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TERRITORIAL COHESION IN AN ENLARGED EUROPE

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May 2004 marked the biggest enlargement of the European Union: ten countries joined, among which five (Czech Republic, Hungary, Poland, Slovakia, Slovenia) can be labelled as east-central European countries. Not only the geographical proximity allows for a joint discussion of these countries but also the similarity of their last six decades, having been part of the camp of socialist countries for more, than four decades and starting the transition from the centrally planned, socialist into free-market, democratic society in 1989-1990.

This paper, prepared just one year after the accession of the new Member States, aims to put the EU enlargement into a double perspective. On the one hand, in the course of the 40 years' socialist period, followed by the more than a decade transition period, in the east-central European countries specific socialist and post-socialist issues and problems developed, which can be confronted with the circumstances and conditions of the EU accession. On the other hand, the structural (cohesion) policy of the European Union has also a long history, in which the 2004 enlargement marked an important point, leading to changes in this policy, especially to be seen in the post-2006 regulation.

The special view of the analysis relates to territorial cohesion. The European Union, having had for a long period economic and social cohesion in the focus, added the aim of territorial cohesion as the third major pillar to cohesion policy. The new draft Constitution mentions these three aspects as the major goals, meaning that the spatial dimensions of development have gained in significance. The reality of this approach depends on how much practical effect will be given to the new, third aspect of cohesion.

The structure of the paper is as follows. The first chapter discusses the special aspects of urban development of the east-central European countries, aiming to arrive to an 'inventory' of specific problems at the moment of EU accession. The second chapter, after a short overview on the development and milestones of the EU structural (cohesion) policy, concentrates on the conditions of enlargement, i.e. how the ideas of structural policy have been applied to the case of the east-central European countries. Finally, the third chapter deals with the present debates on the near future, including the questions discussed regarding the regulation of the post 2006 Structural Funds, and in a broader sense the different standpoints on the future of the EU cohesion policy.

The paper aims to deal with the commonalities of the east-central European countries, however, the more detailed analysis concentrates on the case of Hungary and Budapest. The historic part is based on earlier works on the ‘socialist model’ of urban development, while the overview of the EU policies is based on official documents and some critical analyses.

1. The Special Development path of the East-central European countries

1.1. The socialist period

Up till the end of the 1940s east-central European countries were, although less developed, fundamentally not different from the rest of Europe. The big changes came in the second half of the 1940s, when communist parties took over the political power in each of these countries (we do not go into the details here of the special development path of Yugoslavia) and the Soviet-type ideology started to dominate not only political, but also economic development.

There is no agreement amongst urban researchers, to what extent the socialist countries followed a special development path (Tosics, forthcoming, a). According to some analysts their development was not unique, only “deferred” compared to the case of the Western European countries, as a consequence of industrialisation having been deferred. In this view “socialist urbanisation was not a new model of modern urbanisation. Rather, Central European socialist countries replicated stages of a more generally applicable global process of urban development” (see Enyedi, 1996, p. 102). The alternative explanation emphasises the importance of the mode of production or of the political-economic order and considers the process of industrialisation as of secondary importance. According to this approach “... societies with different socio-economic orders will produce qualitatively different urban conditions” (Szelényi, 1996, p. 290).

The following short analysis will underpin this second view, summarizing the most important elements of the socialist development model, which was based on the strong control of the state over all factors of development. Through nationalization the state acquired most means of production and real estate. Price control over the whole economy and over the incomes of the population were additional tools in the enforcement of political goals. The outcome was a planned economy with a primacy of industrial sectors at the expense of service activities and infrastructure (Hegedüs and Tosics, 1996, p. 16; UNECE, 1997, p. 1). The main political goal – the general accessibility to social services – was more or less achieved in some of these services (like education and health care), although providing only generally low standard and requiring considerable investments from the state budget. As a logical extension of the basic system, the “merit-based” allocation of higher-level services was developed, based on the social status and contacts of people.

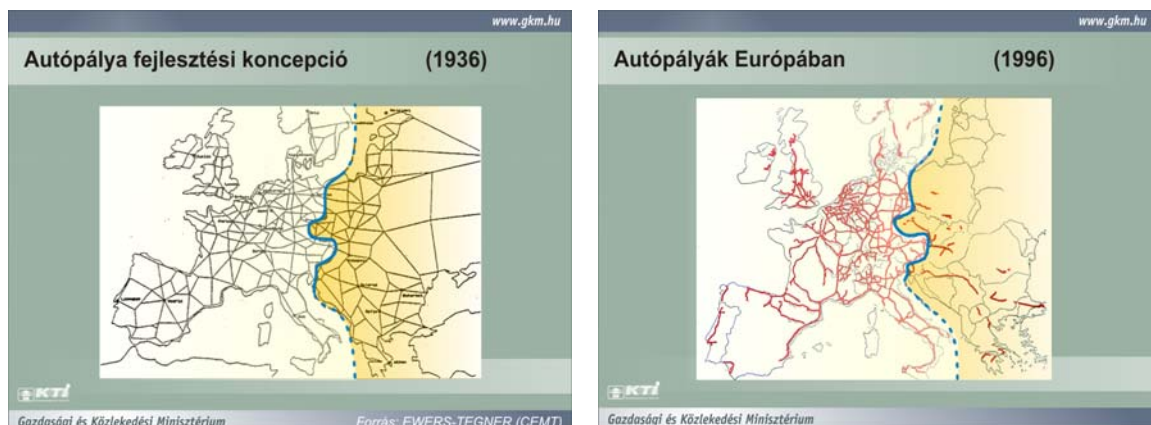
According to the socialist view, the most important aim was to enforce economic development, which had to get priority above infrastructure investments. As a consequence, all types of infrastructure were developed much slower in the socialist countries, than in their western counterparts. The result can easily be illustrated on the example of motorway construction, by the comparison of the following two maps. (Fig. 1.)

The first map illustrates the plans for motorway construction in European countries around 1936 (one of the last peaceful years). The dividing line between the two parts of Europe did not exist yet at that time, it only helps to understand that the density of the motorway system was envisaged to be very similar in the western and in the east-central part of Europe.

The second map shows reality, how much of the plans has been fulfilled by 1996. The difference between the two parts of Europe is shocking: in the western part even more motorways have been constructed as planned in 1936, while in the socialist countries almost nothing has been fulfilled from the pre-war plans.

