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Vehicle for modernization in trouble. How the eurozone crisis have changed cohesion policy

Introduction[1]

In the years 2010–2015, the Economic and Monetary Union (EMU) experienced serious economic and political problems that seemed to threaten its very existence, and that naturally led to significant institutional transformations and triggered changes in management methods. The eurozone crisis affected the entire European Union, influencing both its formal and informal functioning. Scholars point out e.g. to an increase of intergovernmental management during the crisis, and to the strengthened role of the largest member states (Bickerton et. al., 2015; Fabbrini, 2015; Hodson, 2011; Puetter, 2012; Dinan, 2012; Chang, 2012). Another important change was widening the mandate of the European Commission (EC), albeit without increasing its political autonomy in relations with intergovernmental institutions (Copeland and James, 2014). In addition the political role of the European Parliament (EP) clearly weakened during the crisis (Fasone, 2014). Processes of differentiated integration also gained more momentum: that tendency can be seen in the ever-growing chasm between the eurozone and the rest of the EU – a division that is often referred to as "two-speed Europe".

The main question that this article purports to answer is whether the said crisis and the related political and institutional changes affected the cohesion policy, the main instrument of socio-economic modernization in less developed countries and regions of the EU. This question is all the more compelling, if one takes into account the fact that the common currency crisis coincided with the period of preparation of guidelines and regulations for the cohesion policy for the next budget cycle (starting after 2013). It also coincided with the process of negotiations of the next multiannual financial framework for the EU (for years 2014–2020).

The methodology of this study is based on an assessment of extant EU sources and documents coming from member states, a survey of literature on the subject and interviews with more than a dozen decision makers in the EU and in different member states. The decision makers selected for in-depth interviews can offer a privileged insider's view, as they have observed (often over the course of many years) the behind-the-scenes processes that shaped the cohesion policy and influenced its implementation. The interviewees are current and former employees of the EU Council, the European Commission and the European Parliament, or they worked for the national

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or local government, where they collaborated with the European institutions in the preparation or implementation of cohesion policy.

The influence of the crisis on the cohesion policy

The eurozone crisis reinforced the tendency to limit European finances, including funds earmarked for cohesion policy projects. Although this trend had also been visible earlier, the crisis strengthened the arguments of the largest net contributors to the European budget, who wanted for their contributions to be reduced. The need to introduce austerity measures in most EU countries, resulting both from economic problems and from the recommendations of the EU itself, increased the richest countries’ pressure to reduce the scale of European funding. The resulting situation can be called a crisis of solidarity – and it has to be remembered that the principle of solidarity was the basis for the distribution of EU funds up to this date. One of the most important consequences of protracted difficulties in the eurozone was the increasing reluctance of the wealthiest countries in the EU to cover the costs of the crisis for the more vulnerable economies. Negotiations over the financial perspective for 2014–2020 happened in a particularly unfavourable time. The result was a significant reduction in the multiannual financial framework for 2014–2020 when compared to the previous period 2007–2013. All in all, the new framework shows a reduction of approximately 3.5 percent, calculated at constant prices for 2011 (Kölling, Leal, 2014, p. 10). It was the first reduction of such scale in the history of European integration. The volume of payments in relation to commitments was drastically reduced, and that led to a possible risk of not being able to finance all the EU’s obligations in the subsequent annual budgets. For example, at the beginning of the new perspective in 2014, the EU’s financial shortfall exceeded 23 billion. As a result, the Commission was not able to pay for some of the cohesion policy invoices at the end of 2014 and they had to be put off for another year (Toporowski, 2014).

The cohesion policy budget for 2014–2020 was reduced when compared to the previous perspective by more than 8 percent (Consilium, 2013). In addition, the framework of cohesion policy excluded the instrument for the implementation of infrastructure activities (transport, energy and telecommunications) of European dimensions, i.e. the so-called “Connecting Europe Facility”, despite the fact that part of its operation has to come from the cohesion policy budget. In the face of economic difficulties that are largely structural in nature, it would be necessary to increase the scale of public investment in Europe, in particular using the cohesion policy that is by definition meant to support structural changes and socio-economic modernization. Meanwhile, the crisis was being treated as a pretext to reduce the basic instrument for implementing this type of actions in the poorest and least developed countries and regions of the EU. Among the new Member States which joined the EU after 2004 (not including Croatia), only Romania and Slovakia have received larger allocations of cohesion policy in a new perspective when compared to the previous one (in fixed prices from 2011) (Fesus, 2014). The funding of this policy was significantly reduced for Greece, Spain, Cyprus and Portugal, to a lesser extent for Italy and Ireland, and namely for the

countries experiencing the greatest problems resulting from the destabilization of the euro zone.

