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EUROPEAN UNION COHESION POLICY IMPLEMENTATION FOR GROWTH

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Abstract

In order to promote economic and social progress European Union (EU) developed cohesion policy in both national and supranational levels. The developments are examined under three headings: growth, cohesion and the budget. More specifically attention is paid to the single market aims removing border controls for goods, services and capital, and policies influencing the growth. The European Union competition, trade and research and technological development policies developments are explored in terms of growth. Reducing income disparities among Member States is matter of priority in the enlarged European Union. Cohesion policy can become an effective tool of economic convergence if it is accompanied by a set of financial and non-financial elements such as labour market situation, investment opportunities, etc, which are the results of national policies.

Keywords: EU cohesion policy, redistribution, economic and social cohesion.

Introduction

The definition of integration in terms of European Union is graduate elimination of economic frontiers between independent states. Economic integration serves both economic and political objectives: economic welfare, security, democracy, human rights, and is mainly based on welfare economics.

Competitive markets may generate considerable inequality. Government intervention is then to reduce this inequality by redistribution. The EU creates a need for such redistribution on the European scale. The scale of regional and other disparities as well as the political approach and the specific policy instruments used at the European level to deal with this problem have changed very much over the years (Pilinkienė, 2008). Since the mid-1980, the Community has been implementing policies to respond to low growth, high inflation, and low levels of employment. The Single Market Programme was launched in the hope that removing barriers would reallocate recourses. At the same time it would foster competition, productivity and raise real income. The full liberalization of capital flow was important reason that led to creation of the Economic and Monetary Union (EMU) in 1999. In order to benefit from the growth effects of he Single market, a number of conditions needed to be met and spending on cohesion policy was expanded.

The essence of it is redistribution implemented by taxes, subsidies and regulations. Supranational redistribution oriented policy instruments exist in the form of EU cohesion policy (Dumčiuvienė, Meilienė, Snieška, 2005). It is motivated by the effect on regional and national income inequality of the European economic integration process. Some instruments are left to the Member States and lower levels of government.

The objective of the article – the development of EU cohesion policy.

The aim of the article – to explore the peculiarities of the EU economic and social cohesion.

The research methods used in the work – the analysis of literature and statistical data.

Policies for growth

According the goals of European Single Market (ESM) programme border controls for goods, services and capital were eliminated on 1 January 1993. The point was, that Member States are requested to recognise regulations drawn by other EU countries as being equivalent to their own. It allowed to perform economic activities that are lawful in one Member state to be freely pursued throughout the Community. Harmonisation is an alternative approach to mutual recognition. Services are regulated in more diverse ways than goods. The regulations varies from local administration to professional associations in terms of licenses, certificates, qualifications, etc. The Single Market programme strategy for service liberalisation was based around home country control using the principle of mutual recognition. The free movement of capital involves the cross-border transfer of assets. It can be defined as the removing of constrains on foreign exchange, of discriminatory tax measures and other obstacles.

Implementing ESM programme some policies have been executed as well. The EU competition policy mainly can be characterised by mergers control, monopoly and state aid control (Snieška, 2008). The objective is to promote efficient operation of market forces, by restraining both the dominance of large

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corporations and interventions by governments. The principal theoretical reason to pursue competition policy is need to avoid the misallocation resulting from:

- inefficiency in resource allocation: a firm charging a price above the marginal cost of production keeps production and consumption below the optimum level ;
- reduced technical efficiency;
- dynamic inefficiency, not having constant innovation in productions and products.

This is way the removal of barriers to competition has similar effects to the removal of barriers to trade (McDonald, Dearden, 2005).

EU trade policy has pursued some approaches. The advantages from free trade have incited the founders of the EU to adopt the principle of the free internal movement of goods. Multilateral trade policy is conducted through the World Trade Organization, regional trade policy with countries wishes to benefit from Single Market while remaining outside the EU. European agreements have been concluded with the accession countries, and the EU has been consistently expanding free trade agreements with third countries.

The EU promotes research and technological development (RTD) policy as well. It is organized in multi-annual research framework programmes. Technological development and the effective dissemination of RTD results in to productive sector allow to reduce countries dependency on low labour costs, and on activities with a low technological context (Molle, 2006). RTD policy and infrastructure development can help the separate sectors to gain competitiveness.

