Motivations Behind the Reforms of the EU Cohesion Policy

- Theoretical, Practical Analysis and Transition of the Reforms over the EU Cohesion Policy –

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Abbreviations

AIM-AP	Accurate Income Measurement for the Assessment of Public Policy
CF	Cohesion Fund
CP	Cohesion Policy
EAGGF	European Agricultural Guidance and Guarantee Fund
EC	European Commission
EEA	European Environmental Agency
EES	European Employment Strategy
EfD	Expenditure for Development
EIB	European Investment Bank
EMU	European Monetary Union
EQUALSOC	Economic Change, Quality of Life & Social Cohesion
EP	European Parliament
ERA	European Research Area
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
FIFO	Financial Instrument for Fisheries Orientation
GDP	Gross Domestic Product
GFC	Global Financial Crisis
ILO	International Labour Organization
INEQ	Inequality: Mechanisms, Effects and Policies
JRC	Joint Research Centre
LoWER3	The Insecure Perspectives of the Low-Skilled in the Knowledge Society
MS	Member States
NUTS	Nomenclature Units for Territorial Statistics
OECD	Organisation for Economic Co-operation and Development
OMC	Open Method of Coordination
PAYG	Pay-as-you-go
PRSub-C	Policy Research Sub-Committee on Social Cohesion
R&D	Research and Design
RTDI	Research Technology, Development and Innovation
SMEs	Small and Medium Sized Enterprises
TEC	Treaty on the European Communities
UNFCCC	United Nations Framework Convention on Climate Change
USA	United States of America

Country Codes for the EU Member States

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	Netherlands
PL	Poland
PT	Portugal
RO	Romania
SI	Slovenia
SK	Slovakia
SE	Sweden
UK	United Kingdom

Abstract

[European Union Cohesion Policy (Regional Policy) traces back to the inception of the European Union. With the enhancement of a deeper and wider integration of European Communities, Cohesion Policy (CP) has significantly evolved and expanded its sphere. This has entailed CP to never have an absolute form. CP has therefore been reformed during this time since it was put into force and its objectives have been revised constantly. Economic and social disparities between the Member States in enlarging Europe were the main motivations that dragged CP to an ever evolving process. Therefore, these reforms have aimed to bring a comprehensive approach in tackling these issues. Accordingly, this paper questions why CP of the EU has been reformed many times. The thesis first presents an extended research of the CP both theoretically and practically. In the latter, CP objectives, which are social, economic and territorial objectives have been analysed practically. The analysis also demonstrates the position of clustered group of Member States (MS) on specific diagrams that pinpoint them to reveal the results of these reforms.]

Introduction

Creating common values, economies and services in an equitable sphere at supranational level is not an easy job. Especially, if this sphere is a composition of twenty seven countries, hundreds of regions[1] and thousands of cities with plenty of different nations and ethnics, it is perhaps even harder. When the European Union (EU) was founded after the Second World War, alongside stimulating the internal market, sharing a common market and distributing wealth were prominent features in debates. It was, technically, a few years later that the EU took measures to implement such ideology in practical life, as well by introducing Regional Policy, as known as Cohesion Policy (CP). Regional Policy had purposes to ameliorate the overall conditions amongst the Member States, that is, it aimed at easing economic operations between them. Yet, CP has also expanded its sphere since its inception and reached a more comprehensive approach that deals with not only economic, but social and territorial problems as well. This has caused CP to never have an absolute form. Therefore, there have been many regulations and adjustments over the CP and it has been reformed during all these years.

Today, with the current economic crisis in Europe, the functionality of these reforms is not eligible enough to bring solutions. Whilst some of the problems remain and need solutions, some of the reforms are paving the way for the integration of European communities. In this regard, this thesis focuses on exploring the reasons behind these reforms in economic and social aspects. The author believes that revealing these reasons will make us understand better toward which ultimate purposes these regulations are actually aiming and what sort of reforms could bring result-oriented, efficient and targeted solutions for CP to function better.

Economic and social cohesions constitute the core of the CP. Territorial cohesion has been added to the CP as a new and a binding dimension to the CP. Therefore, the topic is tackled through economic and social aspects in the theoretical part and is analysed with the three CP objectives in the latter. In this regard, the thesis aims to explore the underlying motivations in reforming the CP. In order to achieve this, the methodology will be to pinpoint the group of MS with some specific indicators on diagrams. This will demonstrate which groups of states are doing better to converge the countries in terms of CP objectives and which groups of states are moving the European Communities towards a better level. The way that most of the countries agree and share will give us an idea about both the motivations behind the reforms and perspectives about the future of CP.

