Weakening cohesion as a security challenge for the European Union

Beáta Farkas[1]

University of Szeged, Hungary

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Abstract One of the fundamental goals of European integration is to provide opportunities to less-developed Member States for both convergence and strengthening of economic and social cohesion. Prior to the 2008 global financial crisis and the eurozone crisis, the convergence process across the EU had spectacular results. The aftermath of the crises, however, threatens the prospects of convergence in the EU for both eurozone and non-eurozone Member States. The 2013 EBRD Transition Report highlights this issue. Surprisingly, the EU's cohesion policy, which could mitigate the crises' impact, has not received a prominent status either in the forthcoming programming period or in the multiannual financial framework 2014-2020. This paper explores this paradox. It is argued that despite the severe limits to convergence, cohesion policy must remain an essential part of the EU policy-framework. Even if the efficiency of cohesion expenditures is not satisfactory and needs to be improved, the EU Member States should not abandon their support for cohesion. The raison d'être of cohesion policy is not the absolute convergence that was hoped for in the 1970s or at the beginning of the post-socialist system change. Instead, it is the avoidance of both divergence and destabilization of peripheral EU countries that should drive the implementation of cohesion policy in the EU today. Without cohesion policy, both security and sustainability of the four freedoms, the achievements of the European monetary and economic union, may be endangered.

Keywords: convergence, crisis, Central and Eastern European countries, economic and social cohesion, cohesion policy

[1] bfarkas@eco.u-szeged.hu

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Strengthening economic and social cohesion is a fundamental goal of the European Union (EU). At the same time, economic and social cohesion renders European integration relevant to Europeans and serves as an attractive element of EU membership, particularly for the populations of the Southern, Central and Eastern peripheral countries. As cohesion policy has not received prominent status in the new programming period 2014-2020, it is plausible that cohesion across Europe will be undermined, thus causing a number of security challenges not only for Europe's southern fringes but also at its eastern flank, i.e. the Central and Eastern European countries (CEECs). The objective of this paper is to explore this issue. To this end, in the first section of this paper, we discuss critically the achievements of and projections for convergence highlighting in this way the sources of potential vulnerabilities of the cohesion process. In the second section, we examine in which way the shift in paradigm underlying the EU's cohesion policy as well as crisis-driven austerity policies across the EU have affected the support for cohesion policy in the EU. In conclusion, we identify and compare the threats to cohesion specific to the CEECs and the countries of the EU's South and outline the security challenges that these threats generate.

1. Convergence: before and after the crisis

The capitalist transformation of the post-socialist EU Member States is regarded as a success story by both the experts of the European Commission and of the World Bank,[3] not only if measured by growth rates but also by catching-up with old Member States. The Baltic states and Slovakia were the most successful in catching up with the EU-27 with regard to both GDP and final consumption between 1990 and 2007. However, only three so-called Visegrád countries (Poland, the Czech Republic and Slovakia) had not built up serious macroeconomic imbalances prior to the crisis.

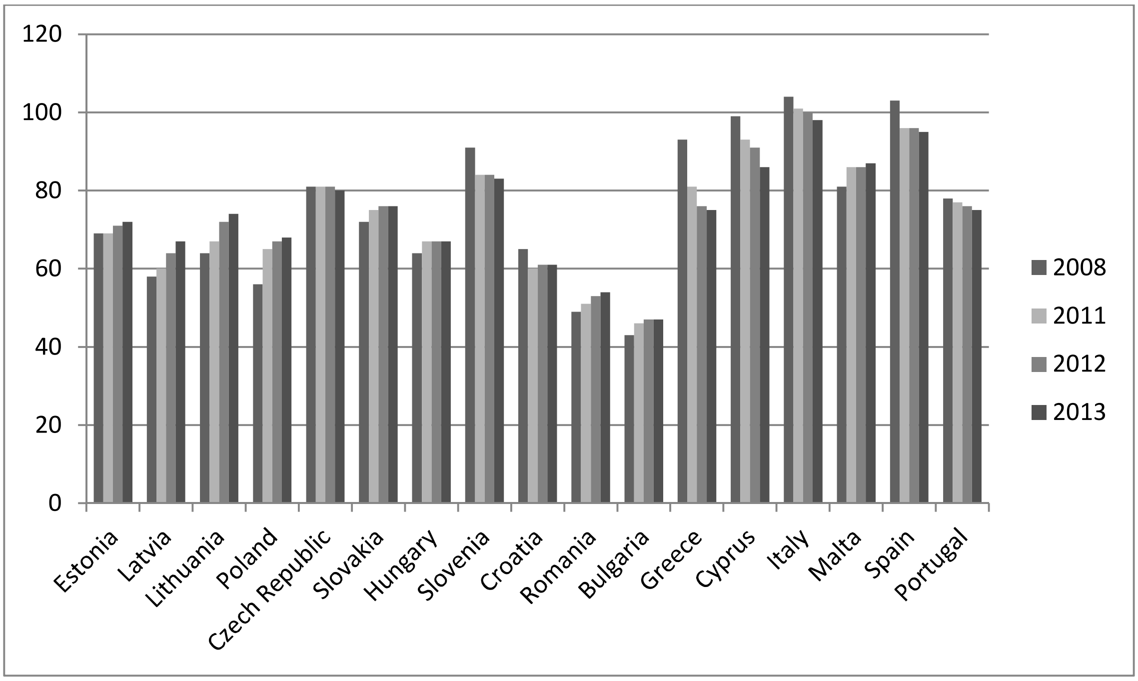
Before 2008, the view prevailed that the 'old cohesion countries'[5] had reached (or at least closely approached) the EU-27 averages in both GDP and living standards. Therefore, the EU-15 were regarded as a well-integrated area and core countries of the world economy. Ireland, initially seriously affected by the global financial crisis, having launched the fiscal adjustment and reform programme in 2010, has a relatively good chance to restore its economic position due to its geographic location, small size and well-embedded market