Another consequence of the crisis was putting the funds of the cohesion policy (i.e. the European Structural & Investment Funds – ESIF) under much stronger supervision and oversight (McCann, Ortega-Argil, 2012). The initiator of this approach was the Commission seeing this as an opportunity to improve the effectiveness of cohesion policy. However, it was yet another example of the same trend that has been observed during the multiannual financial framework negotiations. The net contributors to the EU budget wanted to increase their control and eliminate irregularities in the spending of their payments. At the same time, they sought to ensure that the unspent funds (or funds misused by the beneficiaries) would return to the European budget, or even to the national budgets of net contributors (Interview 6/2014). This demand of the net contributors is evident in the conclusions of the European Council that were accepted after lengthy negotiations between the member states relating to the EU finances. “Financial instruments can only be implemented when they meet strict conditions”, and “the EU has the responsibility, through certain conditionalities, robust controls and effective performance measurement, to ensure that funds are better spent” (European Council, 2013, pp. 4–5).

As a result, the cohesion policy for 2014–2020 introduced the so-called ex-ante conditionality that outlines the necessary preparations and conditions which must be met in specific countries and regions before they start the implementation of the policy. The cohesion policy for 2014–2020 also introduced new stricter regulations for reporting and progress monitoring, not limited to financial indicators and output (the amount of funds spent and actions completed), but most importantly related to results (the so-called result indicators), that assess the impact of actions taken on the implementation of objectives and the improvement the socio-economic processes in a given territory (Regulation 1303/2013, Article 27). According to some interviewees, the aim of these new measures was to improve the quality of cohesion policy and make it more effective in fostering economic growth and increasing employment thanks to introducing necessary structural changes in individual countries’ economies, in line with the EU strategy “Europe 2020” (Interview 5/2014). For this reason, the decision makers increased centralization of cohesion policy programming at the European level, and identified a number of common objectives (the so-called thematic objectives) for policy funds. These objectives refer directly to the aforementioned EU strategy (Mendez, 2013, pp. 640, 644). Other EU instruments that are designed to influence the programme are the partnership agreements concluded by the European Commission and the government of a given country. Under these agreements, the Commission is obliged to enforce not only the thematic objectives in the EU countries, but also the ex-ante conditions, as well as a number of other conditions stemming from the European legal regulations or new economic governance procedures that are outside the framework of cohesion policy. Increasing the Commission’s oversight and monitoring can lead to an increase in red tape, which in turn might lead to difficulties in achieving the objectives and might create potential obstacles to the absorption of EU funds (Mendez, Bachtler, 2011; Porras-Gómez, 2014, pp. 183–184). Even the Commission has acknowledged that stricter control over the allocation of the budget during

implementation stage, a more rigorous approach to ex-ante financial controls, and the very complexity of European legislation (including, but not limited to the cohesion policy regulations) “may reduce the efficiency of EU spending” (European Commission, 2014a, pp. 10–11). The increase of centralisation in the field of programming will lead to making the programming process more rigid, pursuant to the wishes of the representatives of EU institutions. However, it will not always be best suited to local conditions and development needs (Interview 11/2014).

In the new budget cycle that started in 2014, a number of conditions was introduced into the cohesion policy. According to the sixth Cohesion Report – the new conditions are not directly related to the policy or to the ESIF’ modes of operation (such as those relating to taxation, fiscal frameworks, public finances related to pensions or health costs, regulatory reform of social security or internal market measures) (European Commission, 2014b, pp. 246–247). Even before 2014, the cohesion policy already played the role of a financial vehicle for the implementation of other EU activities, such as the environmental policy (Argüelles, Benavides, 2014). The same mechanism was observed when new anti-crisis measures were introduced during the eurozone crisis. These were primarily connected to the requirements of the so-called European Semester, that focused on the compliance of the member states with the fiscal criteria (especially the excessive deficit procedure), and the implementation of their respective structural reforms and macroeconomic adjustments. It should be noted that these conditions apply to both the eurozone (as they stem from aid rules outlined in the European Stability Mechanism) and all other EU members. Significantly, any failure to comply with these obligations, even though they are external to cohesion policy, can result in suspension of funding from the ESIF.