[1] 'Region' refers to micro-regional level, unless it is referred to something else.

With respect to the theoretical framework, economic cohesion is tackled in two different aspects. First being the Neo-classical growth model (Solow-Swan growth model, 1956) and second, the Barro-Sala-i Martin growth model which was set against the former and generated through it with more empirical data. Such progresses in economic theories have also paved the way in regulating CP objectives through the years as well. Therefore, as the growth rate in converging economies is an important indicator, theory on economic part is based on growth models. Social cohesion, on the other hand, is a challenging issue in Europe's agenda. Social cohesion, in this regard, is widely discussed with different approaches from different academics. The Canadian research of Jenson has significant parameters in creating an academic background for social cohesion. Thereby, theories on social cohesion demonstrate a broad research that also brings new dimensions to the analysis in this paper.

The thesis is organised in five parts. The topic of thesis is introduced in Part I by explaining the main dynamics in reforming the Cohesion Policy. Part II explains the research questions and applied methods. Convergence theories of neo-classic economics and new approaches to convergence theories that are linked to economic cohesion objectives are scrutinized in Theoretical Framework of Part III along with widely discussed social cohesion theories. The overview of the CP is widely tackled in Part IV. Whilst Part V explains the reforms over CP by demonstrating clustered MS on specific diagrams. The three objectives of CP that are economic, social and territorial cohesion have been the main references of this research to determine the diagrams of clustered states. Part V concludes.

Research Question and Methods

The purpose of this thesis is to reveal the motivations that dragged Cohesion Policy to an ever evolving process. Therefore, the paper questions why the CP has been reformed so many times since its foundation. By saying this, the paper aims to investigate the underlying reasons of these reforms in theoretical debates of social cohesion and economic convergence. The theoretical framework of social cohesion questions what sort of understanding is able to bring an approach that make people of different societies live concertedly together. Theoretical framework of economic convergence, at the same time, uses the data of economic result. It aims at revealing what kind of economic decisions effect the holistic structure of the society and the political and economical relations of states in the light of continuing reforms.

According to the fifth Cohesion Report of the EC, there are three objectives that CP takes into account. These objectives are economic, social and territorial cohesion policy objectives. In order to better understand these objectives, the regulations in the history of CP present the transition of these objectives. The history of the EU analyses the understanding of how the solidarity mechanism of today's world has evolved, as well as, the technical part of CP has changed accordingly. Since technical literature of the CP is largely mentioned, it is therefore necessary to comprehend the mechanism of Nomenclature Units for Territorial Statistics (NUTS) and Structural Funds and Cohesion Fund of the EU.

EU Member States (MS) are mainly clustered in four different groups of countries in both analysing CP objectives and pinpointing clusters. These groups are determined as to their administrative forms. *Northern system countries* represent Sweden, Denmark and Finland. *Federal states* Belgium, Germany and Austria are shown in another cluster. Spain and Italy, on the other hand, are considered as *regionalised states*. Even though the rest of the MS are considered as *unitary states*, in all proposed graphics they are also clustered in different groups depending on applying policies in different governmental structures. Although it is hard to pinpoint MS in given comparisons, this methodology gives an insight about which MS are in which level of implementing policies at the state level. The place that they are situated graphically will also give an idea about the success of regulations over the CP. Thereby, generic approaches could be developed for particular challenges within a group of countries or one particular country alone.

Theoretical Framework

Approaching the Choice of Theories

Cohesion is an ideal towards which societies have to strive continually. It is a goal to which they aspire, but never fully achieve. This makes precise definition elusive (EPRC 2010: 5). However, conceptualizing cohesion is an indispensable step in structuring the institutional level as well as in making policies (B. Deacon et al. 2010: 215). However, using the notion of cohesion as a tool in social sciences is crucial. Therefore, it is chosen two different theories to bring a better understanding to the reforms of CP, one from economic and one from social cohesion. Explaining the research question with two separated, but also strongly linked theories will contribute to the analysis of objectives of the CP. The research question requires different explanations from different aspects, but these explanations are also closely linked to each other in the process of regulations. Hence, social and economic theories will provide these explanations thoroughly.

Theoretical Framework of Social Cohesion

The definition of cohesion is already arguable, so too is the meaning of social cohesion. However, the Government of Canada's Policy Research Sub-Committee definition on Social Cohesion is as follows:

- social cohesion is 'the ongoing process of developing a community of shared values, shared challenges and equal opportunity within Canada, based on a sense of trust, hope and reciprocity among all Canadians' (PRSub-C, 1997).