Another example of the primacy of economic development over infrastructure has been described by Iván Szelényi in his “under-urbanisation” theory (Szelényi, 1996, p. 287). The starting point is the concentrated industrial development in urban centres, which was accompanied by relatively slow infrastructural development of these cities. The new industrial workers of new urban enterprises could hardly settle down in the cities themselves, as real estate was in shortage and more expensive there and also permission was needed for purchase. Workers could either commute between their rural residency and the industrial cities by the cheap public transport, or could settle down in the agglomeration where real estate was cheaper and no permission was needed for purchase. As a consequence, the increase in the population was most significant in the surrounding areas of urban centres. This is a unique development model of the agglomeration, where the source of rapid increase in population was not the residents moving out from the city but those coming outside from rural areas, willing but not allowed to move into the city.

FIG 1 Density of motorways in western and central-eastern Europe in 1936 (planned) and in 1996 (reality)
Source: Ewers-Tegner, 1997 and www.gkm.hu



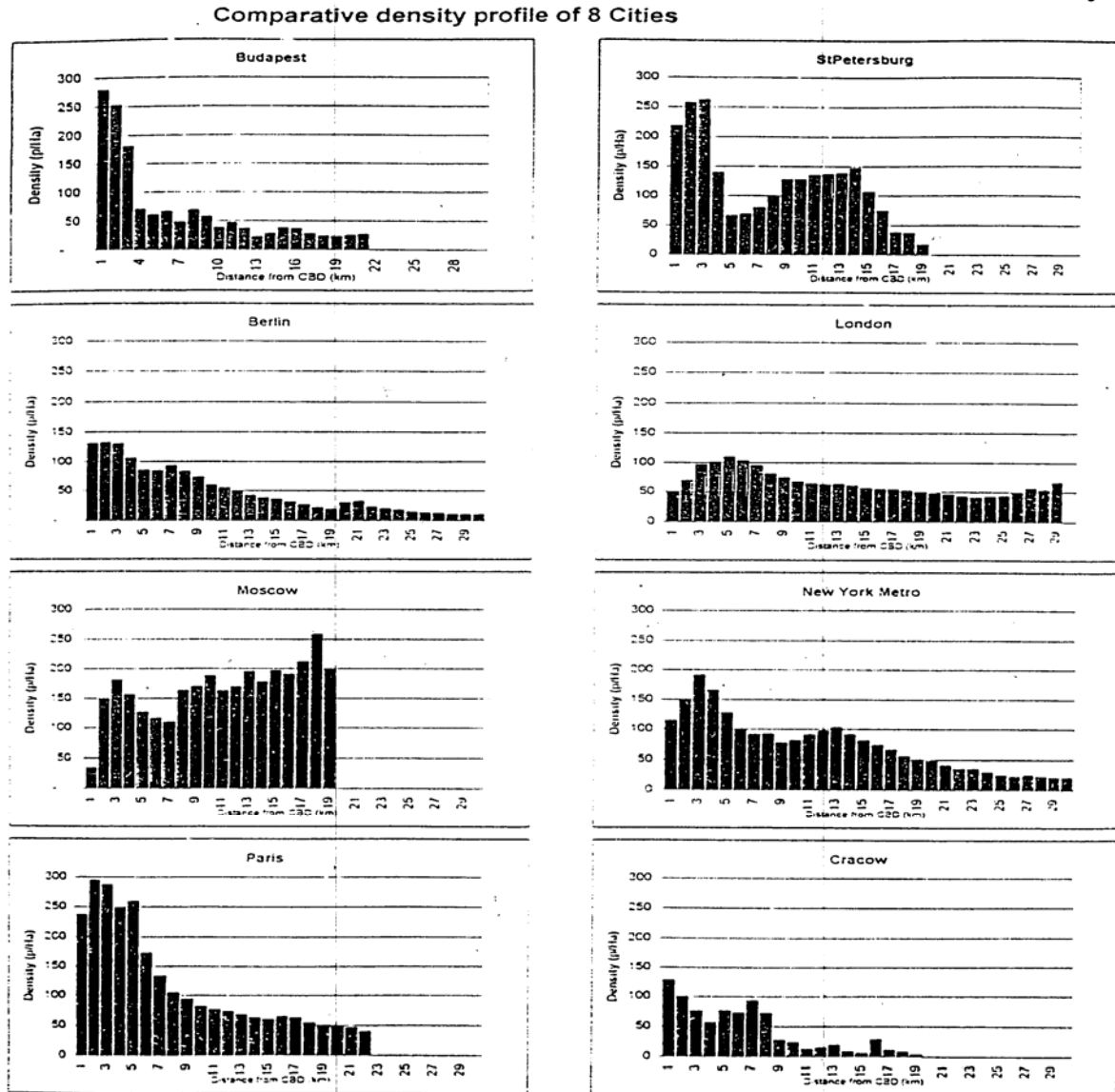
The notion of “under-urbanisation” did not mean that cities were not increasing at all. From the 1970s on, the development of prefabricated large housing estates was accelerated in socialist cities, resulting in high density of population in the designated areas, mostly outside of the earlier developed inner city areas. Large housing estates are, of course, not unknown in western cities, however, the underlying factors of this type of development and also the magnitude of it are very different (Tosics, 2004). In western European countries the period of high-rise construction can be seen as a distortion of public policy by private interests. In contrast, in the socialist countries, the development of large estates was enabled by the strong and direct state control over land use and over all aspects of construction, and it became an essential part of public policy, in which the decision-makers were influenced by particular interest groups (large public construction companies and planning institutions) within the public realm, having created a strong interest coalition (Hegedüs & Tosics, 1992). Consequently, the construction of high-rise housing estates lasted much longer in the socialist countries (in most cases up till the collapse of socialism). Flats on these estates constitute a much larger share of the housing stock (20 to 40 percent of the total stock on estates of over 2500 units, compared to 3 to 7 percent in the Western countries; the maximum share of units in large housing estates is over 70% in some regions and cities in the socialist countries, while it is 20-25% in Western countries; EA.UE - IRS, 2000:10).

The concentrated development of high-density housing estates in the outer zones of cities also meant that practically no resources remained to the development of the inner zones: the inner city areas remained dominated by a deteriorating stock of old buildings (due to the neglect of the confiscated or nationalised stock and rent controls at a low level), while the transitional zone was dominated by obsolete large industry and other non-residential functions. All these mean that socialist cities can be described with very specific land-use patterns (Bertaud and Renaud, 1997, p.3). Due to the special features of the individual elements of the urban structure, the housing density gradient of the socialist cities had specific characteristics, too. (Fig. 2)

Western European cities usually have an evenly decreasing density with increasing distance from the city centre. The case of socialist cities is different: the transitional zones have a lower density (because of under-utilised areas) while the curve jumps upwards in the outer areas of the cities (because of the high-density housing estates).