Policies implementation

International goods trade is essential to the economies of EU member states. It is illustrated by the figures of Table 1, which representing the relative importance of goods trade in gross domestic product. It is clear, that the GDP trade ratio indicates the degree to which a country participates in international goods trade. The degree is dependent on size economy and structure of economy (Molle, 2006).

Table 1. Percentage share of goods imports and exports in total GDP of member states 1990 – 2004

	1990		2000		2004	
	imp	exp	imp	exp	imp	exp
EU (25 countries)			45	39	41	37
Belgium/Lux	58	57	76	79	75	81
Czech Republic			57	52	57	54
Denmark	24	26	29	32	27	32
Germany	23	26	27	30	25	31
Estonia			78	58	71	50
Ireland	46	52	54	81	35	61
Greece	24	10	29	10	25	8
Spain	18	11	28	21	25	18
France	19	18	26	25	22	22
Italy	16	15	22	22	20	20
Cyprus			35	5	32	4
Latvia			41	24	47	26
Lithuania			46	31	52	38
Hungary			69	60	58	52
Malta			89	64	66	46
Netherlands	44	46	59	63	51	57
Austria	31	26	37	35	39	38
Poland			29	19	33	26
Portugal	37	24	38	23	31	21
Slovenia			53	46	50	46
Slovakia			63	58	69	67
Finland	34	20	29	38	26	33
Sweden	24	25	30	36	28	34
United Kingdom	23	19	24	20	22	17

Now, as new growth theories suggest most innovations result from entrepreneurial activities or investments in RTD. In particular research investment is encouraged by:

- a good system to protect intellectual property rights on innovations;
- a high productivity of RTD investments, which requires a good education and research subsidy system;
- low interest rates as RTD investments are forward-looking;
- product market competition, low entry costs;
- good access to risk capital by new start-up firms:
- more flexible market institutions.

The context of cohesion requires investment in RTD structures and training sciences and technicians as well. In other words, it requires complementary investments – in building up the science base and infrastructure, in training people and developing an industrial RTD capability. Deficiencies in level of European RTD have led to the European Council to set a target for RTD expenditure of 3 per cent of Gross Domestic Product (GDP).

In 2007, the highest R&D intensities among the Member States were registered in Sweden (3.64% of GDP) and Finland (3.47%), followed by Austria (2.56%), Denmark (2.55%), Germany (2.53%) and France (2.08%). The lowest intensities were found in Cyprus (0.45%), Slovakia (0.46%), Bulgaria (0.48%) and Romania (0.53%) (Table 2.) (http://epp.eurostat.ec.europa.eu/).

Important requirement for innovation-driven economy is higher education (Table 2.)

Table 2. Research and development expenditure; Human resources in science and technology as a share of labour force (2007)

	Annual expenditure on public and private educational institutions per pupil/student Tertiary level of education (ISCED 5-6)	**Research and development expenditure - % of GDP (2007)**	**Human resources in science and technology as a share of labour force - Total - (%) (2007)**
EU (27 countries)	8289.1	1.83	39.25
Belgium	10117.4	1.87	46.69
Bulgaria	3642.2	0.48	30.83
Czech Republic	5624.3	1.54	35.96
Denmark	12654.4	2.55	48.90
Germany	10425.5	2.53	43.74
Estonia	3337.5	1.14	46.83
Ireland	8855.5	1.31	41.24
Greece	5185.9	0.57	31.20
Spain	8534.8	1.27	39.72
France	9301.5	2.08	41.88
Italy	6785.6	1.14	35.56
Cyprus	8816.8	0.45	42.47
Latvia	3764.9	0.63	37.23
Lithuania	3801.4	0.82	40.58
Luxemburg	:	1.63	43.35
Hungary	5353.1	0.97	31.72
Malta	9079.1	0.6	31.06
Netherlands	11744.2	1.7	49.85
Austria	12813.4	2.56	37.62
Poland	4715.6	0.56	32.53
Portugal	6244.4	1.18	22.10
Romania	2402.7	0.53	22.97
Slovenia	7080.5	1.53	38.89
Slovakia	4892.5	0.46	31.80
Finland	10390.2	3.47	49.68
Sweden	13489.7	3.64	48.87
United Kingdom	12105.6	1.76	43.15

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At regular intervals there is set the multi-annual framework for Community finances which reflects a shift in priorities over the years (Hall, Smith, Tsoukalis, 2001). The priorities adopted in Maastricht Treaty were accounted in the financial package 1993-1999. The Cohesion fund was created and structural policies represented 35 per cent of the total budget (Pelkmans, 2001). The budgetary package 2000-2005 reflects coming enlargement (Table 3.)

