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POLICY POSITION FROM THE CPMR

OPINION FROM THE CPMR POLITICAL BUREAU

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RECONCILING EU ECONOMIC GOVERNANCE WITH COHESION POLICY AND THE REGIONS

Introduction

The CPMR monitors closely the development of European Economic Governance and the European Semester.

2014 will be a pivotal year: Partnership Agreements and Operational Programmes for EU Structural and Investments Funds (ESI) are expected to be developed and approved by the European Commission, before €325 billion worth of investments can be rolled out in European regions.

For the first time, these will be subject to ever-stricter conditions and priorities. The successive wave of reforms of the Stability and Growth Pact means that ESI operational programmes will also have to support reforms identified in Country Specific Recommendations. For more detailed information on the new and reinforced EU Economic Governance, please refer to the CPMR Technical Note '[The New European Economic Governance Model](#)' presented at the CPMR Annual General Meeting on 25 – 27 September in St Malo.

As the preparations for the next generation of programmes are well underway, the CPMR feels this is the right time to deliver strong political messages reasserting the development of EU economic governance and the urgent need to stimulate growth and jobs through Cohesion Policy and within the European semester process.

Key considerations:

- Cohesion Policy, as the main EU investment policy, should better complement EU economic governance to stimulate growth and jobs (section 2).
- EU economic governance is at a turning point and needs to be properly scrutinised and legitimised to be successful (section 3).
- EU economic governance would benefit from a differentiated approach to include a territorial dimension (section 4).

1. Cohesion Policy as the EU investment policy

The recent reforms of the Stability and Growth Pact confirm the overriding priority of the European Union since the beginning of the financial and economic crisis: bringing public finances in the Member States back to a sustainable level with regards to the Stability and Growth pact deficit and debt criteria.

To complement this ambition, the European Commission has recently acquired more competences to reinforce economic policy coordination in the Member States (the so-called European Semester process) and budgetary surveillance, which allows the Commission to review draft national budgets for Member States in the Eurozone for the following year.

Feeble attempts have been made to accompany fiscal consolidation with growth-boosting measures:

- A series of measures – **the ‘Growth Compact’** – were adopted in June 2012. The Growth Compact merely consisted in retargeting funding from structural funds, which were already available in the 2007 – 2013 period, and increasing the lending capacity of the European Investment Bank. These measures did not put in place a concrete investment plan to re-launch the European economy
- **The Youth Employment Initiative (YEI)** will support young persons not in education, employment or training (NEETs) with a budget of at least €6 billion¹ over the 2014 – 2020 period. Although the CPMR does welcome the initiative and the fact that it will be ‘frontloaded’ over two years (2014 – 2015) to maximise impact, the limited budget allocated to the initiative is a challenge to the success of the YEI.
- **The Investment Clause.** Following pressure from Italy and the European Parliament, the European Commission sent a letter to Member States in July 2013 to introduce an ‘investment clause’ in EU economic governance. This investment clause allows Member States to allow certain types of public investments to be ‘prioritised’ and therefore considered as ‘temporary deviations’ from a Member State meeting its debt and deficit reduction targets under the Stability and Growth Pact. The conditions for Member States successfully getting the investment clause are as follows:
 - Only Member States which have negative growth or growth ‘well below its potential’ are eligible
 - The ‘deviation’ must not lead to a breach of the 3% GDP deficit ceiling, and must not increase public debt in an unsustainable way
 - Only public investments linked to EU funds and programmes are eligible

Of particular relevance to CPMR regions, Italy applied for the investment clause and proposed to “ earmark” 0.3% of its GDP (about €4 billion) in 2014 for expenditure fully match funded by EU programmes, in order to implement measures to fight poverty and social exclusion and step up infrastructure investments. This funding relates mostly to co-financing of structural funds. The European Commission denied the use of the investment clause for Italy on the basis that the additional “ earmarked” public investment would make it more difficult for Italy to meet its country-specific target for structural deficit relative to GDP.