Along with the working group of the Commissariat général du Plan of the French Government:

- social cohesion is a set of social processes that help instill in individuals the sense of belonging to the same community and the feeling that they are recognised as members of that community (Plan, 1997).

So, with these two definitions Social Cohesion is:

- a process
- a definition of who is in the community
- shared values

Social conflicts of a community, which could be different communities coming from different cultural backgrounds or individuals within a community, evolve within a process that seek for who will be in that particular community and who will accept the shared values. In this regard, according to the Plan, social cohesion is not a condition. It is rather a set of social processes that help instill in individuals the sense of belonging to the same community and the feeling that they are recognised as members of that community (Plan, 1997:16). Yet, there are concerns about how flexible the community's values are in enlarging within itself and with other communities.

These concerns force us to design a concept that could prepare societies towards the future where people of that society can live concertedly. Moreover, the economic side of those concerns is in the agenda of supra-national institutions such as the EU or the OECD. It is usually assumed to be a package of threats. Such concerns caused the OECD to convene a major conference in December 1996, chaired by Donald J. Johnston, whose theme was 'societal cohesion in the era of globalisation'. In the resulting written report, the authors provide no definition of social cohesion, but they do describe economic, social and technological turbulence associated with the market forces unleashed by globalization and structural adjustment policies that have created both economic growth-creating flexibility and 'growing strains on the fabric of OECD societies'. It is therefore safe to assume that most people prefer a world where life is characterised by stability, continuity, predictability, and secure access to well-being. Societies with such attributes garner more easily the commitment and adherence that sustain societal cohesion over time (OECD, 1997: 7).

Although cohesion is an elusive concept and social cohesion is hard to define, Jenson conceptualizes social cohesion and proposes a definition of components of social cohesion from the Canadian experience by taking the definitions above into account. 'Social cohesion involves building shared values and communities of interpretation, reducing disparities in wealth and income, and generally enabling people to have a sense that they are engaged in a common enterprise. Facing shared challenges whilst being members of the same community' (Jenson 1998: 3). Jenson demonstrates five dimensions of social cohesion:

belonging	isolation
inclusion	exclusion
participation	non-involvement
recognition	rejection
legitimacy	illegitimacy

These dimensions ultimately aim at the creation of values shared by the citizens of a country. A sense of identity allows them to feel *'committed'*, and *'part of the same community'* (Jenson, 1998: 15). In order for citizens of a country to have the sense of ***belonging*** to the community, common values, norms and social attitudes have vital importance, that is, they keep the society in a unique sense of belonging. Another element is that social cohesion is related to economic institutions and especially one central institution of modern societies, that is, markets (Jenson, 1998:15). This element makes them feel that they are included to same system with other citizens or people. In the case of the EU, this element is the one that could be used as a flagship notion in creating a Europe identity. ***Inclusion*** of all MS' markets to one another is the core idea of the EU. European communities, in this sense, are familiar with this notion over others.

For the OECD and the Plan very explicitly, and for the PRSub-C somewhat more indirectly, social cohesion requires ***involvement***. The OECD suggests that, cohesion problems may be signalled by political disenchantment (Jenson, 1998:16). In France, the Plan's study was engendered by Prime Minister Juppé's call to analyse social cohesion in institutional terms, related to reorganisation of the institutions of regional government, a reform that reduced the power of Paris and increased local responsibility. 'Indeed, the Plan suggests that the local level is the key level for the production of social cohesion, implying a remake of our governing practices so that the 'local' is acknowledged to be a fully functioning intermediary. This proposal to reform the relationship between the central government and local authorities will help foster an intelligent dialectical relationship between national unity and local diversity' (Plan, 1997: 21). Thereby, making participated local authorities more than they used to be creates more of an extensive involvement and brings more diversified approaches to the overall conditions of local communities. The Plan explains that it correlates a generic and a smart form between national and local units. In the European case, although regionalism is rising and local governments are getting more powerful in some aspects, there is still an economic conflict. Although these administrative tiers are officially set and the representatives of regions are in the European Parliament (EP), economic concerns are at stake. In economic wise the poorer regions are depended on the money coming from the national budget that is contributed by the richer regions. This causes a big conflict between regions even within the same countries, e.g. Wallonia and Flanders in Belgium.