[3] European Commission, *Five years of enlarged Europe*, European Economy, 2009, nr. 1; Gill, I. and Raiser, M., *Golden Growth. Restoring the Lustre of the European Economic Model*, Washington: The World Bank 2012

[5] The 'old cohesion countries' include Ireland, Greece, Portugal and Spain. The 'new cohesion countries' include Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia. Cohesion countries are supported by the Cohesion Fund of the European Union.

institutions. At the same time, countries of the European South (or the Mediterranean countries), including Greece, Cyprus, Portugal and Spain have diverged negatively from the EU-28 average GDP over the years.[6] Therefore, if we try to map the prospects for cohesion and the security challenges that may be involved in it, we must extend our investigation to the Mediterranean countries as well. Compared with the EU-28 average, the old cohesion countries as well as Italy and Cyprus have suffered a severe deterioration in their position. Currently, it seems as though the majority of the CEECs will continue their convergence, but at a lower speed. The progress of Hungary, the Czech Republic and Croatia has come to a halt. Slovenia is diverging from the EU-28 average (Figure 1).

Figure 1: The development of per capita GDP at purchasing power parity in the CEECs and the Mediterranean countries compared to the EU-28 average between 2008-2013 (EU-28=100)



Source: Eurostat database

The results of convergence are usually measured in GDP per capita. However, GDP per capita does not express the growth in a population's welfare, which is a key goal of convergence. Therefore, it seems appropriate to use another indicator, i.e. actual individual final consumption[7]. The data of GDP per capita may be misleading if population declines.

[6] On the different crisis management in the EU Member States see Kovács, Á., Halmosi, P., *Similarities and Differences in European Crisis Management*, "Public Finance Quarterly", Vol. 58, issue 1, 2012, pp. 9-27

[7] Actual individual final consumption includes: expenditures on the consumption of goods and services by both households and non-profit institutions serving households and in-kind social transfers.

Therefore, it is worth comparing the accumulated loss and gain of both GDP and final consumption during the crisis (Table 1).

Table 1: Accumulated loss and gain between 2009 and 2013 in the EU Member States comparing to 2008

Loss/gain of GDP 2009-2013, comparing to 2008 at constant prices in the share of 2008 GDP			Loss/gain of private final consumption 2009-2013, comparing to 2008 at constant prices in the share of 2008 private final consumption		
1	Poland	0,443	1	Poland	0,347
2	Sweden	0,122	2	Sweden	0,252
3	Malta	0,104	3	Austria	0,161
4	Slovakia	0,056	4	Belgium	0,149
5	Germany	0,012	5	Germany	0,146
6	Belgium	0,002	6	Luxembourg	0,135
7	Austria	-0,018	7	Malta	0,100
8	France	-0,028	8	France	0,089
9	Luxembourg	-0,087	9	Finland	0,055
10	Czech Republic	-0,107	10	Czech Republic	0,020
11	Cyprus	-0,129	11	Slovakia	-0,037
12	Netherlands	-0,129	12	Slovenia	-0,046
13	United Kingdom	-0,141	13	United Kingdom	-0,102
14	Portugal	-0,183	14	Italy	-0,131
15	Bulgaria	-0,186	15	Denmark	-0,151
16	Denmark	-0,203	16	Netherlands	-0,174
17	Spain	-0,240	17	Portugal	-0,236
18	Finland	-0,256	18	Bulgaria	-0,284
19	Italy	-0,259	19	Spain	-0,287
20	Romania	-0,263	20	Ireland	-0,308
21	Hungary	-0,276	21	Cyprus	-0,373
22	Estonia	-0,279	22	Romania	-0,437
23	Ireland	-0,299	23	Hungary	-0,459
24	Slovenia	-0,388	24	Croatia	-0,474
25	Lithuania	-0,432	25	Estonia	-0,614
26	Croatia	-0,481	26	Greece	-0,742
27	Latvia	-0,672	27	Lithuania	-0,788
28	Greece	-0,694	28	Latvia	-0,798