Fig 2. Comparative density profile of capitalist vs socialist cities (explanation: the density gradient shows the residential density (person/hectar) according to the distance from the city centre.)

Source: Bertaud-Renaud, 1997



Density gradients are very helpful to understand the differences between cities developed under different planning and urban development ideas. Besides, they also point towards the links between residential and working places. In cities, with the concentration of jobs in the central areas, the “camel-back” character of the residential density gradient means larger home-to-work distances, i.e. a relatively higher demand for everyday travel. Well-developed and cheap (heavily subsidized) public transport was a pre-requisite for the functioning of the socialist cities.

Without going into the details, it can also be mentioned that regional development was similarly top-down controlled in the socialist countries. Economic and infrastructure planning was directed from national centres, on the basis of long-term party decisions. Resources were allocated to sub-national administrative entities (counties), also under direct political control. Besides ensuring the enforced development of industrial parts of the country, the usual planning idea was that of “concentrated decentralization”, resulting in the enforced development of power centres at the expense of the smaller settlements.

From this short overview it can be seen that in the socialist countries housing, urban and regional planning was completely subordinated to the party-ruled, centrally planned economic system. The socialist state regarded planning as a matter of politics, serving as a source of its legitimacy. As a consequence of being embedded in the legitimisation of the power structure, the institutional and subsidy elements of the socialist model (e.g. housing factories, diversion of prices, special subventions) were much more firmly based than their Western equivalents where most of them were abolished after a certain period of time.

As a result of four decades of socialist political, economic and social relations the east-central European countries and cities underwent significant changes and their structure became markedly different from that of the western European countries and cities.

2. The transition period

The collapse of the socialist political system at the end of the 1980s resulted in changes in all political, institutional, and economic conditions of development. Overall state control and long-term politically motivated planning has been terminated. The two most important processes were decentralization (as a result of which local governments gained real power), and privatization (resulting in massive changes in the ownership of the means of production and also of urban housing and land). Due to the sudden change of all the fundamental conditions of development, the period of transition became the most turbulent and interesting phase of development of the east-central European countries.

To understand the importance of decentralization it has to be noted that in the socialist countries sub-national levels of government (counties, local authorities) were not at all independent: political and financial decisions were directed from above and were controlled by the party apparatus. “Sub-national governments were essentially deconcentrated units (or branch offices) of the central government and had little or no financial autonomy” (Bird et al., 1995:1). One of the first changes in the post-socialist period in all countries was the adoption of new legislation for local self-governments, ensuring the establishment of independent local self-governments and transferring much of the public sector decision-making rights (and responsibilities) from the central to the local government level. “Decentralisation is a key dimension of the national transition from a command to a market economy. The total level of public sector activity must be dramatically reduced, but at the same time the new sub-national governments must be allowed to build staff and institutional capacities” (Bird, et al., 1995, p. 2)

Thus in a very short time independent local governments have been developed in most transition countries. “There is no direct involvement of any central government officers or politicians in local decision-making and central supervision is restricted to checking the legality of procedures” (Bennett, 1998, p. 38). However, this process was not without contradictions. In many countries the number of local governments increased dramatically (i.e. in Bulgaria and Slovenia more than doubled, in Czech Republic and Hungary doubled), which means that the new local governments became small in number of population, even smaller than before (the average size in Hungary is three thousand inhabitants, in Czech Republic and Slovakia below two thousand inhabitants, with 50–80 per cent of the settlements below one thousand population). Consequently, the new communes became too small to be able to administer some of the services, and this became, in fact, a serious obstacle to real decentralisation within the state as a whole (see Bennett, 1998, p. 41). Central governments were not very keen to allow the local governments to develop into powerful political entities. Therefore, no substantial financial autonomy was given to local governments: where local taxes have been established at all, their magnitude was strongly limited and settlements continued to depend mainly on central transfers. The new division of tasks between central and local government made it possible for central government to withdraw from many tasks. The belief was that the local level will make wiser decisions and more could be done with less money. However, in most of the countries no calculations were made about the amount of public money needed to fulfil given tasks, so that generally the local level did not receive sufficient funds.

The dependence on central transfers can even be observed in the case of Budapest, which is undoubtedly the most developed and richest Hungarian city. Under the new circumstances the city faced growing difficulties to finance the functioning of the extensive public transport system. As a consequence of the elimination of most direct state subsidies for this purpose, and regarding the limited possibilities to increase the user prices, investments needed for the modernization of the public transport system have been postponed more and more often and even some lines had to be shut down (when comprehensive renovation would have become unavoidable).

Parallel to the strengthening of local governments in many countries the intermediate level of government (e.g. counties) has been terminated or made insignificant – as a reaction on the very big role these entities played in the socialist system in the allocation of political directives. In some countries, e.g. in Hungary, this led to uncoordinated territorial development, in which local authorities have got decision making power over their full territory, without the need to adjust their development ideas against the interests of larger areas.

A terrifying example of such an uncoordinated territorial development is to be seen on the example of rapid urban sprawl around Budapest. Outside the city border the neighbouring local authorities are the exclusive decision-makers of their territory, with no need (and no willingness) to care about environmental or traffic consequences of their decisions. The physical plan of the Budapest agglomeration is under preparation since almost a decade, but its Parliamentary approval was ever since postponed by the strong lobby of the agglomerational settlements who do not want to get constrained in their decision making rights.

The economic transformations were dominated in the post-socialist countries mainly by privatisation, which has been discussed in many publications (for the analysis of privatisation of the economy see e.g. UNECE, 1997, pp. 4–5, for the privatisation processes in the housing sector see Hegedüs, Mayo, and Tosics, 1996). East-central European countries differ from each other regarding the methods used for privatisation of the economy, ranging from employee and management buy-out schemes through voucher systems to cash privatisation. Also the magnitude and the speed of the changes were very different: besides some quick-privatizer countries in some others the restructuring processes went on considerably slower. It is clear that both the method and the pace of privatisation were politically determined and heavily influenced by those strata of society who could become the winner of the changes.