'Conflict over access to resources of all sorts is inevitable; the collection focuses on a variety of differences. These conflicts occur are over issues such as, inter alia, definitions of national identity; the relation between religion and the modern state; the capacity of the society to adapt to other cultures, the practical and moral scope of the welfare state; the applicability of Western notions of human rights everywhere; the public and legal status of issues of personal morality; and the role of civil society as against the institutions of the state' (Berger, 1998: xvi). However, 'the necessary mediation over power, resources and values is, according to this perspective, assured by institutions, whether formal or informal, public or private; the same institutions, in different places or different times, may be mediators or may be promoters and aggravators of conflicts. The essential task for maintaining social cohesion is nurturing those institutions which contribute to, rather than undermine, practices of ***recognition*** of difference' (Jenson, 1998: 16).

At national level, the institutional structure of a state is targeted for specific purposes. Each governmental body deals with some particular subject and accordingly carries out its duties. However, in the European case, supranational organisations are larger than the national ones. Therefore, the duties of such institutions are more challenging as they deal with larger communities. The cultural and historical background of different communities creates a sphere where all the different values of the big community have to mingle. Supranational institutions, in some aspects, constitute an appropriate structure for each community to integrate with each other and to recognise different perspectives; however, it is risky for the components of such bulky structures to conform to each other. Therefore, the process of being more organised within the EU is an essential aspect to this case.

'The central finding in the Club of Rome's study is that the intermediation necessary for living with the value conflicts of a plural society does not happen at the level of individuals; it is the product of institutions, including the macro-institutions of a liberal democratic state. A range of *corps intermédiares* - from advocacy groups and other non-governmental organizations to political parties and governmental bodies – assure the connections among individuals. Therefore, social cohesion depends at least in part on maintaining ***legitimacy*** of those public and private institutions that act as mediators and maintain the spaces within which mediation can occur. Social cohesion can be threatened by rising tides of cynicism or negativity that question the respresentativity of intermediary institutions. For example, sectarian forms of public discourse that seek to close down debate and refuse 'grant standing' to different organised interests' (Jenson, 1998: 16-17).

The five dimensions of social cohesion conceptualize the relations of different units of a society. These include governmental and non-governmental units, national and local authorities and furthermore, the society itself. Jenson suggests why it is necessary to 'unpack' the concept of social cohesion:

- There is no single way of understanding even the definitional dimensions of social cohesion. These often vary according to the problem being addressed and the individual or organisation speaking.
    - For some, social cohesion means primarily the capacity to construct a collective identity, a sense of belonging.
    - For others, the focus is a society's commitment and capacity to assure equality of opportunity by including all its citizens and reducing marginality.
    - Social cohesion is also discussed in relation to democratic practices, including patterns of participation, and the legitimacy of representative institutions such as advocacy groups, political parties, unions and governments.
    - In modern plural, liberal democratic societies, where value conflicts are inherent and social choices are open, social cohesion is sometimes interpreted in terms of society's capacity to mediate conflict over access to power and resources, to accept controversy without trying to shut it down (Jenson, 1998: 17).

The concept of social cohesion presents the characteristic signs of a *quasi-concept*. That is, one of those hybrid mental constructions that politics proposes to us more and more often in order to simultaneously detect possible consensuses on a reading of reality, and to forge them (Bernard, 1999:2). Bernard suggests 'hybrid' because these constructions have two faces: they are, on the one hand, based, in part and selectively, on an analysis of the data of the situation, which allows them to be relatively realistic and to benefit from the aura of legitimacy conferred by the scientific method;

and they maintain, on the other hand, a vagueness that makes them adaptable to various situations, flexible enough to follow the meanderings and necessities of political action from day to day. This vagueness explains why it is so difficult to determine exactly what is meant by social cohesion (Bernard, 1999:2).

Berger-Schmitt, on the other hand, points out that social cohesion involves two analytically distinct 'societal goal dimensions':

- The first dimension concerns the reduction of disparities, inequalities, and social exclusion.
- The second dimension concerns the strengthening of social relations, interactions and ties. The dimension embraces all aspects which are generally also considered as the social capital of a society.

The two dimensions must be viewed as independent from each other to a certain degree (Berger-Schmitt, 2000: 4). This problem highlights the importance of considering both dimensions – *disparities / inequalities / social exclusion* and *social relations / ties / social capital* – in order to get a comprehensive picture of the social cohesion of a society (Berger-Schmitt, 2000:4).