Source: Author's own calculation by AMECO database

At its outset, the global financial crisis affected the CEECs and the countries of the Mediterranean countries differently.[8] As regards the Mediterranean countries, in 2009 they

[8] For an extensive overview, see: Farkas, B. (ed.) The Aftermath of the Global Crisis in the European Union, Cambridge Scholars Publishing, Newcastle upon Tyne, 2013.

did not experience an immediate, strong recession of the same kind as observed in the Baltic countries (ca. -15% GDP) or in Hungary (-6.8% GDP). Although at the beginning the countries of the European South faced what looked like smaller scale recessions, they entered prolonged and deepening, downturns afterwards. In 2009, the rate of decline exceeded the EU average in every new post-socialist Member State, except for Poland. The Baltic economies contracted to the largest extent, i.e. by 14-17 per cent in 2009. However they have recovered very quickly, they are among the Member States which accumulated the largest loss during the crisis (Table 1). Their position in GDP per capita seems to be more advantageous due to the population decline. The net migration rate between 2000 and 2010 was 5.9 per cent in Estonia, 9.1 per cent in Latvia, 12.9 percent in Lithuania.[9]

To sum up, out of the countries of the southern and eastern peripheries only Malta, Poland, the Czech Republic and Slovakia did not suffered substantial loss in GDP and private financial consumption which had not built up serious macroeconomic imbalances prior to the crisis. As the consequence of economic decline, poverty and income inequalities have increased, especially measured by the poverty indicator of the EU 2020 strategy which includes the sum of persons who at risk of poverty or severely materially deprived or living in households with very low work intensity (Table 2).[10]

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[9] Hazans, M., *Emigration from Latvia: Recent trends and economic impact.* In: OECD: Coping with Emigration in Baltic and East European Countries, 2013, pp. 65-110, http://dx.doi.org/10.1787/9789264204928-7-en, Sipavičiené, A., Stankūniené, V., *The social and economic impact of emigration on Lithuania.* In: OECD: Coping with Emigration in Baltic and East European Countries, 2013, pp. 45-64, http://dx.doi.org/10.1787/9789264204928-6-en

[10] Persons are only counted once even if they are present in several sub-indicators. At risk-of-poverty are persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers). Material deprivation covers indicators relating to economic strain and durables. Severely materially deprived persons have living conditions severely constrained by a lack of resources, they experience at least 4 out of 9 following deprivations items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone. People living in households with very low work intensity are those aged 0-59 living in households where the adults (aged 18-59) work less than 20% of their total work potential during the past year (Eurostat).

Table 2: Poverty and income inequalities in the CEECs and Mediterranean EU Member States

	At-risk-of-poverty rate				People at risk of poverty or social exclusion		Gini coefficient of equalised disposable income	Income quintile share ratio (S80/S20)	
	before social transfers		after social transfers						
	2008	**2012**	**2008**	**2012**	**2008**	**2012**	**2012**	**2008**	**2012**
EU-28	25.3	26.0	16.5	16.9	23.7	24.8	30.6	5	5.1
Bulgaria	27.0	27.5	21.4	21.2	44.8	49.3	33.6	6.5	6.1
Czech Republic	20	17.6	9	9.6	15.3	15.4	24.9	3.4	3.5
Estonia	24.7	24.8	19.5	17.5	21.8	23.4	32.5	5	5.4
Greece	23.3	26.8	20.1	23.1	28.1	34.6	34.3	5.9	6.6
Spain	25.2	29.6	20.8	22.2	24.5	28.2	35.0	5.7	7.2
Croatia	25.3	30.4	17.3	20.5	n. a.	32.3	30.5	4.5	5.4
Italy	23.4	24.4	18.7	19.4	25.3	29.9	31.9	5.1	5.5
Cyprus	22.9	23.5	15.9	14.7	23.3	27.1	31.0	4.2	4.7
Latvia	30.2	25.7	25.9	19.2	34.2	36.2	35.7	7.3	6.5
Lithuania	27.2	28.4	20	18.6	27.6	32.5	32.0	5.9	5.3
Hungary	30.4	27.1	12.4	14.0	28.2	32.4	26.9	3.6	4.0
Malta	22.9	24.0	15.3	15.1	20.1	23.1	27.1	4.3	4.0
Poland	25.1	22.9	16.9	17.1	30.5	26.7	30.9	5.1	4.9
Portugal	24.9	25.3	18.5	17.9	26.0	25.3	34.5	6.1	5.8
Romania	30.7	28.0	23.4	22.6	44.2	41.7	33.2	7	6.3
Slovenia	23.0	25.2	12.3	13.5	18.5	19.6	23.7	3.4	3.4
Slovakia	18.4	20.0	10.9	13.2	20.6	20.5	25.3	3.4	3.7