This statement can easily be illustrated on the case of housing: taking the example of Hungary and Budapest, more public rental housing could have been kept instead of virtually privatising everything; the transformed housing sector could have worked well with a substantial public rental sector (Hegedüs et al., 1993). Under the pace of political changes, however, in Hungary these alternatives were soon swept away and replaced by the more radical, more market-orientated solution, with mass give-away privatization to the sitting tenants. As a result, the share of the public rental sector decreased from almost two-third (early 1980s) to as low as 6-7 percent. In the course of this process also most of the units on the large housing estates have become privately owned. Prefabricated buildings turned in that way into condominiums, decisions on management and renewal went over to the association of the owners. This new, individualized system works well in the better areas of the city, however, in many large housing estates the problems are culminating. (Erdösi, et al, 2003).

In the east-central European countries the transition period has more or less been finished by the end of the 1990s, i.e. these countries turned into functioning democracies and free-market economies well before the accession to the European Union. It is worth to mention, however, that the specialities of the socialist development period have not been disappeared in the course of the post-socialist transition. Just the contrary: in some regards the problems inherited from the socialist period have been deepened during the transition. This can be observed at least in the following areas, which serve as “case studies” for this paper:

- the elimination of the middle tier of government resulted in uncoordinated territorial development and urban sprawl around the larger cities
- the transfer of responsibility for public transport from central to local level and the decrease of central state subsidies resulted in mounting problems and the decrease of the quality of public transport
- the large-scale privatization of housing resulted in individualized responsibility for management and maintenance, with growing problems especially in those areas (e.g. large housing estates), which would need coordinated redevelopment with public support.

Post-socialist countries arrived with this heritage into the European Union in May 2004. In the next chapter the structural policy of the EU will be analysed, with special regard to the question, to what extent this policy was prepared (if at all this aspect was taken into account) to handle the special problems of the candidate countries.

3. The structural policy of the European Union and Eastern Enlargement

3.1. Milestones in the structural (cohesion) policy of the European Union

The development of European Cohesion policy can be analysed and evaluated from different angles. In the following we will compare the ‘official’ view with that of a critical analysis. Before going into the details, the first difference can be discovered already in the terminology of the subject matter: in the Commission documents the official name is ‘Cohesion policy’, while the critical analysis (Tarchys, 2003) is using the term ‘Structural policy’, with the explanation, that convergence and cohesion might be the outcomes of this policy but this is not at all sure, and should be analysed, not taken for granted.

3.2. European cohesion policy: the view of the Commission

The aim of the policy on economic, social and territorial cohesion is to achieve balanced development of the Union as a whole with reducing disparities and acting as catalyst for the development (DG Regio, 2003). Cohesion policy is the basis for solidarity, underpinning the European model of society, empowering Europe’s countries, regions, economic and social partners to plan their development over the longer term.

Cohesion policy is constantly evolving since 1957, the Treaty of Rome. The timetable of the main stages of the development of Cohesion Policy between 1957-2003 can be summarized as follows:

- 1957: The countries signing the Treaty of Rome refer in its preamble to the need "to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions".

- 1958: Establishment of two solidarity Funds: the European Social Fund (ESF) and the European Agricultural Guidance and Guarantee Fund (EAGGF).
- 1975: Establishment of the European Regional Development Fund (ERDF) to redistribute part of the Member States' budget contributions to the poorest regions.
- 1986: The Single European Act lays the basis for a genuine cohesion policy designed to offset the burden of the single market in the southern countries and other less favoured regions.
- 1989-1993: The European Council in Brussels in February 1988 overhauls the operation of the solidarity Funds (now the Structural Funds) and allocates ECU 68 billion to them (at 1997 prices).
- 1992: The Treaty on European Union, which came into force in 1993, designates cohesion as one of the main objectives of the Union, alongside economic and monetary union and the single market. It also provides for the establishment of the Cohesion Fund to support projects in the fields of the environment and transport in the least prosperous Member States.
- 1994-1999: The Edinburgh European Council (December 1993) decides to allocate almost ECU 200 billion (at 1997 prices), one third of the Community budget, to cohesion policy. Alongside the Structural Funds, a new financial instrument for fisheries guidance (FIFG) is created.
- 1997: The Treaty of Amsterdam confirms the importance of cohesion and includes a Title on Employment which stresses the need to work together to reduce unemployment.
- 2000-2006: The Berlin European Council (March 1999) reforms the Structural Funds and adjusts the operation of the Cohesion Fund. These Funds will receive over €30 billion per year between 2000 and 2006, i.e. €213 billion over seven years. The Instrument for Structural Policies for Pre-accession (ISPA) and the Special Programme for pre-accession measures for agriculture and rural development (SAPARD) complements the PHARE programme to promote the economic and social development of the applicant countries.

This presentation shows cohesion policy as a gradual, step-by-step establishment of the European Social Model. The Commission also emphasizes the innovative character of the policy, which has been developed on the basis of the multi-annual planning practice of multinational firms.

3.3. European structural policy: a critical analysis

Daniel Tarschys, professor in political science at Stockholm University (previously Secretary-General of the Council of Europe in Strasbourg) offers a quite different political archeology of structural policy. In his opinion the development of European Structural Policy is far from being a straightforward process of approaching well expressed cohesion aims.

On the basis of the overview of policy development between the 1950s and 2004, his arrives to the statement that from the beginning European Structural Policy “has been the flexible companion of other, more inflexible policies. If a demand linked to the fair distribution of burdens or benefits appeared in a field where a fragile compromise had been arduously cobbled together, the solution would not be to undermine this agreement by supplements or exceptions but rather to arrange for a suitable compensation somewhere else ... the domain of Structural Policy. From its very outset, this policy area has been a haven for side payments related to other aspects of European integration.” (Tarchys, 2003:9)

Another key characteristic of EU Structural Policy in Tarchys’ opinion is that “... the various compensatory measures integrated into it have often outlived their original rationale. The situations in which particular side payments were invented or agreed upon were often linked to specific and time-limited arrangements, but as the accompanying transfers were given a more enduringly valid justification, they often struck roots and became very sturdy ingredients in the policy flora.”