With respect to theoretical debates above, social cohesion is a concept that tries to keep different groups of people in a same environment where they can involve society with equal rights, by recognising the bodies that provide these conditions on a fair basis regardless of their age, gender, ethnical, educational or religious background. The frequency of multi actions in this regard shows how people are included within one another and within society. Referring to the current issues being discussed within the EU after the Global Financial Crisis (GFC) such as, solidarity and public policy design, it is essential for the EU to have a comprehensive, inclusive and reciprocally recognised approach to measure the social cohesion among the MS, even though it has difficulties to overcome. In order to smooth the vagueness away upon the social cohesion, the agreement of 2005 at Council of Europe determined the following social cohesion indicators:

- Equity in the enjoyment of rights,

1. Inequality of income distribution
2. Long-term unemployment rate
3. Life expectancy at birth
4. a) Proportion of homeless people in the population

   b) Population without access to quality housing

   - Dignity and recognition

5. Assumption of senior responsibilities for women

6. Ethnic or religious ghettos
7. Elderly people who receive a minimum old age allowance
   - Autonomy/occupational, family and personal development
8. a) Proportion of over-indebted household

   b) Proportion of households below the poverty threshold in spite of both parents working
9. Dropout rate at the minimum school-leaving age without qualifications
10. Ability of children from disadvantaged social backgrounds to succeed at school.
    - Participation / commitment
11. Participation in elections by 18-34 year-olds.
12. Proportion of the budget reserved for social issues
13. Workers with disabilities in the public and private sector
14. Proportion of jobs in the voluntary sector
15. Elderly people living with their families
16. Confidence in public institutions
17. Suicide rate
18. Awareness of human rights and of the right to justice
19. Subjective perception of health
20. Murder rate

As seen, the list is aimed at covering as many social problems in Europe as possible. Yet, the Canadian research of Jenson represents a pretty neat and simple approach in conceptualising social cohesion. Bernard, on the other hand, mentions about a hybrid form of a social construction. According to him, there are two parts that compose it, empirical data and vague applications. Therefore, he thinks the definition of social cohesion will remain elusive. Berger-Schmidt tackles the issue with problems and proposals. So, this theory has two legs, that is, it is supposed to be tackled separately to a certain level, but also need to complement each other. This also creates a synergy between these two legs. Berger-Schmidt also presents the operationalisation of the dimensions in the different domains [See: Annex, Table 1 and Table 2].

Theoretical Framework of Economic Convergence

Fostering growth and reaching convergence cover reasons over why economic growth theories test empirical studies of economic convergence. This is because economists are interested in knowing whether the distribution of income changes over time. Furthermore, economists are also interested in knowing whether, within a country, interregional differences in income levels tend to disappear or tend to increase over time (Sala-i Martin, 1994:1). If they diminish, Sala-i Martin considers that economists may be less worried about creating aid programs. Economists are also interested in knowing whether the regions that are relatively poor now are the same as the ones that were relatively poor one hundred years ago. If the answer is yes, that is, the poverty tends to persist over time; then economist may want to enact public aid programs to allow the poor regions to escape this predicament. If the answer is no, that is, the economies that are relatively poor today are not likely to remain relatively poor in the future, then there is no need for economists to worry about the country-wide distribution of income. The empirical results of these questions are related to economic convergence (Sala-i Martin, 1994).

Lucas points out 'Neo-classical growth model (Solow, 1956) emphasizes a distinction between growth effects - changes in parameters that alter growth rates along balanced paths - and level effects – changes that raise or lower balanced growth paths without affecting their slope' (Lucas, 1988:14). In order to clear the confusion on what is meant by growth effect and level affect, under the neo-classical model predictions, saving rates and trade barriers of lagging countries could be given as examples. Removal of trade barriers is, on this theory, a level effect, analogous to the one-time shifting upward in production possibilities, and not a growth effect. Similarly, countries' saving rates are criterion of growth effects in this theory, and in order for lagging countries to be considered in same level with developed countries, they must have the same characteristics as rich ones have; income per capita for either group of countries may be a parameter to measure it.

The neo-classical growth model of Solow and Swan based on assumption of diminishing returns to scale implies conditional convergence of per capita output: per capita growth decreases as an economy approaches its steady state level of output (Serra, et al, 2006:4). Thus, among economies that converge to the same steady state, this model implies absolute convergence of per capita output: poorer economies catch up with richer ones. In this sense, under the assumptions of neo-classical theory, convergence will occur through free trade, labour migration, capital mobility and diminishing return to capital accumulation.

