Speech by Danuta **Hübner**, Member of the European Commission responsible for Regional Policy

**Growth and competitiveness in Europe:**
**A case for a strong cohesion policy**

Conference organised by ELIAMEP,
Hellenic Foundation for European and Foreign Policy

Athens, 29 March 2007

Ladies and Gentlemen,

It is really an honour and a pleasure to be here today in front of such a distinguished audience. I would like to thank for the invitation the Hellenic Foundation for European and Foreign policy – well-known for its commitment to research in political and economic integration – and in particular Professor Loukas Tsoukalis, president of the Foundation.

I will focus today on European regional policy in two contexts. As we are celebrating 50 years of the European Union, it may be worthwhile to begin by looking back at the evolution this policy underwent in the past and the lessons we learned. This will provide a point of departure for looking forward – towards the role regional policy plays today in response to new, global challenges and towards new developments which might affect its future.

The founding fathers did not think about regional policy; rather they cared more for fostering trade exchange between Member States and developing the Common Agricultural Policy. It was only after the enlargement of 1973, to Denmark, United Kingdom and Ireland, that the first brick stone of the policy was laid when, two years later, ERDF was created. Behind this idea there was a rather haphazard collection of factors; the fear that rural periphery of Ireland may loose to the continental agriculture and that UK should be financially compensated because most of the support under CAP goes to other Member States. Thus, initially ERDF acted mainly as a re-distribution instrument without real economic underpinning.

The early European regional policy in the 1970s and first half of 1980s failed to correct economic disparities in the Union. Lack of clear priorities, too wide range of interventions, central management and insufficient resources were the primary reasons for this. Nevertheless, already in this period we can see the beginning of the process which very clearly marked the forthcoming evolution of the policy. In particular, with the enlargements to Greece, Spain and Portugal a link was created between the advance in integration and regional policy. In short, regional policy was to enable poorer EU regions – which often but not always were situated in the acceding countries – to benefit fully from the move towards greater economic integration, be it Single Market or common currency. We can call it European frame of reference of regional policy and it is best epitomized by the notion of convergence.

The second development is linked to globalisation and can be traced back to the policy origin in the 70s, when the fears for economic sustainability of peripheral rural areas in the acceding countries were to a large extent underpinned by the oil shock of 1973. This train of thought led through various policy objectives – dealing with industrial restructuring or unemployment – to the Objective 2 in its current form. The basic idea is that regional policy should target not only the poorest; rather it should invest in structural adjustment and in removal of barriers which hinder the growth potential of all regions. Over the decades this adjustment has been increasingly influenced by globalisation and is often related to through the notion of competitiveness.

At the same time a series of consecutive reforms – the first of them undertaken in 1989 – greatly increased the quality of policy intervention. Before the reforms we had no evidence on catch-up in the cohesion countries, Greece and Spain in particular. Since the reform this situation greatly improved, both at the level of Member States and regions. In Greece, since 1995 growth has been consistently more then 1% above the EU average. The increase in the financial resources of the policy was one of the reasons; however, of greater importance were the regulatory changes which introduced such principles as concentration of investment, 7 years programming, partnership and additionality.

Perhaps the most significant of all these changes concerned a governance issue. In 1975 ERDF was managed by the Commission on the single project basis. Today, the policy is designed and managed through the multi level governance, which decentralized many of the functions previously exercised by the Commission to regions and Member States. As a result, regional and local authorities became deeply involved in the design and implementation of regional policy. From policy takers our regions and cities turned into policy makers.

These were the main developments which took European regional policy, for the new 2007-2013 period, to the heart of the Union's competitiveness and jobs agenda. And with a good reason. The Kok review of the Lisbon strategy explained the initial Union's failure to meet its targets by two factors. Firstly, our societies were very little involved in the implementation of Lisbon priorities. Secondly, the Union was lacking an investment policy precisely at a time when public investment has been steadily decreasing in most Member States. Regional policy, in particular through the recent reform, addresses both issues. It is an investment policy concentrated on key Lisbon drivers and implemented jointly by the Community, Member States and regions.

The increased role of the regional policy within the Union's agenda is matched by better theoretical understanding of why this policy fosters economic development. The first step towards this understanding was the link between the performance of national and regional economies and, consequently, the conviction that wide regional socio-economic disparities constitute an obstacle to unleashing the full growth potential of the Union and lead to underutilisation of resources. This was followed by the development of new growth theories which include a number of factors that were previously considered to be outside the economic systems, such as innovation, technology and education. As a result, on one hand we witnessed the trend which is undercutting the importance of location factors such as proximity to markets and inputs; on the other however, it becomes increasingly important that firms find in its proximity innovation, education and technology resources. Thus Michael Porter observed that "paradoxically, the most enduring competitive advantages in a global economy seem to be local".