The study gives a comprehensive overview of “... a number of particular situations in which threatening conflicts of interest were handled through the invention of new distributive instruments, techniques and justifications.” With the listing of some of these quite a different ‘policy-development process’ can be seen:

- to subsidize mobility from labor intensive Southern Italy to core German and French industries (late 1950s) was the task of the Social Fund established through the Rome Treaty in 1957.
- in the course of the negotiations about the accession of the UK (1973) it was clear that the CAP would lead to considerable net losses for the UK. As it would have been very difficult to re-negotiate the rules of CAP, the British suggested a different solution, the introduction of a supplementary policy in support of weak regions and regions with an antiquated industry. This was accepted – for various reasons – by the other Member States and the first Commissioner with particular responsibility for regional policy became a British person.
- the Integrated Mediterranean Programme (1985-92) to diversify the South European economies to ease the tensions developed around the accession of Spain and Portugal to the EU: Italy, Greece and southern France was concerned about a decrease in the competitiveness of their regions and got as a compensation money for economic diversification.
- North South tensions on CAP: to compensate Spain and Portugal for their losses on the northern profile of the CAP, further supports were given to poor and peripheral parts of the EU
- The Internal Market (1987-92): to achieve a deeper form of integration, more help should be given to lagging countries, in the form of doubling the resources devoted to Structural Policy (richer MSs accepted this in the hope of benefits from the internal market)

- The Monetary Union: in order to ease the adjustment of the poorer countries, substantial increase of structural transfers was accepted, with the introduction of the Cohesion Fund (1993). This was addressed to the poorer countries (not regions), enabling them to meet the convergence criteria. This tool was intended to be temporary, and on the request of the Northern countries, the aims of the money became determined (half for environmental investments, half for the development of the trans-European transport network).
- The Northern enlargement: in order to get the rich countries into the EU their special request for subsidizing their sparsely populated areas (which did not fit into the usual definition of lagging regions) had to be accepted
- Agenda 2000: the reform of Structural Policy with the aim of simplification and concentration, with limited results
- The Eastern enlargement: the entrants could set no strong conditions and had to agree to strict phasing-in arrangements.

In summary, this analysis argues that structural policy changes with all waves of enlargement. The changes do not show into a conceptual direction, they can rather be seen as compensations (within the more flexible structural policy) for the pains to adapt to the totally inflexible and skewed rules of CAP. Structural measures are not only ad-hoc but they usually outlive their original justification and become part of the main body of regulation.

4. The Eastern enlargement

4.1. The preparations for enlargement

Plans for the Eastern enlargement changed significantly over the years. First only the relatively larger countries (Czech Republic, Hungary, Poland) were the candidates, later, at the end of the 1990s this group has been extended with Slovakia, Slovenia and the three Baltic States. Thus the 2004 enlargement – including also Cyprus and Malta – became a real “big bang”, raising the number of EU countries from 15 to 25.

Preparatory analyses of the EU made it clear that the Eastern enlargement is not only different from the previous ones because the biggest number of countries aimed to join the Union, but also because this enlargement had to face the largest problems regarding economic, social and spatial cohesion.

After long discussions in March 1999, at the Berlin European Council, the Heads of Government or States concluded a political agreement on Agenda 2000. The new financial framework for 2000-2006 enabled the EU to meet the main challenges, in particular enlargement.

The Second Report on Economic and Social Cohesion (2001) called the eastern enlargement as one of the biggest challenges towards the economic development of the EU, together with globalization and the information revolution. With the accession of relatively poor countries the disparities between the countries and the regions were growing, with a doubling of the regions and population lagging behind.

The basic data can be summarized as follows (DG Regio, 2003). While the EU25 has 20% more in population and 23% more in surface area (compared to the EU15), the GDP grows only by 4.8%, which means that GDP per head decreases by 12.4%. In EU-15, some fifty regions, home to 22% of the Union's population or some 83 million inhabitants, have a GDP below 75% of the EU average and they receive 70% of the funding available ("Objective 1"). Between 2004 and 2006, a further 73 million people in the new Member States will be covered by this category. The gap in GDP per head between the 10% of the population living in the most prosperous regions and the same percentage living in the least prosperous regions more than doubles, as compared with the situation in the EU-15. Based on the new GDP average in the enlarged EU, 116 million people - representing some 25% of the total population - lives in regions with a GDP per head which is below 75% of the EU average, as compared with 68 million people, or 18% of the total population in the EU-15.

There are further interesting data on the difference in the level of development between the old and the new Member States in the Third Cohesion Report. The density of the motorway network is in the new Member States below 20% of the EU-15 average. For comparison: the lag in development of the cohesion countries around 1991 was much smaller, they were at 80% of the EU average (today, as a result of the Cohesion Fund investments concentrating on Spain and Portugal they are 10% above EU-15 average). The state of the railway reflects also decades of neglect in the new Member States.

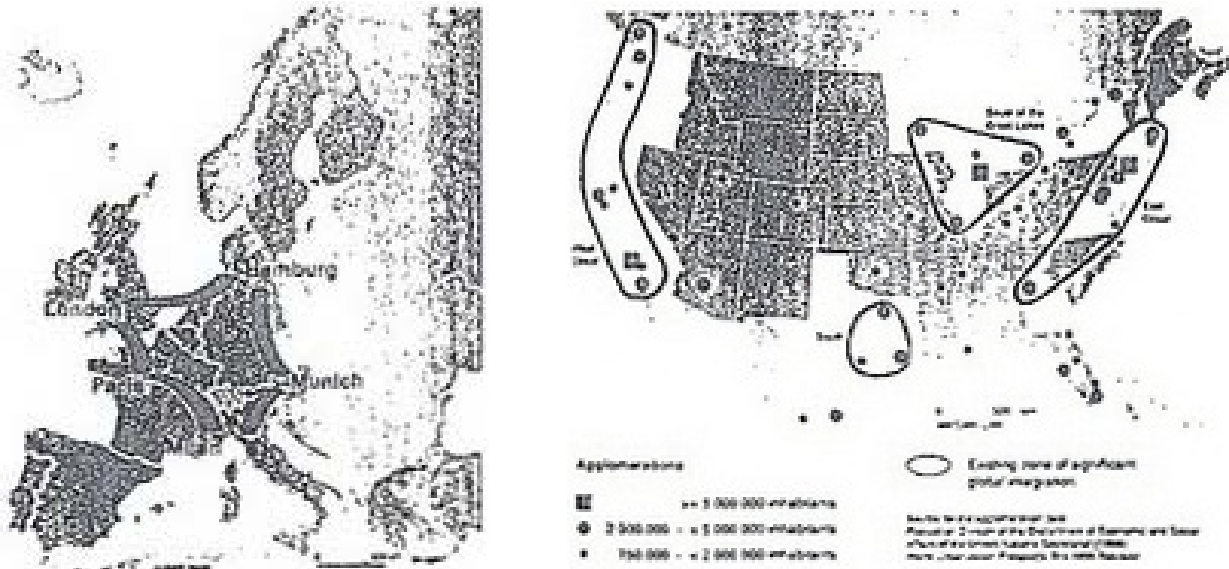
Besides economic and social challenges, there are also new facts to take into consideration regarding territorial cohesion. The "Pentagon" (the area marked by a Pentagon with the cities of London, Paris, Milan, Munich and Hamburg) concentrates 18% of EU15 territory, while 41% of population, 48% of EU15 GDP and 75% of expenditure on R&D (Bennett, 2004:13). In this central area productivity is 2-4 times greater than in peripheral areas. The situation worsened with the enlargement, as a new, eastern periphery has been added.