CPMR key political messages

- The CPMR believes **that fiscal consolidation and debt reduction cannot be the be all and end all of European economic policy making.** The short term consequences are already being felt throughout CPMR regions, particularly with regards to youth unemployment rates which have soared in many Member States.
- The CPMR considers that **EU Regional Policy will continue to play a crucial role in terms of relaunching the economy in Europe’s regions,** particularly in its most disadvantaged and least prosperous parts. As an example, in 10 EU Member States, Cohesion Policy (including co-financing) represents more than 50% of public investment. For the remaining Member States, Structural and Investment Funds play a crucial leverage effect in the economy of European regions.
- The Italian case points to an **obvious inconsistency between EU Cohesion Policy** (and funds at the disposal of regions to support investment) **and the rules of EU economic governance,** which are about restoring stability.

¹ See European Commission press release - http://europa.eu/rapid/press-release_MEMO-13-984_hu.htm

- The Italian case also shows that **the leverage effect of Structural Funds** - which has been widely documented² - **will be put at risk with the new rules underpinning EU economic governance**. With rules restricting the use of public funding in Member States in the Excessive Deficit Procedure, cofinancing of structural funds will be hugely challenging.
- The rules underpinning the macroeconomic surveillance of Member States seem very flexible and open-ended, and provide a lot of discretion to the European Commission on these crucial decisions, which are based on in-house forecasts and data. There is also the problem related to the difference in forecasts (the European Commission's against those made in the Member States or by organisations such as the OECD and the IMF). **A more flexible approach and an exact definition of the parameters to be taken into consideration could be a widely acceptable solution.**
- **The investment clause is too weak** to resolve the contradiction between the 'investment' side of the EU (ESIF funds and other EU funds) and the 'stability' side (Stability and Growth Pact). The CPMR Regions therefore believe that meaningful reform of the investment clause is necessary, so that the Stability and Growth Pact objectives do not clash with much needed investment in territories.

2. EU economic governance risks suffering from illegitimacy: involving regions is part of the solution

2.1 Governance of European Semester

The development of stronger EU economic governance and a fully fledged banking union provides ever stronger powers and competences to the European Commission and the European Central Bank:

- The national economies of Eurozone Member States are subject to scrutiny by the European Commission (surveillance of economic and fiscal policies, European Semester of policy coordination)
- European banks will be closely monitored by the European Central Bank, under the plans for a EU Banking Union, to ensure that banks are adequately capitalised to prevent future banking and financial crisis

These measures have been put in place to increase the efficiency of EU economic governance and in particular the economies of Eurozone Member States. The success of the above-mentioned reforms will be assessed by how well they have been implemented in Member States and regions.

2.2 - ESI Operational Programmes and the European Semester

Draft ESI operational programmes will be subject to a number of evaluation processes by the European Commission before they become fully operational. These include the fit with Europe 2020 objectives (through thematic concentration), Country Papers but also ex ante conditionalities and partnership arrangements (through the Code of Conduct).

Published last 13 November, the [Annual Growth Survey 2014](#) set the broad economic priorities at EU level. It included two innovations: the European Commission assessment of Eurozone Member States draft national budgets, as well as a direct mention of the need for new ESI programmes 'to support reforms identified in the EU country-specific recommendations (CSRs)'.

This reference crystallises for the first time the links between EU economic governance and EU Cohesion Policy. As the European Commission will assess the Partnership Agreements and the Operational Programmes, one should ask how the Commission will prioritise the need for operational programmes to support reforms identified in the CSRs while retaining the territorial character of the Cohesion Policy.

It remains to be seen whether such a reference to ESI Funds means that the Commission will adopt a strong top-down approach for the use of Structural Funds in the next programming period. This is against the territorial nature of regional policy, which aims at addressing specific issues and tailor interventions to local needs according to the challenges and priorities identified in the operational programmes. The sub-national level of government risks to be left out of the decision-making process regarding investment which is one of

² See Committee of the Regions [report on the leverage effect of Structural Funds](#)

their main competences and to become mere executor of top down decisions without having a formal say in the process.