Source: Eurostat database

To evaluate the gravity of the stability challenges mentioned above, we need long-term projections concerning the prospects of convergence. Beyond cyclical changes, the potential growth rate indicates whether convergence is sustainable. The Commission of the EU prepares long-term projections to monitor the anticipated economic effects of ageing. Intermediate results from these investigations are instructive for our purpose, i.e. to evaluate the gravity of the stability challenges, as well.

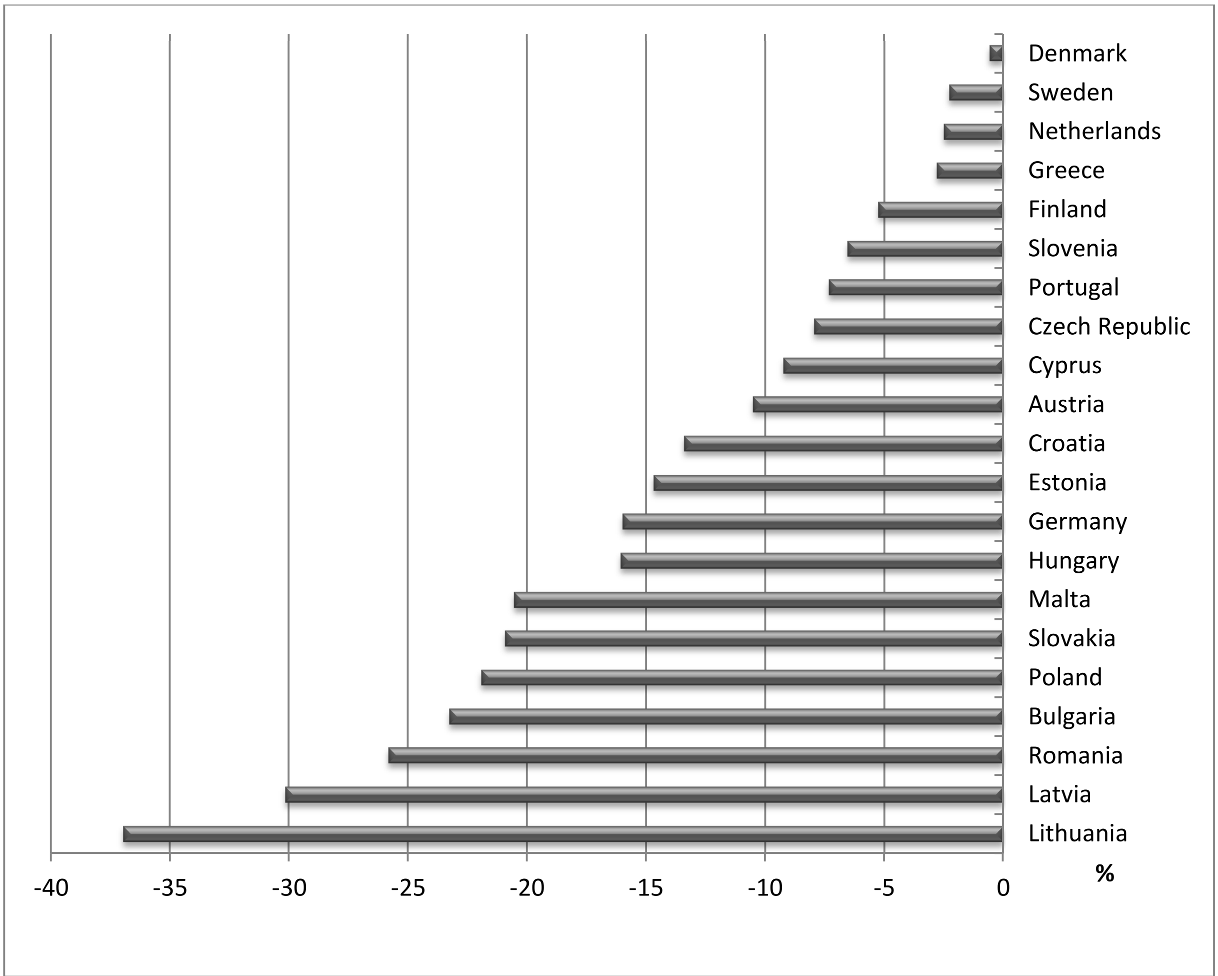
The Commission's Ageing Report 2009[12] reveals that as a result of the decline in population, even without incorporating the potentially negative impact of the current economic crisis, the annual average potential GDP growth rate in the EU is likely to fall from 2.4%, in the period from 2007-2020, to 1.7%, in the period from 2021-2040, and then to 1.3%, in the period 2041-2060. Deterioration of the growth rates in the post-socialist EU Member States will be higher because of the higher, than in the EU-15, rate of population