According to the Third Cohesion Report (EC, 2004:XII), 8 of the 213 NUTS 2 regions in EU-15 account for a quarter of total R&D expenditure, while 31 account for half.

The spatial structure of the EU, with its only one global economic integration zone is significantly different from that of the US, where 4 distinct zones of economic integration of international significance can be identified (West Coast, South, East Coast, South of the Great Lakes). Fig 3.

All these data show that spatial imbalances were already high in the EU-15, and they even grew with the enlargement. To combat these disparities, to achieve coordination of development policies, the European Council adopted in 1999 the European Spatial Development Perspective. The ESDP, with polycentric urban development as central priority, had the potential to become an important tool, although it remained only a non-binding policy.

Fig 3. Images of decentralization in Europe and in the US
 Source: Faludi, 2002.



4.2. The outcome: the conditions for enlargement

As Tarchys (2003:4) puts it, there are big differences between the enlargements in 1995 and in 2004. In 1995 significant concessions were made to the three rich countries (Austria, Finland, Sweden), while in 2004 nothing similar happened in the case of the 8 poor east central European countries.

“The new Member States have not yet taken part in a complete budgetary round, but resource issues have been very much in focus during their accession negotiations. ... As they are introduced to distribution mechanisms built up by the Old Member states, the new arrivals cannot fail to note a number of features favouring the original architects. An example of this is the specific “absorption ceiling” introduced by the 1999 Berlin Council, limiting Structural Policy benefits to any country from the EU budget to a maximum of four per cent of its GDP.”

It is clear, that this ceiling is very unfavourable for the new Member States, especially for those with the lowest GDP levels. There was an almost unanimous request from the new MSs to change this ceiling, but this was not accepted. Similarly, neither of the other, more specific requests of the countries (e.g. changing the total exclusion of housing from the list of eligible areas, loosening the very strict N+2 rule) has been accepted.

The lack of fair and equal treatment can also be seen in the level of support for structural policy and for agriculture. Regarding structural policy: in the EU-15 the amount of Objective 1 subsidy in the 2000-2006 period is 217,4 eur/capita/year (EC, 2004:180). The same amount for the new Member States for the 2004-2006 period is 68,8 eur/capita/year (EC, 2004:186, own calculations). This means that the newcomers started with less, than one third Structural Fund support, up till 2007, when this difference will disappear. The situation is even worse in agriculture policy, where the starting level was 25%, and the full equalization will only be achieved in 2013.

5. Present debates and future policy options for cohesion

5.1. Alternative approaches to influence European development

Observers may distinguish between two new developments in the EU approach to European development in the first decade of the new century. The first of these is closely connected to the increase in spatial disparities due to Eastern enlargement of the EU and aims to bring the aspect of territorial cohesion to equal level to that of economic and social cohesion. The other is connected to the global economic competition and aims to achieve an increase in the competitiveness of the European Union as a whole. Although the phrasing of these approaches might sound quite similar (both want to achieve the increase of economic potentials of Europe), in practice these lead to quite different suggestions for practical policies.

5.2. Cohesion policy in the light of growing spatial disparities within Europe: aiming for convergence

The meaning of territorial cohesion is highlighted in the following way in the Third report on economic and social cohesion: ‘... people should not be disadvantaged by wherever they happen to live or work in the Union.’ (EC, 2004:27) The aim of the of territorial cohesion policy is to achieve ‘a more balanced development by reducing existing disparities, avoiding territorial imbalances...’.

The response of the Commission on the growing spatial disparities within Europe is set out in the Third Cohesion Report in the proposal for a reformed cohesion policy. Based on a preliminary decision for the budget of the enlarged Union for the period of 2007-2013, three priorities have been defined, out of which most financial resources have been allocated to the Convergence priority, with 78% of the Structural Funds resources. This would mean that most of the financial support would be used to promote the development of lagging regions (with a GDP/capita below 75% of EU average) and their integration in the single market, principally through the development of infrastructure, human capital and administrative capacity. Besides, the Regional Competitiveness and Employment priority would get 18% of the Structural Funds resources, opened for all regions not eligible for the Convergence priority, aiming on investments to strengthen the Lisbon and Gothenburg agendas, creating a competitive, knowledge-based sustainable economy.

From this brief overview it can be seen that the Commission’s proposal concentrates most of the resources on the regions of greatest need. The level of concentration has been increased, as the proposed of 78% of Structural Funds resources shows a greater concentration than the 2/3 of resources which were given to Objective 1 regions in the recent programming period.

5.3. *Alternative suggestion in the light of sluggish economic performance of Europe: aiming for competitiveness*

According to the decisions taken at the 2000 Lisbon Summit, the EU wanted to become by 2010 the most competitive and dynamic knowledge-based economy in the world. In 2004 the midterm review, however, has pointed out that there are serious problems hindering the EU to achieve these ambitious goals. The analysis (see e.g. CSG, 2005) has shown that

- the economic performance of the Union remains disappointing, the gap in GDP per capita between the European Union and its major competitor, the United States, is not narrowing
- the overall employment rate, at 63% of the working age population, remains well short of the Lisbon target of 70% by 2010, the fulfilment of which would need the creation of 22 million new jobs
- overall R&D expenditure at 1.9% of GDP remains well short of the Lisbon target of 3%
- many member states did not manage to come closer to the fulfilment of the Kyoto agreement targets.

The Lisbon Strategy presumed a growth rate across the EU of 3%, while in the first half of the decade the actual growth rate has been around half of this. This in itself could be an explanation, why the whole Lisbon agenda is in difficulty.

The Kok report (Kok, 2004) suggests a number of changes in order to speed up the fulfilment of the Lisbon Agenda (although it also makes clear that some targets might not be achieved by 2010): advance the knowledge society, encourage research and researchers, complete the operation of the EU internal market, encourage entrepreneurship and remove obstacles to entrepreneurship, build an inclusive labour market, emphasise employment rather than welfare, boost energy efficiency technologies.