According to some interviewees, this means introducing a completely new cohesion policy rationale, associated with the anti-crisis measures implemented in the euro area (Interview 11/2014). The new rules put emphasis on budget savings and the necessity to make difficult reforms, primarily reforms in the public sector that would reduce the strain on national budgets. These reforms are in line with the new rationale that came to the fore during the crisis, which is meant to eliminate the problem of excessive public debt and fiscal imbalances. The threat of suspending of payments from ESIF is supposed to be the most important instrument in order to discipline the member states in the matter of implementation of the policy objectives. However, such actions are far removed from the strategic priorities of cohesion policy and in fact are related to a different European policy. The new measures also violate the cohesion policy objectives specified in the treaty, because instead of contributing to the cohesion in Europe they may actually hinder the weakest countries and regions from catching up with the more developed ones (e.g. as a result of the suspension of European aid). In addition, the emphasis on budgetary austerity pushes the decision makers in a totally opposite direction than the investment policy that requires funding from national budgets. In view of the fact that the additional conditions will be associated with new procedures and bureaucratic burdens, it might unnecessarily hamper the implementation of the cohesion policy and reduce the absorption of its funds (Grosse, 2012).

Another effect of the crisis was the allocation of additional financial resources for cohesion policy for the period 2014–2020 for the countries affected by economic prob-

lems, especially the weakest eurozone countries (European Council, 2013, pp. 19–20). Additional form of assistance was the reduction of the obligatory level of national co-financing for projects during the crisis, as well as the reallocation of unused funds for individual countries. In both cases, the main beneficiaries of the Commission’s actions were Ireland, Portugal, Greece, Italy, Spain and Cyprus – in short, the countries that were the most affected by the common currency crisis (European Commission, 2014b, p. 209). These actions were mainly *ad hoc* measures meant to stabilize the economic situation in the problem countries (Interview 11/2014). It means that the cohesion policy was in fact used as an instrument of counter-cyclical (or even *ad hoc*) fiscal action. Such use of the policy deviates from its primary mission of cohesion policy as a tool for socio-economic modernization and structural change in the long term perspective (Adel, Zaucha, 2014). It should also be noted that these forms of aid has not been fully compensating the lowering of the cohesion policy financing for individual Member States, compared to the 2007–2013 perspective (Fésüs, 2014).

An increase of intergovernmental or community action?

The cohesion policy is community action in nature, which means that all the European institutions (and not just the intergovernmental ones) are involved in its formation and implementation. When creating the EU law, including regulations that define the management of cohesion policy, the legislative initiative rests with the Commission, but decisions are taken by the EU Council and the European Parliament. At this stage, the role of the intergovernmental factor and the member states’ influence on the shape of policy (in terms of contents and organization) is the highest. At the next stage, when the cohesion policy’s regulations are implemented and the resources redistributed, the role of the Commission is much more prominent[2]. One could even venture to say that then the formal role of the Commission outranks that of the member states, as the Commission’s responsibilities include oversight and monitoring of the proper implementation of cohesion policy in the given countries. Has the economic crisis changed these tendencies?

According to the interviewees, the increased role of intergovernmental institutions during the crisis was most palpable in the period of formation of the multiannual financial framework for 2014–2020, which has a direct link to the cohesion policy (Interviews 6/2014, 11/2014). The role of the European Council was especially increased during this process, even though the Council has no formal legislative powers. Conversely, the Commission, although it has a formal right to legislative initiative, had a markedly subsidiary and supporting role (Interview 3/2014). The main players in the process were the intergovernmental institutions (the European Council and the Council of the European Union) and to a lesser extent the EP.

It is worth reminding that, in accordance with the Lisbon Treaty, the national governments are the main players with regard to determining the multiannual financial

[2] Andrew Evans distinguishes between the stage of intergovernmental procedures in cohesion policy, which relates primarily to definition of legislative and financial framework and the subsequent stage of organic procedures, coordinated by the European Commission and based on contracts with public administrations from the Member States. Cf. Evans, 1999, chap. 7, 8.