[12]European Commission, *Ageing Report: Economic and budgetary projections for the EU-27 Member States (2008-2060),* "European Economy", 2009, No. 2, pp. 23, 62

decline.[13] From 2000 to 2011, approximately half of the population decline in the post-socialist Member States is due to net migration and the other half to natural decrease.[14]

The most striking pattern in the population decline across the EU is that the decrease in the 0-14 age group is most prominent in the CEECs. Figure 2 shows the EU Member States where the number of young people (aged 0-14) has diminished since 2000. Accordingly, Slovenia and the Czech Republic are the only post-socialist countries where the decrease is less than 10 per cent in this specific group age.

Figure 2: Population decrease in young population: aged 0-14, 2000-2012 in %



Source: AMECO database

The Ageing Report 2012 was published at the end of 2011, and re-evaluated the potential growth rates of the EU and the Member States using a production function based

[13] Ibidem
[14]Gligorov, V., Holzner, M., Landesmann, M., Leitner, S., Pindyuk, O., Vidovic, H. et al., *New Divide(s) in Europe?* Wiener Institute für Internationale Wirtschaftsvergleiche, Wien, 2012, p. 52

methodology, as the previous reports did.[15] As expected, the data concerning countries affected most severely by the global financial crisis needed the greatest adjustments. The adjustment is the largest in the cases of Cyprus, Romania, Greece, Portugal and Hungary. The primary reason for the adjustments was the expected decline in the productivity growth rate. The lower growth rate substantially deteriorated the long-run development prospects of per capita GDP, as well.

In the Ageing Reports a production function framework is used in the long-term projection exercise to project long term GDP growth. In this framework the drivers of growth include capital deepening, total factor productivity and total hours worked. Therefore demographic projections are crucial for the projection of economic developments over the long-term. The crisis reduced capital formation and total factor productivity growth, whose impacts are amplified by the population decline. The lower potential growth rates limit the foreseeable convergence of the cohesion countries to the EU-27 average of GDP, even when projecting several decades ahead.

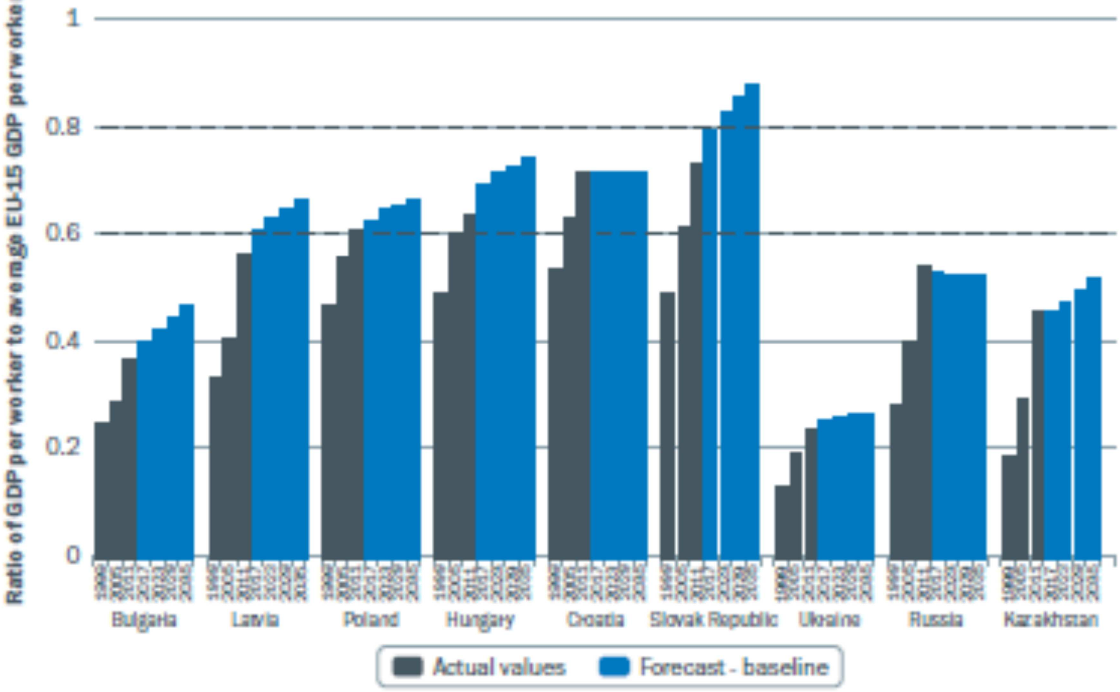
Recently the Transition Report 2013 of the European Bank for Reconstruction and Development (EBRD) has strengthened the scenario of the Ageing Reports.[16] The results of a long-term forecasting model on the countries of the whole post-socialist, transition region suggest that under current policies and institutions, productivity growth will likely remain modest over the next 10 years – around 2-4 per cent on average – and decline further in the following decade. At that rate, convergence with the living standards in western Europe would stall in some countries and slow to a crawl in many others (Figure 3). Only the countries of central Europe and the Baltic states would reach or exceed 60 per cent of the EU-15 average per capita income of working people in the next 20 years. This is a very humble progress because all Central European and the Baltic countries except Latvia already exceed the 60 per cent threshold. Only the Czech Republic and Slovakia are projected to have incomes in excess of 80 per cent of the EU-15 average.