Table 3. EU budget structure 2000, 2005 *(%)*

	2000	**2005**
Subsidies according Common Agricultural Policy	46	42.6
Structural funds	36	36.4
Internal policies	6	7.8
External actions	4	4.5
Administration	5	5.4
Pre-accession aid	2	2.9
Reserves	1	0.4

The Commission's proposal starts from three long-term political priorities in 2004:

- sustainable development: growth, cohesion and employment (the Lisbon agenda and sustainable growth);
- the interest of the citizens: freedom, security and justice;
- strengthening the Union's voice as a global partner.

Furthermore, the Commission has proposed re-arranging the structure of the financial perspective 2007-2013 into five budgetary headings:

- Heading 1: sustainable growth - including two sub-headings: 1a) competition for growth and employment; and 1b) cohesion for growth and employment;
- Heading 2: conservation and management of natural resources (including agriculture, fisheries and environment;
- Heading 3: citizenship, freedom, security and justice;
- Heading 4: the EU as a global partner;
- Heading 5: administration (http://ec.europa.eu/budget/prior_future/fin_framework_en.htm#amended).

Figure1.shows the budget of EU for year 2007-2013 allocated according functions of government (http://ec.europa.eu/budget/prior_future/fin_framework_en.htm#amended).

The Community expenditures mainly focuse on economic activities, which consist of the Structural Funds, Cohesion fund and internal policies, and on social protection.

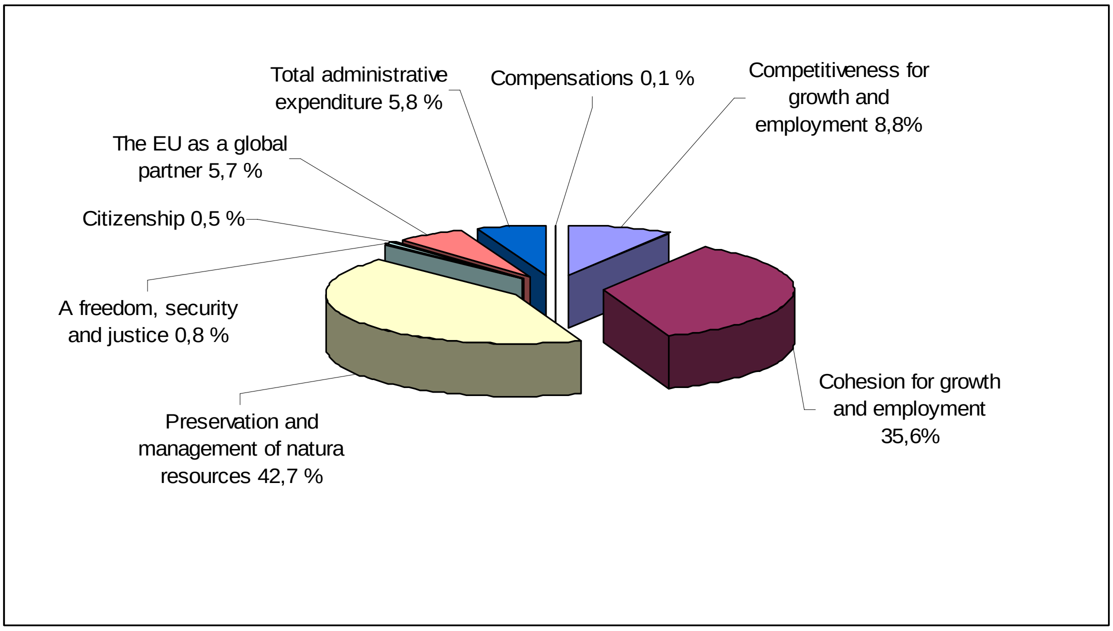

Figure 1. The budget of EU for year 2007-2013

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Conclusions

The main rationale for European economic integration is the enhancement of allocational efficiency.

In terms of research and development Europe has a lack of private sector investment in RTD.

The growing responsibilities of the Community and shift in priorities have been reflected in the budget. The size and composition during last years have changed. The budget of the Member states and the EU since last years is allocated according to functions of government. The Community expenditure mainly focuses on economic activities and on social protection.

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