The 2005 Spring European Council decided that there should be national action plans prepared how to achieve progress in these aims.

5.4. *Another alternative: aiming for cohesion*

The Third Cohesion Report, published in February 2004, emphasized the important contribution of cohesion policy to the fulfilment of the Lisbon goals, „... especially in those regions where there is unused economic and employment potential which can be realised through targeted cohesion policy measures, so adding to the growth of the EU economy as a whole.” (EC, 2004:36)

The approach of the Commission was, and still is, based on the notion of economic convergence. According to the analysis of Tarchys (2004:32-40) convergence means closing the gaps between various regions, countries. The justification behind measures for convergence are usually based on the idea that economic growth affect regions unequally, thus poor regions (countries) with one-sided economic structure need support.

However, the effect of Structural Policy on convergence is not at all clear, according to Tarchys. There are five ways to measure the disparities between regions, based on income and production: GDP per capita at exchange rates, GDP per capita at purchasing power standards, GDP per capita at regional purchasing power standards (in Germany 12% difference exists between the most and least expensive regions), GDP per capita at regional purchasing power standards adjusted for taxes, transfers and other public expenditures (as EU contributions should not replace national subsidies but supplement them, national equalization measures should be taken into account), individual disposable income (including private capital flow e.g. from emigrants).

Structural policy applies the second indicator, i.e. it is based on measuring the inequality in production (excluding the regional differences and the effects of national and private transfers). It would be far better to base this policy on the measurement of the inequality in consumption, as the gaps between regions in consumption levels, living standards are only around the half of the disparities in production levels.

Production measurements show narrowing of the gaps between the countries. However, this does not mean narrowing the gap in other measures (e.g. unemployment might increase in poor areas with modernization, increase in productivity), neither similar decrease in disparities between regions (global convergence goes hand in hand with local divergence, on national level regional gaps are growing, on EU level decreasing). Moreover, it is not at all clear, whether a narrowing of the gaps is really the consequence of cohesion policy. The narrowing of the gaps between the countries can be caused by long-term economic forces, national policies, other EU policies, EU Structural Policy. The effect of the latter can not be calculated, and there are contradictory estimates corresponding to the use of different methods.

According to Tarchys, structural policy should aim for more cohesion. This is the code-word of the social part of the European integration programme, counter-balancing the liberal, market-oriented elements. Cohesion is broader, than economic convergence: it means integrative functions, without which the result is disintegration.

- Economic cohesion (high degree of mutual economic interdependence is the key for normal functioning of market-based societies, therefore social peace is important)
- Social cohesion (welfare capitalism: there is a mutual dependence between economic growth and the increasing provision of collective goods and services)
- Cultural cohesion (national solidarity as prerequisite for the welfare state and the extension of the public sector)
- Political cohesion (democratic institutions, compulsory schooling, civil society: similar concepts of citizenship and of solidarity across the European countries)

Nation states achieved much higher level of cohesion than the EU, where only economic cohesion is well advanced. Growing sense of solidarity and greater sense of community is needed for the elaboration of common policies, acceptance of common standards. The short-sighted defense of national interests block further progress towards European co-operation and unity.

Increasing economic convergence might contribute to cohesion. But it is not sure that this is the best, the most efficient way, it is not sure that Structural Policy in the economic and social sphere promotes the most cohesion. To achieve real cohesion the cultural and political aspects have to be given more attention than recently.

6. Different interests for the future shape of EU structural policy

6.1. Supporters of the concurring ideas of convergence, competitiveness and cohesion

In the debates about the future of cohesion policy the concurrent ideas mentioned above can easily be traced. For example, in the summary of the 17 February 2003 meeting with Commissioner Barnier (europa.eu.int/comm/regional_policy/debate) the discussion points of the phasing-out, ultra-peripheral, etc. regions followed the convergence logic, while other organisations were arguing in different ways. The three alternative aims for future EU Structural Policy and their supporters can be illustrated as follows:

- Convergence (to help the economically poorest regions), supported e.g. by Swedish and Finnish sparsely populated regions, Castilla y León, EIRA, Madeira,
- Competitiveness (to support the engines of growth, the knowledge and innovation centres, and increasing employment, while counterbalancing inequalities), supported e.g. by Eurocities, Vienna .
- Cohesion (to help integration in economic, social, cultural, political sense), supported e.g. by AER, EURADA-CRPM

In most cases the position of the different organizations is determined by their direct financial interest: they argue for that option, from which their financial gain could be the highest.

6.2. The position of the new member states

From the first chapter, the overview of the special development path of the central-east European countries and cities it is clear, that in this part of Europe special problems and needs prevail, which are already solved in many of the EU-15 countries. The backlog is the largest in infrastructure: the rail and motorway networks, the urban transport systems, the sewage installations, the large housing estates, etc. would all need large investments. For all these reasons the new Member States are interested in a strong (financially well established) EU cohesion policy, based mainly on the criteria of convergence. Their usual arguments can be summarized as follows.

The budget available for structural interventions during the next planning period must be in line with the new realities of an enlarged Union with larger disparities. Therefore, however hard the budget discussions may be, the goal of cohesion must be considered as priority. Closing the development gap means concentration on the less developed areas. The allocations for this objective, as defined in the Commission proposal, should be fully supported.

Some of the new Member States are facing a special problem with their capital city region. Being the seat of almost all companies of the country, these regions show high level of development, according to the production-related measure of GDP/capita. Due to this, these regions (Prague, Bratislava, Budapest) are or will lose the “lagging behind” status, which means that they will not be entitled for EU support for infrastructure development, despite the fact, that their infrastructure is far from that of similar cities of the EU-15.

6.3. Interests on the regional and local level

In the EU the regional and local level has only limited say in the establishment and implementation of Structural Policy. International organisations fight very hard to gain power for the regions and for the local governments. The arguments formulated by Eurocities (the interest organization of cities over 250 thousand population) to strengthen the position of the larger cities serves here as illustration.

Eurocities argues, on the one hand, for a strong and binding (compulsory) urban dimension in the Structural Fund regulation. Cities play a vital role to increase economic growth and competitiveness of their greater region and also in most cases the whole country. For many years, the EU Structural Funds have played a key role in contributing to the development and regeneration of Europe’s cities and urban areas. However, despite valuable initiatives such as the URBAN programmes, a genuine urban dimension has not been included in the current European cohesion policy. The draft Structural Funds regulations (July 2004) introduce for the first time a mainstreamed urban dimension. Cities across Europe welcome this strengthened focus on cities, they remain worried, however, as the practical outcome of this new approach depends on the national governments. Eurocities is arguing for fully involving the cities in partnership: it is essential that city authorities, as part of administrative and institutional systems, be closely involved in the various programming stages.

