovative driven society, supported by a knowledge based economy, out of a sudden those groups representing the unused development potential, become a driving force for social progress, democratic mobility, innovation and vital resource of moral revitalization of the society.

There is a lot of work to be done in Europe. The crisis has challenged us all at a time when we have been already in the midst of adapting ourselves to globalization and the need to turn our economies and the way of life away from fossil fuels and towards a more sustainable model. In front of all these challenges the entire Europe, including the local and regional, must act swiftly and decisively, and with a high degree of urgency. Of course, what can be done today on the path to reform reflects a balance between what is required and feasible. Those who are in charge of growth must spare no effort to ensure that this gap between the required and the feasible gets smaller than ever.

Comprehensive development strategies are needed at a European and national levels but their real embodiment will be found at local and regional levels, in public – private partnerships, in the involvement of local banking open to microfinance practices, in the cooperation between the education, the research and the local economic leaders.

Within the framework of the EU regional policy many initiatives of this type have led to projects that aim at reaching for this synergy of the social and economic across the EU. Normally when we refer to the inclusive we mean the right to benefit. In the post crisis era, inclusive must also mean the right to contribute through participation. Europe needs inclusion not only as a policy objective but also as a policy tool. This way the ownership of change is expanded and Europe becomes Europe with a strong political legitimacy. Europe needs today legitimacy to continue the grand change.

To conclude, let me say that without doubt we live in ground breaking times. And because they are ground breaking we must be creative, more innovative and skilled in our actions. We must be serious in our quest for excellence and efforts to hone our capacity to develop participative Europe. Regional policy has the power to build networks and involve all stakeholders in the plans that need to be drawn up and implemented. It is in this context that we must see the tasks of the regional policy 2014-2020.