With respect to Solow- Swan growth model and its absolute convergence assumption, Sala-i Martin uses two concepts, *β-convergence* and *σ-convergence*, in order to explain convergence with further calculations and assumptions. *β-convergence* is a negative relation between the growth rate of income per capita and the initial level of income within a cross-section of economies. In other words, there is *β-convergence* if poor economies tend to grow faster than wealthy ones. Moreover, the estimated speeds of convergence are surprisingly similar across data sets, that we can use a mnemonic rule: Economies converge at a speed of about two percent per year (Sala-i Martin, 1994). It is surprising, because under the assumptions of neo-classic theory, this speed is higher in developing countries than the developed ones. While the richer countries will be approaching steady state, the poorer ones will catch up with them and this will enable to emerge convergence. However, in Sala-i Martin's calculations, this speed is same for both parties, which is about two percent per year. The concept of convergence is often confused with an alternative definition of convergence, where the dispersion of real per capita income across groups of economies tends to fall over time. The author calls this *σ-convergence*. The initial level of income and real per capita income are the parameters of this definition and it is substantially linked to technological dispersion between countries.

Regarding the relation between *β convergence* and *σ-convergence,* let us suppose there are two economies; one is called X and the other is Y. X has an agricultural based economy and the rich people of the society possess the majority of the lands, while poor people possess the scarce of the lands. Inherently, both group of people legate their wealth and estate to their children. In other words, the high privileged people of the society will end up being rich and the children of the lower class will end up being poor. On the other hand, economy Y is an industrial economy which is composed of skillful entrepreneurs and labor class who is working at entrepreneurs' factories. However, the children of working class have an opportunity to start running their own enterprise as long as they have worthy ideas. So, the results in this economy may not end up with the same results as in the previous economy. Economy Y, in this context, displays *β-convergence,* that is the growth rate of income per capita, is higher than the rich economies. Economy X, on the other hand, does not display *β-convergence* because the growth rate of income per capita for the rich economy was the same as that of the poor. The examples illustrate that the two concepts examine interesting phenomena which are conceptually different: *σ-convergence* studies how the distribution of income evolves over time and *β-convergence* studies the mobility of income within the distribution (Sala-i Martin, 1994: 5-6).

In addition, it is also possible to test *β-convergence* to see whether regions within countries converge to different steady states. The simplest way to address this possibility is by introducing regional dummies to the equation above, but it is beyond the purpose of this research. It is significant noting that *β-convergence* is a necessary, but not sufficient, condition for *σ-convergence*. The dispersion in the level of per capita output decreases (*σ-convergence*) only when poor regions grow faster than rich ones (*absolute β-convergence*), but if poor regions grow too quickly, their per capita output could outstrip that in richer regions and increase the dispersion of per capita output (Serra, et al, 2006: 4).

According to assumptions of neo-classic approach in reducing disparities between poor and rich countries, disparities will disappear because of diminishing returns to capital and convergence.

Additionally this will occur through free trade, free movement of labour and product and capital mobility. Promoting these assumptions at practical level and a further integration of markets will lead the markets to a more efficient resource allocation. This accordingly will also provide an economic growth. However, in such a globalized economy, further and deeper integration of markets will create new opportunities, which could generate new facilities for actors in the market. These opportunities may compose of specialization in activity, economic agglomeration and ascendancy in technology and innovation. Thereby, regional disparities – also disparities between countries- may remain constant and may lead markets to divergence instead of convergence. Thus, further research on convergence and divergence in economic sense presents to add more varieties, such as price convergence or technological convergence, to the equation of convergence, which needs to be taken into account intently. The number of these varieties could increase in direct proportion to integration processes of markets

Technology helps poor economies to catch up with that of the rich economies. In 1962, Nelson and Phelps postulated that the rate of technological progress for a country was a function of the distance between its level of technology and the level of technology of the world. These models assume that technological progress takes the form of new types of capital goods, and generate endogenous growth because there are no diminishing returns to the number of goods. The new goods are introduced by firms who purposefully perform research and development to invent the goods in exchange for a permanent patent that allows them to collect monopoly profits on the sales of such goods. They show that, other things being equal, the growth rate is a negative function of the cost of inventing new products (the cost of Research and Design (R&D)) (Sala-i Martin 29-30). For example, we can think of lagging countries as being able to imitate the products invented in the leading nations. The process of imitation would be similar to the process of R&D in that a fraction of resources would have to be spent to learn how to imitate product. The growth rate for these imitating countries would be a function of the imitation costs. To the extent that imitation costs are lower than innovation costs, the lagging countries would tend to grow faster so the economies would converge (Sala-i Martin, 1994: 29-30). Although there is a question at this point regarding what happens when the poor imitating countries, which grow faster than the rich, completely catch up so that there are no more goods to be imitated (e.g. Japan), the dispersion of technology converge countries to each other, rather than diverging them. Technology, in another sense, demonstrates the level of that country in adding how much value to those high-tech products. Bringing poor and rich countries to a same level in terms of technology, will give the opportunity to those that are lagging to produce more original and functional products for the country or the regions within a country.

