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Achieving social triple A: What role for EU cohesion policy[1]?

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Fostering social cohesion was an objective from the very beginning of the European project. Cohesion policy is therefore considered to be one of the European Union's (EU) key instruments to strive for inclusive growth, one of the three key objectives (in addition to smart and sustainable growth) set by the EU's 10-year 'Europe 2020' growth strategy. In parallel, the social dimension of EU policies has recently become a priority on the policy agenda. The 2015 Five Presidents' Report called for a "social triple A for Europe"[2] and the European Commission presented, in April 2017, its European Pillar of Social Rights, aiming to "serve as a compass for the renewed convergence within the euro area".[3] Like any other policy initiative, this official support for a more progressive and social Europe does not come out of the blue. It is the result of the harmful impact of the economic crisis and years of austerity measures, which have aggravated social divergences across Europe, as well as a reaction to a general citizens' outcry for a more people-centred and protective Europe.

While intense negotiations on the EU budget and cohesion policy are on the way[4], given the high expectations of citizens, and because EU Structural Funds (called 'European Structural and Investment Funds' (ESIF) since 2014)[5] represent a significant share of the EU budget (37% of EU spending for the 2014-2020 programming period), it is now high time to look at their real contribution to achieving the Union's social objectives. In other words, is EU cohesion policy rightly and sufficiently equipped to be a driver for social progress and deliver on the EU's social objectives?

BACKGROUND

Is EU cohesion policy social?

In line with the ultimate objective of EU cohesion policy, which is to reduce regional disparities across the EU and express European solidarity[6], the poorest regions receive most of the financial support. EU regions are divided into three categories: the less developed regions (with GDP *per capita* below 75% of the EU average); the transition regions (between 75% and 90%); and the more developed regions (above 90%). More than half of the cohesion policy budget (50.9%) goes to the less developed regions, while the more developed ones receive only 16.1%.

The Commission's efforts to contribute to greater social cohesion have intensified with the ongoing programming period and the introduction of a series of new regulations. Thematic objectives have been set to ensure that EU regions will allocate funding to priorities, which have been decided at the EU level. Three of them – quality employment and mobility; social inclusion; and better education and training – have a social dimension and aim to deliver inclusive growth. In this respect, the ESF plays an important role as it is the main fund supporting these social objectives, with €86.4 billion put aside for the 2014-2020 period. Furthermore, the EU has created more incentives to spend money on fighting social exclusion and poverty; a minimum share of 20% of the overall ESF budget is allocated to social inclusion measures.[7] The other funds also contribute to social cohesion: for instance, €21.5 billion of the ERDF is being allocated to measures with a social dimension.

STATE OF PLAY

New divides across Europe

Despite the intensified efforts of the EU to align cohesion policy with social objectives, strong socio-economic disparities still remain across Europe. For instance, unemployment hit record-low levels (2.1%) in the German region of *Niederbayern* in 2016, whereas several regions, like *Thessalia* in Greece or *Andalucia* in Spain, were above the 25% threshold. The same gap applies to other social indicators, like poverty and social exclusion ranging from 13% in the Finish region of *Aland* to 46.2% in the south-central region of Bulgaria called *Yuzhen Tsentralen* in 2016.[8]

In addition, recent developments show that new geographical divides are appearing across the EU, accelerated by the economic crisis. In fact, while Eastern Europe has been able to catch up quickly, some even with highest levels of economic growth, sluggish economic development is a major issue in Southern Europe. In fact, this part of the EU has been hit disproportionally by the economic crisis, leaving scars in society. While structural funds have certainly contributed to Eastern Europe's economic upturn, they have neither prevented a deep recession in Southern countries nor helped them to weather the economic storm. Against this background, the question of what types of investment are financed by EU cohesion policy takes on added importance.

Disparities within countries on the rise with larger economic forces at work

More specifically, while the success of the EU has been to boost overall macro-economic convergence between countries over the last decades, disparities within counties have increased. Interestingly, the EU indicates in its sixth Cohesion Report[9] that regional disparities widened in several member states, including Greece and the UK, not least because GDP *per capita* declined relative to the EU average in a number of less developed regions. In other words, the process of convergence is largely due to some regions catching up rapidly with the EU average rather than a collective move towards better outcomes.