framework, at least in the opinion of some scholars (Schneider, 2013). During the negotiations related to the multiannual financial framework 2014–2020, the role of intergovernmentalism increased at the expense the Parliament’s powers. It related both to the treaty which served as the basis for these negotiations, and was also in some measure the result of the crisis, and especially of the pressure of some governments who were the largest contributors to the EU budget, and as a consequence were vitally interested in limiting the scale of EU funding. The MEPs’ negotiating position was weakened by the European Council, which, after difficult negotiations in its own midst, simply settled the most important decisions. The fairly short negotiations between the EU Council, the Parliament and the Commission upheld a substantial majority of the decisions taken by the heads of states and governments. The adjustments and additions were of secondary importance, and sometimes were only token gestures. On the two issues which were important for the Parliament, it proved impossible to change the intergovernmental decisions. The first issue was that the EP wanted to significantly increase the multiannual financial framework and go beyond the existing ceilings in the 2007–2013 perspective (European Parliament, 2012). The EP was however unsuccessful: the decisions of the European Council in fact decreased the long-term budget by nearly 4 percent, and the reductions in some financial categories were even bigger (for example, the cohesion policy and the agricultural policy funds). And the second major issue for the Parliament was the introduction of the EU budget revenue reform, which would consist primarily in reducing the member states’ contributions to about 40 percent, including the reduction of a number of rebates and exemptions granted to individual countries (European Parliament, 2012). Also in this case, the Parliament did not manage to obtain any concessions from the Council representatives, barring a vague promise of setting up a special team that would investigate the issue in question. It should also be noted that the financial package negotiated with European Council, which was supposed to reduce exceptions and inconsistencies, in fact introduces new rebates and exceptions for specific countries (especially for the net contributors). Furthermore, there is evidence that the member states attempted to limit the powers of the EP in an informal way during the negotiations of the 2014–2020 financial perspective. There are many examples of such actions, starting from the refusal to grant the MEPs access to certain documents, through attempts to scratch some topics from the negotiations agenda, to the inclusion of many legislative issues that should be included in sectoral regulations into the budget regulations. As the sectoral regulations and budget regulations are subject to different procedures, this change leads to limiting the Parliament’s decision-making powers (European Parliament, 2014).

In the process of developing non-financial framework of the cohesion policy for 2014–2020, the EP had much more say, since the regulations pertaining to these matters were adopted by the ordinary legislative procedure (formerly referred to as the co-decision procedure). The role of the Commission at this stage was that of an initiating and coordinating body. The Commission did not have decisive powers (Interview 3/2014). In the matters of shaping the programme and organizational frameworks, the Commission gave way to the member states to a lesser extent than in financial matters. Many of the Commission’s original proposals were approved by both the Council and

the Parliament (Interview 12/2014). It should be stressed however that at the initial stage of the Commission’s work, all its proposals were always consulted with national governments and representatives of the Council. The Commission also sought to get the support of the majority of member states for their proposals (Interview 5/2014). According to the interviewees, fundamental mechanisms of developing and adopting legislative measures in these cases were not changed during the crisis in comparison to previous work cycles of cohesion policy (Interview 2/2014). As before, the intergovernmental factor is of primary importance (even though its significance here is relatively much smaller than in strictly financial matters).

As I mentioned before, the European Commission’s role is growing at the stage of implementation. In addition, during the crisis, the European Commission was granted a number of new control and monitoring powers, which increased its official competences in management processes (Interviews 6/2014, 5/2014). This applies especially to the stage of negotiating partnership agreements with individual national governments, to the enforcement of ex-ante conditions necessary for the implementation of the policy in question, and the inclusion of fiscal and macroeconomic conditions into the policy. In this way, the competences of the Commission pertaining to the enforcement of regulations and conditions of cohesion policy were undoubtedly increased (Porras-Gómez, 2014). But was the autonomy of the Commission likewise increased, especially in relation to the intergovernmental institutions?

While discussing this question, the interviewees pointed out that in comparison to the previous period, the oversight of the intergovernmental institutions over the work of the Commission is increasing (Interview 5/2014, Marshall, 2014, p. 1489). The General Affairs Council is obligated to discuss the implementation and results of the ESIF once every two years. It is also set to receive appropriate information from the Commission that will make it possible for the Council to assess all EU policies and instruments whose aim is to deliver growth and jobs across the European Union (European Council, 2013, p. 36). The Commission was obligated to develop strategic reports for the Council that will track the progress of implementation of the said funds in 2017 and 2019, in order to provide for a meaningful political debate between member states (Regulation 1303/2013). This is directly connected to the subsequent decision of the EC to launch funds from the so-called performance reserves for the individual operational programs. Additionally, the final decisions regarding fiscal and macroeconomic conditionality monitoring are taken by the Council. This is particularly true with regard to suspension of payments for cohesion policy (Regulation 1303/2013, Article 23). According to some interviewees, the supervision of a comitology committee over the work of the Commission in the sphere of cohesion policy also increased. The committee in question is the coordination committee for ESIF (Interview 9/2014). The Commission itself mentions this tendency, when it complains about the rising supervision of the Council over the implementation of the cohesion policy, which, according to the EC, contributes to increasing the administrative burdens (European Commission, 2014a, p. 11).

