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Think Visegrad in Brussels

Finding a Visegrad added value in the new Cohesion Policy, 2021-27

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Introduction

The EU´s budgetary negotiations have historically been a case of lowering the capabilities and increasing the expectations of the Cohesion Policy. Presented by the European Commission in May 2018, the proposal for the programming and budgetary period of 2021-27 only reasserts this historical trend when compared with the period of 2014-20.[1] The growing gap between capabilities and expectations can also be identified when analyzing the three relevant categories of (i) budgetary allocation, (ii) strategic content, and (iii) conditionalities and administrative regulation. The gap is growing along a ´do more with less´-logic because the volume of budgetary allocation is once again decreasing on the capabilities side, while the strategic content on the expectations side is being simultaneously expanded with aims unrelated to the original purpose of promoting socio-economic cohesion between less and more developed EU regions and, in effect, member states. For many of the less developed states, the relative diminishing of the funding carrot is moreover paralleled with maybe simplified but harsher sticks when the conditionalities and administrative burden are considered. The Commission wished for the new multiannual financial framework (MFF) and the affiliated regulations to be approved by May 2019 due to the upcoming elections to the European Parliament. From the current viewpoint, the inter-state distributional bargaining, at least in the EU Council proceedings, does not seem to abide for now. For now, the member states are still in search of what really constitutes the EU added value in the new MFF.[2]

The Visegrád states are the ones most affected by the growing gap. The widening capability-expectations gap in the Cohesion Policy thus remains unfavourable to the Visegrád states as net-recipients in the new MFF, yet it can be equally claimed to have a negative effect on the future economic performance of net-paying member states due to the inter-dependencies established on, above all, the Single Market and the Economic and Monetary Union (EMU). This begs the question, on what is the Visegrád added value constituted in the new Cohesion Policy, and how can it be reconciled with the EU added value in general? In order to answer the question, this policy brief tries to identify the capability-expectations gap as a framework for understanding both the current negotiations and the later evaluation of the final deal.

[1] European Commission, ´A Modern Budget for a Union that Protects, Empowers and Defends The Multiannual Financial Framework for 2021-2027´, COM/2018/321.

[2] Council of the EU, ´OUTCOME OF THE COUNCIL MEETING: 3636th Council Meeting´, General Affairs, Brussels, 18 September 2018.

Minimized budget allocation: less tangible capabilities

Set at 1,11 % of the EU-27's GNI, the overall size of the MFF was proposed to be at a slightly similar level as that of the previous one. Although its current overall size of €1,135 billion still remains below the original expectations of 1,3 % of the EU-27's GNI, which were expressed by the European Parliament and some net-receiving states, there is evidently a discrepancy with the ´do more with less‘-logic expressed by the net-paying states.[3] This logic is, however, vigorously applied to the Cohesion Policy in particular. The proposed funding for the three cohesion funds (ERDF, the Cohesion Fund, and ESF+)[4] decreases from the €374 billion for the 2014-20 period to around €331 billion for the 2021-27 period, which accounts for the relative decrease from the original 34,1 % to around 29,1 % in the new MFF. The territorial coverage of cohesion funding is reoriented toward the two categories of less-developed and transition regions, which are now characterized as having GDP below 100 % of the EU-27 average instead of the previous corresponding figure of only 90 %. Besides the main criterion of the EU-27 average of GDP per capita in PPP, more arbitrary criteria are added to the so-called Berlin Formula which decides on where the allocated sums will go. Along with the original criteria of labour market, education, and demographics, the newly added ones include the issues of climate and migration. In effect, this leads to the spatial relocation of the cohesion funding from the East back to the Southern European periphery of the EU.

As a result, the Visegrád states belong among the biggest losers in the proposed allocation scheme. While the overall cut is around 10 %, Czechia and Hungary lose 24 %, Poland 23 %, and Slovakia 22 %.[5] These direct cuts are often justified by the post-accession growth success of the Visegrád economies. The Czech case is illustrative here. Czechia now has 8 NUTS regions in total, and three out of its former seven less-developed regions move to the higher category of transition regions in the next period.[6] This tells, however, only half of the story due to the main methodological criterion for the allocation: the EU-27´s average GDP in PPP. First, the Visegrád economic successes is only relative to the economic recession of the crisis-ridden economies in Southern Europe. In relation to the advanced economies of major net-payers such as Germany and the Netherlands, the Visegrád GDP convergence has been less dynamic. Second, some of the Visegrád economies can actually be seen as less developed when

[3] Parry, M. and M. Sapała (2018): ´2021-2027 Multiannual Financial Framework and New Own Resources: Analysis of the Commission's Proposal´, Brussels: European Parliamentary Research Service.