This makes clear case for the regions to become the most relevant level to develop and implement a large number of growth-oriented investments and policies. Simply put, investment implemented by regional and local authorities – who best know their constituencies – is much more sensitive to variation of growth factors then the central government. This greater responsiveness makes the participation of local authorities in the design and implementation of development strategies a solution that maximizes economic growth.

If we turn now to the recent reform of the regional policy we can see that it followed very closely on this economic rationale and the lessons from the past. Firstly, through the strategic approach and earmarking we aim to achieve the critical concentration of investment fostering economic growth, creation of jobs and competitiveness. And it works – as our estimates indicate that €200 billion of the €350 billion allocated to regional policy is targeted at the investments that were singled out as key drivers of the Lisbon Strategy. From this €40 billion – more than 10 per cent of the total – will be invested in innovation and R&D. Greece has followed suit and from a total of €20 billion earmarked more than €12 billion to the Lisbon goals strategy. Of these €12 billion, around 15% are designated for research and technological development, innovation and entrepreneurship.

Secondly, new regional policy through its partnership approach builds on synergy between EU, national and regional government policies. Clearly, it is up to European and national policies to spell out strategic development priorities. However, it should be the role of local and regional development strategies to translate these priorities into the variety of economic and social characteristics. This set of relationships and interactions between European, national and local levels should fit together, like the cogs of the wheel.

The importance of these two policy aspects – the combination of a focused investment policy with a new approach to economic governance – is perhaps best seen in the development of leverage concept, which is a major element of the recent policy reform. Seen from the investment angle regional policy should leverage additional public and private investment. With this view in mind, the Commission, in co-operation with European financial institutions, developed a number of new tools facilitating the participation of private capital in investments carried by the policy. The key feature of these tools is the approach based on the combination of grants and loans, which opens new markets to different forms of public private partnership. If we extend the concept of leverage beyond this purely financial meaning, we can say that new European regional policy – through reinforced focus on partnership principle, programming, capacity building – contributes to better economic governance in the Union.

Importantly, the last reform merged within a single framework two notions which in the past followed different trajectories: convergence and competitiveness. Today both approaches rest on the same view that the solution for Europe is to move from investment based growth to innovation based growth, to root its development in knowledge and capacity to create innovation. Regional policy is not only about internal convergence; it is also an essential lever for stimulating global competitiveness across the European territories. It takes regional economies into the broader context of world markets; it induces them to measure their strengths and weaknesses against global challenges and opportunities; it fosters their internationalization and makes them look for their place in critical global chains and clusters.

The years to come will, in my belief, reinforce this approach. The basic reason for this is that our regions will be affected by an increasing number of global changes. Many of them will be of economic nature as new communication technologies will continue to reduce the importance of distance and borders. But there will be other challenges with regional dimension such as aging, climate change or energy security.

The capacity of European regional policy to become a major development tool in a global world has been discerned also outside the Union. Last year the Commission signed a cooperation agreement on Regional Policy with China. We are about to sign a similar memorandum with Russia and Brazil. Likewise, similar approaches in many other countries and organizations such as MERCOSUR or West African Economic and Monetary Union are largely inspired by EU regional policy. We have also been asked to contribute to the work of the United Nations and the World Bank Committees in this field.

But what kind of message for Greece and its regions can be made out of what I said? In short – find a right mix of Community, national local and regional policies, concentrate your investment in key Lisbon areas and involve to greater extent private capital. I am happy to see from the negotiations with Greece on 2007-2013 programming period that you very much share the same analysis. The new structure for the implementation of regional policy in Greece makes an attempt to rebalance and rationalize central – regional responsibilities. National Operational Programmes have been developed under the headings such as "Competitiveness and Entrepreneurship", "Digital Convergence", "Education and Lifelong Learning". Such regions as Kentriki Makedonia will channel huge resources into the development of cities, innovation and new tools which were designed by the Commission with the view of finding new financing schemes attracting private capital (JESSICA, JEREMIE and JASPERS).

One more message I would like to leave you with is that it is worthwhile to co-operate with other regions and cities in Europe. Throughout its history European regional policy has been like a big laboratory in which we tested the multitude of approaches to development. But this wealth of knowledge and innovation can only spread if underpinned by regional networks linking authorities, experts, business and science. In a global world, these networks pooling together different competencies become an important aspect of economic development.

Lades and gentlemen,

From what I said you could see that I firmly believe that regional policy has future in the Union and in Greece. And not only because it makes sense from the economic point of view. Globalisation is a great thing as it brings new opportunities, cheaper products and better services. But the more and the quicker the changes, the more solidarity and co-operation we will need in Europe. And there is no better way to demonstrate this to our citizens then through regional policy.