All the above-mentioned examples lead to the conclusion that the crisis in the euro area favoured the increase of the formal powers of the Commission at the stage of implementation of the cohesion policy, and that it also strengthened the oversight of

intergovernmental institutions over the Commission’s work. This may mean that the increasing competences of the EC do not necessarily boost its autonomy from the intergovernmental institutions, and perhaps even from some member states. Some interviewees pointed out to the fact that the Commission’s controlling activities were more sustained with respect to the biggest beneficiaries of the cohesion policy, than with respect to the net payers to the EU budget (Interview 3/2014). This might mean that the Commission fulfils the expectations of the countries that contribute the most to the EU budget. We should remember that these expectations were voiced especially strongly during the crisis and the period of the negotiations of the multiannual financial framework as the biggest net contributors wanted to carefully control the expenses under the cohesion policy. In this way, the cohesion policy becomes a tool to achieve these countries’ political expectations. It can also lead to unequal treatment of beneficiaries and major “donors” of cohesion policy. Other interviewees confirm that after 2014, the Commission increased its involvement in the enforcement of European regulations including the use of new instruments of ex-ante conditionality, it was also more involved in the process of negotiating partnership agreements (Interview 7/2014). This was especially true in the case of countries that were politically weaker or acted passively in the face of the EC actions. Some interviewees also point out that pressure from the Commission often related to the absorption of funds and it may result in shortening their eligibility deadlines, thereby increasing the risk of reimbursement of unused funds to the EU budget.

Divisions and hierarchy between member states

There is one question which is of pivotal importance to this study: namely, whether the crisis strengthened the differences of political influence between member states or whether it has created a hierarchy of power with regard to cohesion policy. As far as financial negotiations are concerned, the division into largest net contributors[3] and biggest beneficiaries was of fundamental importance. The latter group was often referred to as “Friends of Cohesion Policy”[4]. The net contributors are not only the richest countries in the EU, but as a rule also the most influential. Because of their geographical location and political role, they are sometimes considered as central to the decision-making in the EU. Meanwhile, the group of “Friends of Cohesion” consists of the poorer countries located in the middle-eastern or southern regions of Europe. Most of them are new members who joined the Union after 2004.

It was the United Kingdom, the Netherlands and the Scandinavian countries who were the most vocal in its demands for cuts in the cohesion policy budget. The Scandinavian countries additionally emphasized the need to transfer funds from cohesion

[3] The group of net contributors includes Germany, Great Britain, France, Italy, the Netherlands, Sweden, Belgium, Denmark, Austria, Finland and Luxemburg.

[4] The group includes Bulgaria, the Czech Republic, Estonia, Greece, Spain, Lithuania, Latvia, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Hungary and Croatia (who had observer status in the group prior to its accession). In some cases, this group received support by Italy, Belgium and Luxembourg.

policy to innovation policy (of which they are one of the largest beneficiaries) or possibly redefining cohesion policy in such a way that it would be more empowering for innovative economy (Interview 6/2014). This group’s political influence is demonstrated by the fact that the cohesion policy budget for 2014–2020 has been reduced, and that a new restrictive ceiling has been added that specifies that the maximum level of EU aid cannot exceed 2.35% of the country’s GDP in the case of the largest beneficiaries (European Council, 2013, p. 18). Yet another manifestation of the richest countries’ influence was the increase of the allocations for the so-called transition regions (whose GDP is between 75% and 90% of the EU average). This group includes some regions of Germany, the UK, France, the Netherlands and Italy (Kölling, Leal, 2014, p. 11). In comparison with the previous financial perspective (2007–2013), the transition regions received a bigger allocation for 2014–2020 (increase from 7.5% to 10.8% of the whole cohesion policy funds). The funds for the richest regions in the EU were likewise increased (from 12.9% to 16.5%). Meanwhile, the most vulnerable regions, which in theory should receive the strongest support from cohesion policy, have received less funds: there has been a decrease from 59% to 53.5% (European Commission, 2014b, p. 187). It should also be noted that funds for the new member states from Central and Eastern Europe account only for approximately one half of the budget of the policy, despite the fact that the new members are on average much poorer than their Western neighbours (European Council, 2014). The cohesion policy thus became not only the object of cuts, but also the instrument of the application of the principle of *juste retour* with respect to the largest contributors’ dues to the EU budget.

Some interviewees pointed out that various groupings of member states played a role in shaping the cohesion policy solutions unrelated to the budget (Interviews 5/2014, 6/2014). However, even in these cases the impact of the net contributors was very palpable. It was due to their pressure that the oversight measures were tightened, especially those related to monitoring the effectiveness of spending. According to one interviewee, it was symptomatic that the richest countries blocked the appeals of Romania, Bulgaria, the Czech Republic and Slovakia for an extension of the deadline for the availability of funds for 2007–2013 (Interview 6/2014). Representatives from the Central and Eastern European states wanted to minimise the risk that unused funds will be returned to the EU budget. The same interviewee also opined that the tightening of regulations in the cohesion policy after 2013 was not only a simple result of the desire to increase the efficiency of the policy. In the long run, it can contribute to even greater difficulties with the absorption of European funds.