Furthermore, significant social divides can be seen within NUTS 2-level regions[10]: wealthy people and disadvantaged groups co-exist in the same territory. In fact, the same region can feature a strong and robust economic activity and have, simultaneously, significant difficulties to erase poverty. For instance, while the Brussels region was the fourth richest region in terms of regional GDP (PPS per inhabitant) in 2015 €59,200), its level of unemployment (17.3%) was particularly high.[11]

In a nutshell, while convergence at the macro level is making progress, there is growing evidence of increased inequality at the micro level. There are powerful economic forces in play and cohesion policy does not – and understandably so given its limited budget – have the means to counterbalance them. Globalisation has deeply transformed our economies: easy access to technologies, skills and talent, and being part of economic clusters and large-scale transport infrastructures have become key assets for companies to thrive and for economies of scale to emerge. These forces are also having a significant impact on how territories are organised and how economic and social progress is distributed within and across them. In particular, areas and people with multiple disadvantages are struggling to be included in this globalised economy.[12]

Economic and social progress: two sides of the same coin?

EU policies, cohesion policy in particular, have been, for a long time, dominated by the trickle-down theory claiming that economic growth should be the ultimate objective as all members of society will eventually benefit from it. Evidence provided earlier in this paper debunks this notion and numerous studies have also highlighted the only partial role that GDP *per capita* plays in achieving social progress. For instance, the Social Progress Index indicates that regions with the highest GDP *per capita* are not the top performers in terms of social progress. In fact, economic growth does not impact on certain determinants of social progress, such as, for instance, access to education.[13]

Thus, there are many more factors that come into play to drive inclusion and social progress, which can only be achieved through well-balanced redistributive policies. With that in mind and assuming that the EU truly wants to deliver smart, sustainable, and inclusive growth, it is worth asking whether GDP *per capita* is really the right criteria to determine where and how EU funding should be allocated.

PROSPECTS

In light of the current challenges faced by EU regions, it is now high time to adjust the overall direction and functioning of EU cohesion policy. To this end, several key policy re-adjustments, with principle assets such as 'tailor-made', 'flexibility', and 'human capital-centered', will be required.

Moving beyond GDP

Distributing ESIF on the basis of GDP *per capita* in each region is clearly an outdated system, which is not suited for delivering EU social objectives and ignores the complexity of our territories. Having such a 'not fit for purpose' mechanism is all the more surprising given that there have been numerous studies providing suggestions for alternative indicators. In other words, lack of research is, by no means, a valid excuse. To name just a few, the World Economic Forum has launched its Inclusive Development Index[14] with the objective to highlight the many factors that can drive a more inclusive growth process. The Social Progress Index, established by Social Progress Imperative, aims to measure the multiple dimensions of social progress while helping regions identify the main issues they are confronted with.[15]

Furthermore, the European Commission introduced, in conjunction with the launch of the European Pillar of Social Rights, a social scoreboard aimed to "give a clear overview of member state's performance in the social field and show where we stand on achieving a social triple A".[16] This scoreboard is composed of twelve indicators, which provide a good overview of social imbalances in each EU country. But while monitoring social developments and raising visibility about them is a step in the right direction, it is worth asking whether such a tool can help make Europe more social and address citizens' growing concerns. The response is quite clear: it is far from sufficient. To ensure a real impact, indicators need to be embedded in a strong governance framework and become a key criteria in the allocation of EU funding.

To this end, social indicators should feature high in the *ex ante* and *ex post* conditionality evaluation. In other words, the Commission should use them to get a fine and precise overview of the social situation in each region. Whenever they indicate that social cohesion is under threat, a significant share of EU funding should be allocated to thematic objectives with a social dimension. In the state of *ex post* evaluation, social indicators should also be used as a tool to assess the success of EU funding in achieving better social outcomes. Adapting a criteria of distribution to the set of objectives is therefore essential to give more prominence to social developments in EU cohesion policy.

Reconciling the macro with the micro

As mentioned earlier in this paper, territorial developments are often complex, not linear, and far from being homogenous within big territorial units. Thus, aggregate figures provided at the NUTS 2 level are not sufficient to address social issues that can hide behind good macro-economic performance. The rapid emergence of inequalities in highly urbanised areas is a case in point. It shows that micro-level data is needed to get a better and more precise understanding of how social outcomes are spread across the territory. In addition, giving more relevance to distributional aspects is essential to better focus policies on the people most in need and mitigate any forms of inequality. This approach should also be integrated into the monitoring system of policies, and should not limit itself to a top down evaluation but rather be complemented by more small-scale work with control groups. Developing such methodologies is also essential to give more prominence to the more qualitative aspects of EU cohesion policy, such as, for instance, the long-term integration of disadvantaged people into the labour market.