Even if we consider the uncertainty of these projections, it is undisputable that to maintain cohesion, huge efforts at both the European and national levels will be required in the long run.

[15] In the 2012 Ageing Report, a key assumption for the long-term projection is that on the productivity growth rate, all countries should converge to the same total factor productivity growth rate (1%) at the end of the projection period (in 2060). European Commission, *The 2012 Ageing Report: Underlying Assumptions and Projection Methodologies*, "European Economy", 2011, No. 4, p. 122

[16] EBRD, *Transition Report 2013*, European Bank for Reconstruction and Development, London, 2013

Figure 3: The rate of convergence is projected to drop significantly in transition countries



Source: EBRD, *Transition Report 2013,* European Bank for Reconstruction and Development, London, 2013, p. 16.

2. Changing role of the cohesion policy

2.1 New concept of the European cohesion policy

The treaties establishing the European Coal and Steel Community (ECSC) in 1951 and the European Economic Community (EEC) in 1957 recognized the existence of regional disparities. The preamble of the EEC Treaty included a provision that the Member States were determined to ensure harmonious development "by reducing the differences existing between the various regions and the backwardness of the less favoured regions". This notion was strengthened in article 2, where it was framed by the principle that the Community should promote harmonious development of economic activities throughout its territory. Despite this, the founding members did not consider it necessary to create a specific European regional development policy. The level of economic disparity among the founding members was not excessive. Therefore, it seemed appropriate to keep regional policy in the hands of the Member States and to address regional imbalances by national means and measures. This situation changed after the first enlargement of the Communities in 1973.

Following the entry into the EEC of the United Kingdom and Ireland regional differences increased significantly. At that time, the Thomson Report of 1973 stated that regional problems across the Community should be handled at the Community level:

> "No Community could maintain itself nor have a meaning for the people which belong to it so long as some have very different standards of living and have cause to doubt the common will of all to help each Member State to better the condition of its people."[17]

Accordingly, since the mid-1970s, regional cohesion has always been regarded as the most important means to promote cohesion and convergence at the Community level, whereby the success of cohesion policy was measured by changes in per capita GDP and in employment rate across the Community.[18] A significant change in the understanding of the role and significance of cohesion policy took place in 2009. An independent report titled "An Agenda for a Reformed Cohesion Policy" was prepared by Fabrizio Barca on the request of the Commissioner for Regional Policy radically reinterpreted the meaning of cohesion policy. Analysing the goals and achievements of cohesion policy, the Barca Report states that a stronger conceptual foundation is necessary for cohesion policy. At the centre of the approach to cohesion policy suggested in the Report lays the so-called place-based paradigm. This paradigm can be best explained by reference to the following excerpt of the Report:

> "Convergence in per capita income (or GDP) of either countries or regions—however the latter are defined—is not the purpose of the policy paradigm, nor is it a good proxy of its objectives, nor is it an appropriate interpretation of what the EU Treaty calls for. Both the increase in capacity utilisation of places and the increase in social inclusion of people living in those places can take place independently of convergence, while convergence does not necessarily ensure either of the two."[19]

In other words, reduction in capacity underutilization can take place even while agglomerations grow faster and disparities between the centre and the periphery widen. Poorer regions may be a priority, but cohesion policy should apply to all regions because inefficiency and social exclusion traps can arise in all places. For the Barca Report, the place-based paradigm means that all regions must be given the opportunity to achieve their full potential and all citizens must be given the opportunity to live a life worth living. Only in this way, both dimensions of cohesion, i.e. efficiency and equity, can materialize.[20] The view on cohesion policy laid down in the Barca Report constitutes a dramatic paradigmatic shift of the

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[17] Commission of the European Communities, *Report on the Regional Problems of the Enlarged Community,* COM (73) 550 final, Brussels, 1973, p. 4

[18] Cohesion Reports published every three years

[19] Barca, F., *An Agenda for a Reformed Cohesion Policy, Independent Report prepared at the request of the Commissioner for Regional Policy,* Brussels, 2009, p. 110

[20] Ibidem p. 3

approach to cohesion policy at the EU level. The views presented in the Barca Report stirred a lively debate at the EU level.