As previously mentioned, the introduction of a macroeconomic conditionality into the cohesion policy was an important consequence of the crisis. German politicians were the ones who were the most interested in that outcome. Apart from that, the role of Germany was more that of an “arbiter,” adjudicating disputes between other states. Germany in general did not seem to push its own agenda (Interview 3/2014). At the same time, proof of Berlin’s position at the negotiating table can be found in the fact that the Germans were able to effortlessly block proposals that would be detrimental to their interests, and that practically no member state could gather enough support for their proposed solutions without Germany’s approval, as this country is Europe’ greatest economic power and the main contributor to the EU budget (Interview 8/2014).

All in all, it can be concluded that the effect of the negotiations over the shape of the cohesion policy in the new budget cycle was the result of a broad compromise between the member states. When it came to individual decisions on organizational or content-related minutiae, the composition of the decisive majority could be different in any specific case. Therefore, it is difficult to recognize a common bloc of Central and Eastern Europe. The cooperation of these countries became weaker even during the financial negotiations, when it turned out that some states lose more funds than others. It was probably one of the reasons of their negotiating concessions. However, in more fundamental matters (especially those related to financial matters, including such issues that would influence the future absorption of funds) the decision rested with the richest countries who are the largest constitutors to the EU budget. The economically weaker countries had to give way in order to uphold the essence of the cohesion policy and make sure that its new shape is in the least possible way limited financially or organizationally. An example would be the position of the Polish government, which from the beginning supported the increased supervision over spending of the cohesion policy funds. It was connected not only to the desire to improve the efficiency of this policy, but also it was a political nod to the largest net contributors (Poland is the biggest beneficiary of the policy). In addition, Poland stressed the need to direct funds for the entire EU, including the richest countries, to increase the interest of these countries in a continued existence of cohesion policy (Interview 5/2014; The Council of Ministers, 2010).

The dividing line in cohesion policy

The obvious dividing line within cohesion policy separates the more developed countries and regions and the less developed ones. For many years, the criterion for the division was the GDP: less than 75% of the average EU GDP *per capita* meant that a country is classed as less developed and more meant that it belongs in the group of the rich countries (McCann, Ortega-Argil, 2012, p. 427). This threshold was used to identify the least developing regions in Europe that would receive the most of the cohesion policy funds. The boundary between these regions and the rest (i.e. the so-called transition regions and the more developed regions) separates the Central and Eastern Europe (and therefore new members of the EU who were admitted after 2004) from the western and northern parts of the continent. The group of less developed also includes some of the poorest regions of southern Europe, located in Portugal, Greece, Italy and Spain. Another method of dividing member states (and not regions, in contrast with the previous one) with regard to the cohesion policy is the threshold of 90% average EU GDP *per capita*, which is used in order to qualify countries as beneficiaries of Cohesion Fund aid. The application of this threshold results in a very similar division on the country level as the regional divisions described above. Again, this division separates poorer new members in the East from the rest of the EU, with the exception of Greece and Portugal. As a consequence, it can be said that with regard to cohesion policy, Europe is clearly divided into two parts, even though this division does not match the division into the eurozone and the rest. In truth, it seems simply to divide

the rich from the poor, and coincidently also the core and the peripheries (Eastern and Southern countries). The division is important for both the political and economic perspective: suffice to say that the founding members of the EU and the net contributors to the EU budget all belong to the core group.