[4] There are three main structural and investment funds in the Cohesion Policy: the Cohesion Fund, the European Regional Development Fund (ERDF), and the European Social Fund (ESF+).

[5] DG for Regional and Urban Policy (2018), ´Proposals for a Modernised and Reformed Cohesion Policy Post-2020´, *PANORAMA* 65, Brussels: European Commission, 15.

[6] The Nomenclature of Territorial Units for Statistics (NUTS) is a strandard which spatially delineates the subnational divisions of member states in the EU for purposes such as the allocation of structural and investment funds in the Cohesion Policy.

their GDP (i.e. the value created in the national production) – the main criterion for the redistribution – is compared with their GNI (i.e. the value owned in the national production). For example, due to the higher foreign ownership of their national economies, Czechia, Hungary and Slovakia's GNI to GDP ratios constantly ranked below 95 %.[7] Although the developmental needs thus remain acute in the Visegrád economies, out of the EU-27, they lose the biggest percentage of their cohesion funding.

Strategic content: overly expanded and confused expectations

With the reduced capabilities, the expanded and confused expectations for the EU added value in the cohesion agenda further reinforce the gap. Indeed, Heading II in the proposed 2021-27 MFF has been termed ´cohesion and values´ instead of the previous ´economic, social, and territorial cohesion´ for the 2014-20 period. While this might be a useful explanatory strategy with which the Commission can symbolically conceal its resignation regarding the Cohesion Policy, this brings less added value for member states such as the Visegrád Four. Moreover, the new strategic content is no longer matched with the long-term and coherent developmental strategies such as the Lisbon Strategy or Europe 2020. Rather, the proposed Common Provisions Regulation (CPR) on Cohesion Policy indeed expect the Cohesion Policy to play a one-way supportive role for other policies in its own budgetary heading but also in other headings, which are, however, often unrelated to the principles of socio-economic and territorial cohesion.[8]

The heading ´cohesion and values´ allowed for a confusion of expectations, as the new expectations are being distanced from the original aims of supporting mutual socio-economic convergence in the EU. Indeed, the new heading mixed the principles of socio-economic and territorial cohesion with the values-oriented categories, such as Erasmus+, the new EMU reform support package, and items related to security and citizenship. The new CPR is similar in the sense that it expects the Cohesion Policy to build one-way synergies with other instruments in the new MFF, such as Horizon Europe, the Connecting Europe Facility, the Digital Europe Programme, and Erasmus+, but also the Asylum and Migration Fund, the Internal Security Fund, and the Border Management and Visa Instrument. Far more problematic is the direct link with the Reform Support Programme, which might, in the context of the European

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[7] For the GNI to GDP ratio in individual economies, see the database of the Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/categories/33108?cid=33108&et=&pageID=4&t=.

[8] European Commission, Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument, COM/2018/375 final - 2018/0196 (COD).

Semester, privilege the change from cohesion investment to fiscally-oriented structural reforms. There might be synergies whereby the Cohesion Policy´s direct sponsorship of the competitiveness, security, and even austerity agendas indirectly enables improved results of the cohesion agenda in return. However, in the absence of a coherent developmental strategy, it is more likely that the whole strategic content will be ineffectively fragmented under the expanded and often conflicting expectations.

This fragmentation is hardly desirable for the Visegrád economies and the developmental needs of their regions. First, in this case, there is no added value for the majority of the Visegrád regions. Although the Visegrád economies have tended to converge with the EU-27´s GDP average overall, there has been increasing inter-regional polarization, which favoured capital and strategic second-tier regions at the expense of others. The fragmentation of the cohesion agenda might further promote this process, while also hardly allowing the less fortunate regions to finance their locally-led development strategies. Second, the past actions of some Visegrád state managers might have helped to create an environment that legitimates the securitization of the MFF at the expense of cohesion imperatives. Many of the Visegrád policy-makers and economic experts might also welcome the ever-increasing competitiveness- and austerity-oriented bias in both the MFF and the Cohesion Policy. With the aforementioned cuts, however, the expanded and confused expectations could undermine the Visegrád national capacities for public investment.