Economic convergence depends on a set of factors, such as technological dispersion, distribution of income across countries, price convergence, etc. It is significant to determine which factors provide long-run convergence, despite its complications. However, neo-classic approach has shortcomings to explain today's relations. There are other components that need to be considered in the equation of convergence in economic sense. Although there are more than one index to explain main properties of inequality and convergence measure, Sala-i Martin and Barro's calculations have more realistic assumptions in evaluating the convergence in contrast to neo-classic approach. In this regard, when regional institutions integrate relatively poor and rich countries into each other, they apply such policies in order to reduce disparities between these countries towards convergence. An argument against a cohesion policy as such is that regional divergence is linked to structural changes in the economy and its environment, that bring the economy at a higher growth rate; introducing spatially differentiated policies for lagging areas have often been ineffective and even counterproductive (World Bank, 2009). Thereby, such institutions like the EU have to find more targeted, efficient and result-oriented policies to implement.

The overall results on economic cohesion show us the motivations over reform on CP. With the engagement of new countries that are relatively not doing as good as the MS in terms of economics to the EU, rich countries will slowdown in growth since they will have to share the wealth relatively with poor countries. In order for poor countries to catch up with rich ones, there should be an increase in the amount of contribution and sharing of resources by the rich countries. By doing so, problems that remain and become a chronic conflict can be prevented. This entails reforms over economic cohesion. EC is always more eager than the EP in this aspect. EC gets benefits from rich and poor regions, or countries, to converge them to each other in economic sense. Yet, EP seems more skeptic about sharing economic gains with relatively poorer regions. It is because representatives from rich regions are not that eager to share the wealth with others. Therefore, it is essential to make reforms both over the political mechanism and constitutional aspect. Otherwise, poor regions keep remaining poor, thus, eventually affecting better-off countries and the whole system. The following section will demonstrate an overview of changing objectives and the CP itself holistically.

Overview: European Union Cohesion Policy

This section of the thesis focuses on the reforms that have been made over the CP through the years and some technical information as to how the CP works. Nomenclature Units for Territorial Statistics and the Structural Funds and the Cohesion Fund are the sub-titles.

Reforms over the EU Cohesion Policy

The recognition of *regional issues* was crucial in post-war Europe. At the Messina Convention of 1955 and in the Treaty of Rome of 1957, regional issues were not particularly specified, but economic development was addressed in general. Although the attention to regional policy in the Treaty of Rome of 1957 was minimal, the founding signatories did declare their aim of *'reducing the differences existing between the various regions and the backwardness of the less favoured regions'*. Article 2 also specified that the Community was tasked with promoting a *'harmonious development of economic activities'* and *'a continuous and balanced expansion'*. Additionally, the only financial instrument created to directly promote regional development was the European Investment Bank (EIB), which had among its tasks that of granting loans *'which facilitate the financing of projects for developing less developed regions'* (Manzella, Mendez, 2009: 5).

'There are three main reasons for this rather vague and cautious approach to regional policy when the European Community was founded. The first relates to the policy context of the time. While there were some important experiences in the field – the established British and North-American practices, as well as the emerging policy initiatives in France and Italy from the early 1950's – regional policy was still largely a nascent policy area. Moreover, the policy was inherently politically – sensitive as it touched on issues associated with the relationship between public power and enterprise and with the territorial organization of the state. It is, therefore, understandable that there was reticence to grant responsibilities in this field to a newly established European organization. It is significant, in this respect, that still in 1969 the Commission argued that' (Manzella, Mendez, 2009: 5):

- *'even more than other branches of economic policy, regional policy is clearly the concern of the public authorities in the member states. The measures it involves fall directly under the political, cultural, administrative, sociological and budgetary organization of the States. Regional policy forms and integral part of the system of internal balances on what the State is based'* (Commission of the European Communities, 1969: 13).