Admittedly, the division between the more and less developed regions existed in cohesion policy before the eurozone crisis. But it is very important to emphasise that this division effectively conditions the strategic objectives of the cohesion policy and prioritises the spending differently in the two categories of regions. In the poorest regions, the investments in the previous budget cycles were primarily used to build basic infrastructure (transport, telecommunications and energy). In contrast, in the better developed regions they tended to be used in order to foster human capital development, entrepreneurship and innovative economy (McCann, Ortega-Argil, 2013; European Commission, 2014b, p. 206). The balance between these categories of spending was especially visible between the new members from Central and Eastern Europe and the rest of the EU. For example, in 2004–2006 in the new member states, the European Union allocated approximately 70% of cohesion policy funds for basic infrastructure and only 14% for business support and innovation and the same amount for human capital. In 2007–2013, in the same countries 57% of resources were allocated for infrastructure, approximately 25% for business support and innovation and approximately 12% for human resources (European Commission, 2014b, p. 207). During the same period in the more developed countries the priorities were exactly the opposite. The support for entrepreneurship and innovation took centre stage (36%), followed by human resources (38%), and the basic infrastructure was treated as less important, with allocation of approximately 26% (European Commission, 2014b, p. 263). The richest regions were therefore encouraged to invest primarily in innovative economy and human resources. At the same time, the poorest regions were building or upgrading their basic infrastructure. Such priorities can trigger the demand effect in the weakest economies, and thus provide a short-term impulse to support employment growth and consumption. But they contribute towards fostering supply-side effects only to a much lesser degree, and it is after all the latter that is fundamental for long-term growth, structural change and improvement of competitiveness of local economies (Churski at al., 2014; Rodriguez-Pose, Fratesi, 2004; Dotti, 2013, p. 601). This allocation pattern of European funds can also lead to a permanent “division of labour” in Europe, where the core regions would “specialize” in innovative economy and the peripheral regions would base their competitiveness on cheaper labour and production costs (Jauhiainen, 2014, p. 707; Grosse, 2010).

The crisis has not brought about significant changes in this area. Although the cohesion policy for the period 2014–2020 in all types of regions is directed to a greater extent towards developing entrepreneurship and innovation (McCann, Ortega-Argil, 2013, pp. 411–413), there is still a clear preference for the more developed countries (approximately 44.5% of total funding, compared to 35% in the less developed countries for the same purposes). An even greater disparity between the two types of countries exists with regard to human resources expenditure (more than 41% in the richer countries compared to approximately 26% in the poorer countries). In the latter group, infrastructure investments are still prevalent. They account for nearly 40% of all funds,

compared to 15% in the more developed countries (European Commission, 2014b, pp. 261, 263). In the case of network infrastructure, spending on cohesion policy in the less developed countries will be almost five times greater than in the more developed countries (European Commission, 2014b, p. 261).

The period of instability in the euro area sparked a lively discussion about the need to introduce separate anti-crisis instruments that would provide financing for a similar type of structural investments as the cohesion policy. A number of proposals that were voiced during that debate are worth a closer look. The first was the Compact for Growth and Jobs, launched by the European Council in June 2012 (European Council, 2012a, pp. 7–9). The Compact is to command a budget of approximately 120 billion euros that comes from the funds and financial guarantees of the European Investment Bank (EIB), infrastructure Eurobonds and the unused funds of the cohesion policy. The programme was targeted at countries mired in economic troubles, especially in the euro area. It is worth mentioning that part of the funding was supposed to come from the cohesion policy budget, which means that the difficulties in spending these funds may have in fact contributed to supplying another EU investment program. The Pact has been implemented only to a very small extent. However, a proposal to launch the European Fund for Strategic Investment in 2014 may be regarded as virtually the second stage of the Pact. The Fund is planned to have a pool of 315 billion euros, although in practice its resources will be dependent on guarantees provided by the EIB and the EU budget (including the Connecting Europe Facility that makes use of the cohesion policy funds). The main part of the funds is supposed to come from private investors, and this solution may contribute to the failure of this programme (Montanino, 2014). Yet another idea was to introduce a separate budget for the euro area, referred to interchangeably as “fiscal capacity” or “solidarity mechanism” (European Council, 2012b, p. 5; European Parliament, 2013). The mechanism was intended to finance structural investments in return for a commitment of individual countries to implement domestic reforms. The initial political declarations suggest that this instrument would have the budget of about 20 billion euro, which would make it quite ineffective as an anti-crisis tool. In fact, the talks about the practicality of the putative solidarity mechanism soon ceased. This means that in practice, the cohesion policy remains the main European instrument in the field of investment and structural change.

Conclusions

It can be stated that the crisis in the eurozone had a relatively significant impact on cohesion policy, the main tool of economic and social modernization in less developed countries and regions, notably in Central and Eastern Europe. It strengthened certain existing tendencies and introduced new elements to the policy. The changes introduced in the new period after 2013 pertain to limiting the policy’s financing scope and increasing bureaucratic burdens, especially those linked to more rigorous supervision and expenditure control. The policy also introduces new fiscal and macroeconomic conditions directly resulting from the crisis. Some of these innovations stem from the desire to improve the policy’s efficiency, especially in terms of achieving structural

changes, as well as improved growth and employment that would be in line with the objectives of the “Europe 2020” strategy. These changes were also the result of pressure from the net contributors to the EU budget, who wanted to strengthen the supervision over the spending of European funds and to use them more effectively to enforce anti-crisis measures.