2.3 - Implementation of Country Specific Recommendations

One of the new features of the reinforced EU Economic Governance is the European semester, an annual cycle which revolves around the preparation of Country Specific Recommendations by the Commission, their adoption by the Council, and their implementation in the Member States.

The Country Specific Recommendations are a central feature of the functioning of the EU economic governance. They offer high level policy guidance – tailored to each Member State - to be followed and implemented at national level. More information on the European Semester and its relevance to European regions is described in more details in the CPMR Technical Note "[The New European Economic Governance Model](#)".

In the Annual Growth Survey for 2014, the Commission advocates for greater ownership of the European Semester at national level and invites Member States to involve national parliaments, social partners and civil society in the process in order to secure public understanding and acceptance of the necessary reforms. There is no explicit mention of the important role of regions and local authorities in the process.

Early accounts of the CSRs so far show that in some areas, their implementation has been mixed, particularly with regards to social issues³.

CPMR key political messages

- The CPMR does not disagree with the fact that a coordinated and sound approach to monitor financial institutions and fiscal policies is needed to avoid crisis such as the recent financial crisis which kick started in 2008. Sustainable economic growth has to be underpinned by sound public finances in the Member States. However, **the CPMR strongly believes that this only part of the full story: there is no stability without economic growth and there is no growth without stimulating public and private investments.** A change in narrative is needed when it comes to the European Union as a holistic project to deliver prosperity to its citizens.

- The CPMR notes that subsequent reforms of EU economic governance have led to considerable changes. **The European Commission (and the European Central Bank) have much stronger powers** in terms of actively monitoring the economy of Member States and incentivising them to push through structural reforms, to ensure that they statistically meet the requirements of the Stability and Growth Pact.

- Sub-national levels of government in the Member States play a fundamental role in the delivery of EU policies and must respect the limits imposed by fiscal discipline as well. Leaving regions out of the process ownership would put the overall EU economic governance at risk. **Increasing political accountability and the sense of ownership of the European Semester process would increase the efficiency of the reforms.** This is crucial as many of the areas of competences touched on by the Country Specific Recommendations are under the responsibility of regional and local authorities. **The CPMR recalls the failure of the Lisbon strategy was precisely due to the absence of a sense of ownership by territorial and socio-economic actors.**

- **The CPMR believes that EU economic governance cannot solely rely on a purely top-down process.** Political accountability is key to the success of economic reforms: this is why the CPMR regrets the little importance given to the principle of Multi-Level Governance in the ownership of the EU Economic Governance. This is particularly important if future Country Specific Recommendations become the basis for binding 'reform programmes', a concept pushed by Germany.

³ Examples from European Anti Poverty Network on [social inclusion and poverty](#) and the European Trade Union Confederation on [health and safety at work](#)

3. Providing a territorial dimension to Country Specific Recommendations

Country Specific Recommendations derive directly from EU priorities for growth and jobs, as spelt out in the Annual Growth Survey 2014:

- Pursuing differentiated, growth-friendly fiscal consolidation
- Restoring lending to the economy
- Promoting growth and competitiveness for today and tomorrow
- Tackling unemployment and the social consequences of the crisis
- Modernising public administration

In practice, the CSRs are about reforms to be carried out at national level in order to address excessive deficits, reducing public debt via the implementation of measures touching on areas such as the labour market, energy market, pensions, fiscal targets, SMEs or public administrations.

3.1 - Country Specific Recommendations: relevance to regional competences

3.1.1 European Parliament assessment of 2011 and 2012 CSRs

The European Parliament carried out a study to analyse the implementation of CSRs in a selection of Member States, using a 'traffic-light' approach to assess whether the reforms were carried out successfully. These Member States are Denmark, Germany, Spain, France, Italy, Lithuania and Poland. The 'traffic-light' approach makes it clear whether reforms were 'fully implemented', or 'serious reforms underway', or 'no reforms so far'.