Eventually, Paweł Samecki, the European Commissioner in charge of Regional Policy refined the statements included in the Barca Report. In his 'Orientation paper on future cohesion policy', Samecki emphasized that cohesion policy is the primary EU instrument for mobilizing territorial assets and potential as well as for addressing the territorial impacts of European integration. In view of the impact of the global financial crisis, Samecki stresses that the processes of convergence between Member States and regions could be impeded over the coming years by lower growth rates, weaker public investment and fiscal retrenchment. In these circumstances, Samecki underlined, cohesion policy must remain a pillar of European integration by facilitating adjustment to new situations. Finally, he stressed that cohesion policy, the clearest expression of Europe's commitment to solidarity, must ensure faster convergence through economic and social integration and greater connectivity in the Single Market.[21]

2.2 Cohesion policy in the Multiannual Financial Framework 2014-2020

Although the Barca Report is the most extensive and thorough document on the reform of cohesion policy, the political discussion of cohesion policy and its expenditures in the Multiannual Financial Framework (MFF) 2014-2020 was influenced by the economic crisis rather than the new paradigm outlined in the Report. The rather fierce debate on the MFF was driven not only by the fact that austerity programmes were on the agenda in the net-payer countries but also by the fact that these countries bear the major costs of the European Stability Mechanism.[22] In specific, in the debate on the MFF, the Member States were divided mainly on three key elements of the European Commission's proposal[23], i.e. the overall size of the MFF 2014-2020, the reform of common agricultural policy and the future of cohesion policy. Eventually, two groups of countries identifiable by their attitudes toward cohesion policy were formed during the negotiations on the MFF, i.e.: the "Friends of Better Spending" and the "Friends of Cohesion Policy".[24] The first group did not object the necessity of EU

[21] Samecki, P., *Orientation paper on future cohesion policy,* Brussels, 2009, pp. 3-4

[22] Richter, S., *The EU's Multi-Annual Financial Framework for 2014-2020: an Old Construct Fit for a Changed EU?* Kompetenzzentrum "Forschungsschwerpunkt Internationale Wirtshaft" Policy Brief Nr. 19, 2013, pp. 1-2

[23] European Commission, *Proposal for a Council Regulation laying down the multiannual financial framework for the years 2014-2020,* Brussels, 29.6.2011 COM(2011) 398 final

[24] The "Friends of Better Spending": Austria, Germany, Finland, France, Italy, The Netherlands and Sweden. The "Friends of Cohesion": Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Lithuania, Latvia, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and Spain. See Kölling, M., *The Multiannual Financial Framework 2014-20 – Best European value for less money?* "Perspectives on Federalism", Vol. 4, issue 3, 2012

cohesion policy but desired to limit public spending. The 'Friends of Cohesion Policy' focused on the fact that the EC's budgetary proposal constituted the absolute minimum for cohesion policy. As a result of a heated debate and prolonged negotiations, the European Council of 7/8 February 2013 agreed to an MFF smaller than the previous MFF (2007-2013) (Table 3).

Table 3: Comparison of the new and the last MFF in 2011 prices

	New MFF 2014-20	**Last MFF 2007-13**	**Comparison 2014-20 v. 2007-13**	
Commitment appropriations	*€mn*	*€mn*	*€*	*%*
1. Smart and Inclusive Growth	450.763	446.310	+4,5bn	+1,0%
1a. Competitiveness for Growth and Jobs	125.614	91.495	+34,1bn	+37,3%
1b. Economic, Social and Territorial Cohesion	325.149	354.815	-29,7bn	-8,4%
2. Sustainable growth: Natural Resources	373.179	420.682	-47,5bn	-11,3%
3. Security and Citizenship	15.686	12.366	+3,3bn	+26,8%
4. Global Europe	58.704	56.815	+1,9bn	+3,3%
5. Administration	61.629	57.082	+4,5bn	+8%
6. Compensations	27	n/a	+0,027bn	n/a
Total commitment appropriations	959.988	994.176	-35,2bn	-3,5%
as a percentage of GNI	*1,00%*	*1,12%*		
Total payment appropriations	908.400	942.778	-34,4bn	-3,7%
as a percentage of GNI	*0,95%*	*1,06%*		

Source: Summary of the European Council agreement, http://www.consilium.europa.eu/special-reports/mff/summary-of-the-european-council-agreement

The European Council asserted:

> "One important objective of the European Union is to promote economic, social and territorial cohesion and solidarity among Member States. Cohesion policy is in this respect the main tool to reduce disparities between Europe's regions and must therefore concentrate on the less developed regions and Member States".[25]

Although this statement implies the acceptance of both the redistribution- and convergence-supporting functions of cohesion policy, "Economic, social and territorial cohesion" (subheading 1b) lost 8.4 per cent of its previous financial commitment appropriation. Furthermore, a new category has been introduced into cohesion policy, i.e. transition regions with GDP per capita between 75 and 90 per cent of the EU-27 average. An

[25] European Council, *Conclusions*, EUCO 37/13, Brussels, 8 February 2013, p. 10

overwhelming majority of these regions belong to the old Member States; therefore, support will be decreased in the new Member States to an even larger extent.