The crisis has also opened the discussion regarding special investment instruments outside the cohesion policy that would be introduced primarily in the euro area, though it did not lead to putting these ideas into practice (at least until the end of 2015). This state of affairs was caused on the one hand by the reluctance of the richest countries in the EMU (mainly Germany, the Netherlands and Finland) to finance such activities. On the other hand, the non-eurozone countries demonstrated their lack of enthusiasm for the concept of the “two-speed Europe”, i.e. a division between the monetary union and the rest of the EU. They voiced fears that the introduction of mechanisms similar to the cohesion policy for the euro area could reduce the resource pool of this policy, and even completely undermine its *raison d’être* (Interview 11/2014). So far, the dividing line between Europe’s “two speeds” is not reflected in the cohesion policy. The attempts to re-direct the policy to a greater extent in order to aid the struggling EMU were not successful, with the exception of relatively minor adjustments in the 2007–2013 perspective and additional allocations for 2014–2020. The decisive factor was the mobilisation of the cohesion policy’s beneficiaries who formed the “Friends of Cohesion” group. The group’s members come mainly from Central and Eastern Europe, and naturally they wanted to uphold the existing rules of fund distribution that gave preferential treatment to that part of the EU. However, their relative success has come at a price: they had to make concessions to the largest net contributors. The concessions included a reduction in the level of financing of the policy and re-directing some funds from peripheral to core areas. The existing division into less and more developed regions was upheld, as were the development priorities for the two different categories of regions. More stringent control measures and new macroeconomic conditions were also introduced. Some scholars claim that the increasing conditionality has become the main method of spatial management in the EU, especially in Central and Eastern Europe (Jauhiainen, 2014, p. 702).

All the above-mentioned considerations point to the existence of a hierarchy of power in the cohesion policy that favours net contributors to the EU budget and major European economies. The defenders of cohesion policy who come mainly from Central and Eastern Europe had to give way in many crucial issues, and they had to agree to sharing the funds with the richer countries to a far greater extent than before. The difference in influence exerted by the two groups of countries was seen primarily during the negotiation process pertaining to the new policy framework for 2014–2020, but they can also be seen during its implementation, especially if the European Commission will decide on a more restrictive approach to its duties with regard to countries who are less active or more politically vulnerable on the EU arena.

The crisis in the eurozone strengthened the tendency towards intergovernmentalism in the EU. It was also evident in the cohesion policy, especially in the preparation of financial and regulatory framework for the new perspective. At this stage, the role of the EC and EP was reduced compared to national governments. At the implementa-

tion stage, several competences of the European Commission were reinforced, while at the same time stronger supervision by intergovernmental institutions was introduced. Some of politically sensitive issues, such as e.g. decisions to suspend payments, will be taken by the Council. This may indicate that strengthening the formal powers of the European Commission will not increase its autonomy from the intergovernmental institutions.

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Summary

European Union cohesion policy is the main tool of economic and social modernization in less developed countries and regions, notably in Central and Eastern Europe. The article aims to answer the question how the eurozone crisis has affected this policy. In particular, the author intends to study the phenomena observed during the eurozone crisis in (2010–2015) in relation to the field of cohesion policy. Did the policy involve a palpable intensification of intergovernmental management, and did it strengthen the informal role of the largest and richest member states? Did the competences of European Commission grow, albeit without increasing its political autonomy in relation to the EU intergovernmental institutions? Did the crisis reveal the phenomenon of the “two-speed Europe” (a clear division between the eurozone and the rest of the EU) in the sphere of cohesion policy? Or perhaps is there yet another hidden division line within the cohesion policy?

Key words: cohesion policy, the eurozone crisis, two-speed Europe

Narzędzie modernizacji w kłopotach: jak kryzys w strefie euro zmienił politykę spójności

Streszczenie

Polityka spójności Unii Europejskiej jest głównym narzędziem modernizacji społecznej i gospodarczej w państwach Europy Środkowej. Dotyczy to zwłaszcza Polski, która otrzymuje największą pomoc finansową z tego instrumentu spośród wszystkich innych państw członkowskich UE. Celem artykułu jest analiza zmian w polityce spójności pod wpływem kryzysu w strefie euro oraz ocena tego, w jaki sposób te zmiany mogą wpłynąć na procesy modernizacyjne w najsłabiej rozwijających się państwach UE, a także szerzej – jak wpłyną na sposób funkcjonowania integracji europejskiej.

Słowa kluczowe: polityka spójności, modernizacja, strefa euro, kryzys, Europa dwóch prędkości.

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