Rules and conditionalities: a harsher stick with a smaller carrot

The Commission has traditionally tried to steer the agenda of the otherwise inter-state negotiations over the Cohesion Policy in a way which would give it the upper hand during the implementation period. This has been done through the system of conditionalities and implementation rules. By reducing the ‘carrot’ due to the budget cuts and fragmented content, the Commission´s proposal gave the impression that the ‘stick’ would be simultaneously loosened. Promising simplification and flexibility, the new system of conditionalities and management procedures can, however, potentially lead to a qualitatively harsher stick because the Commission receives disproportionately increased decision-making powers over the allocation and spending of the cohesion funding. Besides the 20 low-profile ones, the macroeconomic and rule-of-law conditionalities are the most exemplary cases in this respect. The same goes for the Commission´s increased authority in setting the agenda of the cohesion funding in individual states against the background of the European Semester, the new Reform Support Programme and also the overall turn from shared to central management. The reduced carrot in the context of the harsher stick risks creating a disadvantageous position for the net-receiving states.

Due to their traditionally strong orientation on fiscal discipline, Visegrád state managers might accept the macroeconomic conditionality which was initiated to discipline the South European member states. The rule-of-law conditionality, however, targets recent political developments in particular Visegrád states. It is legitimate to demand a fiscally and legally sound environment for the implementation of cohesion funds. If approved in the proposed form, the two conditionalities facilitate the Commission's arbitrary powers to interpret the member states´ compliance, which have implications far beyond the Cohesion Policy. The same goes for the agenda-setting powers, which allow the Commission to forcefully shape the programming of the cohesion funding at the onset of the 2021-25 period and during the review for the 2026-27 period while firmly linking both to the European Semester and the Country Specific Recommendations therein. For the Visegrád states, the proposed conditionalities and rules create a hardly justifiable balance with the potential budget cuts and fragmented strategic content.

Visegrád and EU added values in the new Cohesion Policy

Thus, for the Visegrád states, there is a widening capability-expectations gap when the 2014-20 and 2021-27 periods are compared. While far from homogenous, the Visegrád developmental needs and overall national interests would nevertheless hardly benefit from the Commission´s proposed EU added value in the Cohesion Policy. The aforementioned evidences a widening gap in accordance with the ´doing more with less´ frame in relation to the proposed (i) budgetary allocation, (ii) strategic content, and (iii) conditionalities and administrative regulation.

Against this background, the reconciliation of the EU and Visegrád added values consists in closing the gap in three possible ways: (i) a one-way increase in capabilities, (ii) a one-way rationalization of expectations, and (iii) a two-way correction of both capabilities and expectations. Closing the gap in one of the three ways can harness a greater Visegrád added value in the Cohesion Policy and thus make the new MFF and Cohesion Policy regulations more acceptable during negotiations and sustainable during the implementation. It also structures the three-way logic for the later evaluation of the negotiated deal:

- **If the expectations remain the same, the Visegrád added value can be upgraded only with an increase in resource capabilities expressed in the growing volume of MFF overall or the Cohesion Policy´s share therein.** In no way should this increase be interpreted as an expression of the net-payers´ one-sided solidarity. Indeed, the net-paying states, such as Germany, the Netherlands and Austria, have profited from their economic interdependence with the Visegrád economies in the Single Market. Offering a skilled and cheap labour force and technologically adaptive subcontractor sectors along with investment incentives for the transnational enterprises headquartered in the net-paying states, the Visegrád economies have formed a backbone of the net-paying states' global competitiveness in the established supply chains. As the produced added value in the Visegrád economies is mostly captured at the end of the supply chain in the net-paying countries, the Cohesion Policy represented one of the very complicated ways to repatriate a small portion of that value in the form of cohesion investments. The proposed cuts risk disintegrating this transborder export-oriented hub, which is currently also one of the main growth engines in the EU.

- **If the capabilities remain the same, the agenda-setting and the management of their investments should remain more concentrated and *de facto* re-nationalized.** With reduced resources, the Visegrád added value of the Cohesion Policy can be realized only when directly matched with the socio-economic development in the Visegrád states. Given that the cohesion agenda is set to facilitate a one-way support to an expanded number of other related and unrelated European agendas, this will hardly meet the Visegrád developmental needs. The thematically narrowed and more nationally managed Cohesion Policy could thus offset the reduced resource capabilities and, above all, increase the much desired national ownership of the implementation process. In the light of the announced simplification and greater flexibility of the Cohesion Policy, the Commission´s role should thus consist rather in overseeing compliance than in playing a de facto control and command role in the overall cohesion governance.
- **The middle ground is a reflexive increase in capabilities and a rationalization of expectations.** Under these conditions, the expected budgetary cuts would have to be re-evaluated on the level of either the Cohesion Policy or the whole MFF. This could legitimize the expanded scope of expectations attributed to the Cohesion Policy. At the same time, the strategic content would nevertheless have to be rationalized and brought closer to the issues of socio-economic convergence. This would make it legitimate to require the net-recipients to comply with harsher but transparent conditionalities and rules, as well as to tolerate the Commission´s higher hand during the implementation process.

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