On 2 December the Council adopted the regulation laying down the EU's MFF for 2014-2020. This followed the European Parliament's consent of 19 November.

During the negotiations, the Member States' representatives followed neither the traditional concept of cohesion nor the new paradigm of the Barca Report. The Sapir Report from 2003 has not lost its relevance: "…the current budget is more the expression of different deals and attempts by governments to claw back in receipts as much of their contribution as possible…than a coherent set of measures aimed at pursuing EU objectives".[26]

The fiscal crisis in the EU has weakened solidarity and the willingness of net contributor countries to finance cohesion policy. However the economic problems, first of all high (especially youth) unemployment rate in the Mediterranean countries require well-targeted, efficient actions to avoid social and political instability. The European Council Agreement tried to solve this task at the expense of the post-socialist countries' by decreasing the financial support they receive. This irrespective of the fact that their long-term growth potential is also endangered and weakening peripheral countries may weaken and destabilize the entire European Union.

3. Conclusions: is the cohesion policy is a tool for convergence or security?

The Barca Report strives to find a method for a much more heterogeneous integration than was contemplated by the Thomson Report of 1973. It reveals both the limits and failures of cohesion policy as implemented in the EU since the mid-1970s. Faced with these the limits and failures, the Barca Report relinquishes convergence as the goal of cohesion policy. The Ageing Report 2012 also abandons the assumption of absolute convergence in productivity and GDP levels between countries. The reason is that the growth rate would be needed to allow for this convergence in its projections would not be plausible in the short and medium term.

Despite serious theoretical problems, the European Council formally maintained the traditional concept of convergence in its February Conclusions on the MFF 2014-2020. However, the debates and the agreement show that solidarity has weakened in the aftermath of the economic and financial crisis.

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[26] Cited in Richter, S., *The EU's Multi-Annual Financial Framework for 2014-2020: an Old Construct Fit for a Changed EU?* Kompetenzzentrum "Forschungsschwerpunkt Internationale Wirtschaft" Policy Brief Nr. 19, 2013, p. 3

Neither the theoretical concept nor the political discussion addresses the aspects of security. However, the Mediterranean countries have been diverging from the EU averages (GDP and final consumption) and the threat of a recession spiral is more relevant than ever.[27] The extremely high unemployment rate, especially among youth, endangers social stability. In contrast, due to smaller economic imbalances in the Visegrád countries prior to the crisis and to the quick adjustment in the Baltic states, in the medium term social and political security is a less challenging issue in the CEECs than in the Mediterranean countries. These trends described above, whereby the Mediterranean countries are diverging from the EU-27 average and the CEECs demonstrate an uneven yet overall positive pace of convergence are not reassuring from the viewpoint of stability. That is, growing inequalities across the EU Member States induce emigration which reduces economic growth potential of the emigrant countries and accelerates the ageing of their societies. Clearly, as the consequence of economic decline especially in the Mediterranean countries, poverty increases. This may undermine social stability; and this strengthens political extremism and euroscepticism as the European Parliament's election in 2014 revealed. These threats may affect not only these countries but also weaken the power of European integration.

In spite of the severe limits of convergence, cohesion policy, paradoxically, must remain an essential part of EU policy. Even if the efficiency of cohesion expenditures is not satisfactory and needs to be improved, the EU Member States should not abandon their support for cohesion. The raison d'être of cohesion policy is not the absolute convergence that was hoped for in the 1970s or at the beginning of the post-socialist system change. Instead, it is the avoidance of both divergence and destabilization of peripheral EU countries that should drive the implementation of cohesion policy in the EU today. Without cohesion policy, both security and sustainability of the four freedoms, the achievements of European integration, may be endangered.

[27] On the effectiveness of austerity programmes see Végh M. Z., *Has Austerity Succeeded in Ameliorating the Economic Climate? The Cases of Ireland, Cyprus and Greece*, "Social Sciences", 2014, Volume 3, issue 2, pp. 288–307, doi:10.3390/socsci3020288. On the crisis of the European social market economy model: Pelle A., *The European Social Market Model in Crisis: At a Crossroads or at the End of the Road?* "Social Sciences", 2013, Volume 2, issue 3, pp. 131-146, doi:10.3390/socsci2030131

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