A call for increased flexibility

Given that territorial realities depend on a complex array of factors, making any sort of classification is a difficult, if not useless, exercise. For instance, the level of poverty and social exclusion faced by cities are not all the same across the EU: while it tends to be high in cities in the more developed member states, it tends to be less prominent in less developed ones where poverty and social exclusion are more concentrated in rural areas.[17] The allocation of funds should therefore not follow a generic classification but be customised to the main issues faced in each region.

In addition, not only do NUTS 2 regions face different issues across their territory but their priorities might also change over time. Yet, Operational Programmes (OP) are multiannual and follow the programming period of the EU budget, which runs over seven years. However, while long-term planning is required to address deeply-anchored structural problems, flexibility is also needed when unexpected needs arise.

Fostering social investment for all

Lastly, cohesion policy needs to be embedded in a broader policy direction. At a time of growing social divergences across the EU, it is worth putting the social investment approach at the centre of the policy agenda. A large body of research has already highlighted the benefits of this approach and while the EU has shown an interest in this concept, it has failed to embed it into a coherent policy framework aligning the EU governance framework and its budget with the social investment imperative. Investing in people at an early stage of life, facilitating life-course transitions, promoting prevention over cure, providing training and further education over the life course and ensuring equal access to quality public services are some principles that should take centre stage in the next OPs. These types of investment with long-term return are key to the future competitiveness of EU regions. Ensuring that they can materialise everywhere, i.e. also in regions facing high fiscal constraints, is essential. A way to enable this is to establish a Golden Rule allowing member states and regions to deduct social investment from the calculation of the public deficit, while coupling it with strong conditionality requirements for structural reforms.[18]

Cohesion policy certainly represents a significant share of the EU budget but the figures also indicate that it is minor in comparison to national budgets and policies. Furthermore, the social dimension of cohesion policy is constrained by other limitations, such as the limited competencies of the EU in the social area, as well as the shared management structure of many EU funds, leaving important decision power up to national authorities. A profound reflection about the future of cohesion policy is now ongoing and fundamental changes are likely to happen in the post-2020 period. This paper aims to contribute to this reflection by highlighting the need for cohesion policy to take account of the global trends that are shaping our territories and leading to new forms of inequality. If the aim is to strive for inclusive growth and address citizens' concerns, giving priority to more qualitative and human capital investment will be a key success factor for cohesion policy post 2020. This shift of paradigm will also need to go beyond the spectrum of EU cohesion policy and become a principle guide to be driven at the highest political level and applied both vertically, i.e. across all governance levels, and horizontally, not least in the areas of trade, digitalisation and education policies.

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2 See Jean-Claude Juncker, Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz (2015), *The Five Presidents' Report: Completing Europe's Economic and Monetary Union*, 22.06.2015, available at: http://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf

3 See: https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights_en

4 The European Commission is due to make a proposal for the next MFF by the end of 2017.

5 ESIF entail five funds: the European Regional Development Fund (ERDF); the European Social Fund (ESF); the Cohesion Fund (CF); the European Agricultural Fund for Rural Development (EAFRD); the European Maritime & Fisheries Fund (EMFF); and the Youth Employment Initiative (YEI).

6 Art. 174 of the Treaty on the Functioning of the European Union (TFEU) stipulates that, in order to strengthen its economic, social and territorial cohesion, the Union is to aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands (…).

7 Regulations (EU) No 1304/2013 of the European Parliament and of the Council of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/2006.

8 Eurostat data.

9 See: http://ec.europa.eu/regional_policy/en/information/cohesion-report/

10 The NUTS 2 level is the reference unit used in the context of EU cohesion policy.

11 Eurostat data.

12 European Commission (2017), *Reflection paper on harnessing globalisation*, Luxembourg: Publications office.

13 See: http://www.socialprogressimperative.org/global-index/

14 See: https://www.weforum.org/reports/the-inclusive-growth-and-development-report-2017

15 See: http://www.socialprogressimperative.org/global-index/

16 See Commissioner Thyssen's speech delivered at the occasion of the launch of the reflection paper on Social Europe, available at: http://europa.eu/rapid/press-release_SPEECH-17-1119_en.htm

17 European Commission (2014), *Sixth Report on economic, social and territorial cohesion,* Luxembourg: Publications office.

18 See: Dhéret, Claire and Fransen, Lieve (2017), *Social Investment first! A precondition for a modern Social Europe*, EPC Issue Paper N°82.

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