On the other hand, Eurocities is worried about the Lisbon approach, having the potential effect to push-back territorial policies (smaller budget for territorial issues, larger share for economic and technological development). Although there is no unanimous view among Eurocities members on the size of EU budget, Eurocities argues against renationalisation of cohesion policy, and is worried about the tendency that the Commission now seems to take more attention on countries than the regions, considering regional problems as internal problems of the country.

7. The translation of principles into practice: the debates about the post-2006 structural policy

The July 2004 draft Structural Funds regulations of the Commission is getting support from the European level bodies. According to the European Parliament no less, than 0.45% of GDP should be devoted to a strong, inclusive cohesion policy and sustainable development, promoting regional cohesion and the polycentric, harmonious and balanced development of the Union. The European Economic and Social Committee (ECOSOC) goes even further, with a claim to raise the 0.45% ceiling, allowing for special resources to overcome the statistical effect. It is no surprise, that the Committee of the Regions (COR) also supports the continuation of the cohesion policy.

There are, however, many critical voices. The loudest of these are coming from the richest countries, the net contributors to the EU. These six countries argue for a radical reform of Cohesion Policy, based on the following elements: decreasing the financial background for Cohesion Policy, and renationalising it, i.e. giving much more role for the own considerations of the countries, leaving EU policy addressing only added value. The background philosophy of this standpoint is based on limiting the scope of convergence, while increasing the emphasis on competitiveness, in line with the Lisbon and Gothenburg agendas.

The view of Tarchys is not very far from this approach. He also criticizes the present form and regulation of Structural Policy, for paying too much attention to the convergence criteria. Besides, in his view this policy suffers from a 'goal congestion'. To fulfil the Lisbon strategy and the Gothenburg conclusions, thus raise productivity and competitiveness while promote full employment, social cohesion and sustainable development is simply too much, the too many tasks squeezed into the Structural Policy makes it inefficient.

Tarchys mentions three options for the post-2006 Structural Policy.

- Renationalization (already mentioned above): a shift back to greater national responsibility would allow for a more flexible adaptation of regional policy to the particular needs of each country. The loss of the European dimension might be avoided by stricter enforcement of the "European value added" criterion in the selection of programmes and projects.
- Reallocation: reallocate Structural Policy resources within the EU budget to other important needs, topical priorities (e.g. Common foreign and Security Policy, or EU support to the immediate neighbouring countries).
- Radical reform: abandon convergence and focus on cohesion, as convergence does not contribute to overall growth, territorial equalization does not solve other types on inequalities. A genuine cohesion policy is more than transport and environment investments, it can not even be reduced to "economic and social cohesion". To achieve cohesion in economic, social, cultural and political sense, subsidies to investments with local effects only, with no European value added and no outreach to other countries should be stopped. Instead, the trans-European transport network, the environmental protection measures, institutional development to reach European standards should be supported. More support should be given to exchange and mobility programmes facilitating trans-national meetings between groups and individuals, for efforts to enhance the awareness of the common European heritage and common policy problems, and for supporting pluralism and diversity in education, culture, mass communication.

According to Tarchys, a broad internal reform of Structural Policy is needed, replacing the objective of convergence with the goal of cohesion. The building of the Citizens' Europe, by promoting trans-national interaction and forging a stronger sense of community and solidarity within the EU, would be in his view a change of similar importance to the earlier big steps towards European Integration (1950s: the establishment of Common Market, 1980s: the establishment of the Internal Market, 1990s: the establishment of Monetary Union).

8. The future of EU structural policy (conclusions)

The future of the EU Structural Policy depends on the clarification of the aims of this policy and on the link between the aims and the tools which enable the fulfilment of the aims. Both aspects are in Spring 2005 – less than two years before the beginning of the programming period! – heavily debated, with no easy compromise in view. The clarification of the aims and tools is all the more difficult as the basic agreement on the size of EU budget is still under debate.

The choice has to be taken between three concurrent ideas, that of convergence, cohesion and competitiveness. Unfortunately, there is little debate in general and on theoretical level on these, very different, ideas. Instead, most stakeholders argue exclusively according to their short-term, direct financial interests.

At the moment there seems to be a clear support (backed by financial interests) for the convergence and for the competitiveness ideas. The outcome might only be – like always in the history of the Union – a clever compromise between these opposing ideas, including also the third idea, that of cohesion.

The key question for the future is, how can Europe avoid that growing competition brings less cohesion and less sustainability? In the opinion of many analysts this can only be avoided by a clever mix of ideas and policies. This mixture has to be developed by the Commission, taking into consideration the interests of groups of countries with sharply different positions.

The new Member States of the EU are in a special position. In these countries infrastructure development was very low priority during the decades of socialism. As a consequence, these countries and regions need basic infrastructure developments (building of rails, roads, etc) first, before being able to start a real competitiveness agenda (knowledge economy, etc.). No wonder, that these countries request the continuation of the present policy, sharply opposing the renationalisation of Cohesion Policy (as the 'added value' element of that would turn into subsidization of poorer countries which at any time can easily be eliminated).

The (neo-)liberal economic policy, large-scale privatization and decentralization in the new Member States might lead to two, very different scenarios. In the first scenario these countries will (with the success of their economic policies) show the development direction also for the 'old' Member States towards a liberalized economy. As a first sign of such a development many analysts consider the simple, flat taxation systems of the central European countries as a success, which should also be introduced in the western countries, replacing their over-regulated, complex systems. In the second scenario the growing environmental and social problems in the new MS-s will result in a push from their side towards the development of stronger EU-wide policies, e.g. for a joint EU strategy for the cities (in other words for a vision on European urban development), or for an EU policy on the access to social rights.

Central and eastern European countries and cities are still preserving some European values (e.g. high share of public transport, culture-sensitivity). These values might easily get lost in the first scenario, when future development is one-sidedly dominated by free-market considerations, and cohesion policy simply means competitiveness orientation. The second scenario would offer more chances to preserve the original values. To achieve that, there is a need for a new, reliable, transparent public sector to be built up (including also the development of a cooperation-creating sub-national, regional administrative layer) in these countries, by the help of strong EU policies, based on convergence and cohesion type considerations.

For the moment it is not clear, which scenario, which version of European cohesion policy will dominate the future.

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