From the perspective of CPMR regions:

- Although CSRs do touch on areas of competences usually associated with regions (see below), they do not address the territorial dimension of Member States and make insufficient references to sub-national level of governments
- CSRs are generally quite weak and there is no order of priority with regards to implementation of the recommendations
- Many CSRs assume a one size fits all to policy implementation in the Member States. This is true for employment policy for instance, which has a very strong territorial dimension and where every region has different strengths and weaknesses.
- Some CSRs are about institutional reform involving infra-national relationships (e.g. relationships between regions and their central governments) and public administration reform; others even impose budgetary controls on local and regional authorities (Denmark)

Country Specific Recommendations of relevance to CPMR regions: European Parliament internal assessment (2011/2012)

1. Denmark: Strengthen expenditure control by adopting binding multiannual spending ceilings for local, regional and central government which are consistent with the overall medium-term general budget targets. *(fully implemented)*
2. Spain: Implement Labour Market reforms by strengthening coordination between the national and regional public employment services, including sharing information about job vacancies. *(serious reform underway)*
3. Spain: improve coordination between regional and national administrations to reduce the administrative burden for enterprises. *(no reforms so far)*
4. Italy: enhance administrative capacity. *(serious reforms underway)*
5. Italy: Take steps to accelerate in a cost-effective way growth- enhancing expenditure co-financed by cohesion policy funds in order to reduce the persistent disparities between regions, by improving administrative capacity and political governance. *(serious reforms underway)*

3.1.2 European Commission assessment of CSRs in 2013

The European Commission produced a staff working document to assess the implementation of CSRs in the Member States in 2013. This was published on 12 November with the Annual Growth Survey for 2014.

From the perspective of CPMR regions:

- In some cases, European Structural and Investment Funds are mentioned in the CSRs. Italy for instance has been required to re-programme their national contribution to ESI Funds in order to address poverty and social exclusion
- In other cases, the constitutional set up of Member States is explicitly brought into the equation. This is the case for Spain for example, where the AGS warns that its autonomous regions structure pose threats to effective delivery of labour market policies
- Areas of competences traditionally associated to the regional and local level such as housing (UK) and variety of employment patterns at regional level (Bulgaria) are explicitly mentioned.

Country Specific Recommendations of relevance to CPMR regions : Annual Growth Survey 2013

1. Italy: To better target benefits addressing poverty and social exclusion, an important step was taken in August 2013, namely to extend the existing social card to all southern regions. However, financing will depend on the reprogramming of national contribution to EU structural funds.
2. Spain: Public finance management has been strengthened; the transparency and control of regional budgets have improved.
3. Spain: Work continues to boost active labour market policies as well as their links with passive policies. However, effective application is taking longer than expected and the coordination between the centre and the autonomous regions still poses a risk to effective delivery.
4. UK: The housing market has picked up across all regions, albeit with large regional variations, but there are persistent shortages in housing supply.
5. Bulgaria: Bulgaria suffers from below-average and declining employment as well as high unemployment disparities across regions and population groups.

CPMR key political messages

- The CPMR notes the European Parliament and the Commission's assessment of progress with regards to the implementation of the Country Specific Recommendations. This assessment reveals the extent of the policy areas they cover, including those which are traditionally managed at regional and local level.
- The CPMR also notes that the Country Specific Recommendations are broad, high level national recommendations. Bespoke Country Specific Recommendations based on regional evidence to target regions (or groups of regions) with defining characteristics would be far more efficient. **A mechanism to allow regional characteristics and challenges to be fed in to the Annual Growth Survey and eventually the Country Specific Recommendations would be welcome.**
- **The CPMR shall pay particular attention to how the prioritisation of ESI funds to support reforms mentioned within some CSRs will take place in practice.** CPMR regions remain particularly attached to the principle of multilevel governance within Cohesion Policy and should remain the main actors delivering the policy on the ground. Furthermore, Article 5 of the Common Provisions Regulation explicitly guarantees this role in the legal provisions governing ESI funds.