Commission also proposed a rough course of action concerning how to apply regional policy:

- *'the basic objective of regional policy applied to the general problems of the common market is to help improve the harmony of regional structures in the Community, firstly in order to combat the mechanical effects which tend to develop owing to the mere fact of opening internal frontiers, and secondly in order to permit the implementation of* *common policies and to create maximum external economies for each of the regions'* (Commission of the European Communities, 1969).

European Community was aware of the significance of regional policy and was also determined to apply it by creating new instruments. As it was mentioned in Chapter III of the Werner Report:

- *'the realization of global economic equilibrium may be dangerously threatened by differences of structure. Cooperation between the partners in the Community in the matter of structural and regional policies will help to surmount these difficulties, just as it will make it possible to eliminate the distortions of competition. The solution of the big problems in this field will be facilitated by financial measures of compensation. In an economic and monetary union, structural and regional policies will not be exclusively a matter for national budgets'* (Commission of the European Communities, 1970).

At the beginning of the 1970's, regional policy was officially in the Commission's agenda and the EU's regional policy was launched in 1975 with the establishment of the European Regional Development Fund (ERDF). In this sense, regional policy was perceived as a crucial instrument for the identity of a European model of society, and for the legitimacy and viability of the whole political process of integration (Manzella, Mendez, 2009: 5). Thereby, it was also crucial to establish such a fund that would support this process. The establishment of European Monetary Union (EMU) has, on the other hand, had collateral aims in committing this action. Yet the link to the foundation of EMU clearly addresses:

- *'No Member States can be expected to support the economic and monetary disciplines of Economic and Monetary Union without Community solidarity involved in the effective use of such instruments: equally Member States must be prepared to accept the disciplines of Economic and Monetary Union as a condition of this Community support'* (Commission of the European Communities, 1973: 19).

These endeavors, which were more an economic sense than a social approach, provided an effective way of creating a single market and spreading the harmonious development across the MS. However, despite the necessity of such an attempt in economic sense, the *status quo* required a new dimension to the Community's cohesion policies with the enlargement of the union with southern countries. The objective of economic and social cohesion was expressed in the Single European Act and became reality in 1988 with the adoption of the first regulation which gave birth to Cohesion Policy (Inforegio, 2008: 2). In this regard, it is important to cite Jacque Delors, President of the European Commission between 1985 and 1995, speech of 1989:

- *Europe sees its future as striking a balance between competition and cooperation, collectively trying to steer the destiny of the men and women who live in it. Is this easily done? No. Market forces are powerful. If we left things to their own devices, industry would be concentrated in the north and leisure pursuits in the south. But these market forces, powerful though they may seem, do not always pull in the same direction. Man's endeavour and political aspiration is to try to develop a balanced territory.*

Following the accession of Greece in 1981 and Portugal and Spain in 1986 regional disparities in the European Community of 12 Member States had widened significantly. Before accession one European in eight had an annual income 30 % below the community average; this became one in five after accession in 1986. As a result of the budget crisis, and the desire to complete the internal market and to enhance economic and social cohesion, the Commission submitted proposals to the Parliament and to the Council for reforming the Community financial system. In its communication of 15 February 1987 entitled 'Making a success of the single Act: a new frontier for Europe'; later referred to as the 'Delors I Package', the Commission suggested rules to improve the budgetary discipline and procedure. The proposal concerned a new inter-institutional agreement under which Parliament, Council and Commission would agree on a multiannual financial perspective and budgetary priorities. In the light of the conclusions of the Brussels European Council of 11th and 12th February 1988 which established for the first time a five-year financial perspective; from 1988-1992 (Inforegio, 2008: 8). The 1988 reform introduced a number of principles for Cohesion Policy and its instruments which since then remain the policy's *mode d'emploi*. These principles are:

- Concentration on a limited number of objectives with the focus on the least developed regions;
- Multi-annual programming based on analysis, strategic planning and evaluation;
- Additionality ensuring that Member States do not substitute national EU expenditure;
- Partnership in the design and implementation of programmes involving national, sub-national and EU actors, including the social partners and non-government organisations, ensuring ownership and transparency of the interventions.

Five priority objectives were agreed in 1988:

- Objective 1: promoting the development and structural adjustment of regions whose development is lagging behind;
- Objective 2: converting regions seriously affected by industrial decline;
- Objective 3: combating long-term unemployment;
- Objective 4: facilitating the occupational integration of young people;

- Objective 5: (a) speeding up the adjustment of agricultural structures and (b) promoting the development of rural areas (Inforegio, 2008: 10).

The Single European Act of 1987 recognised that economic and social cohesion within the Community was an essential part of the completion of the single market and initiated a major reform of the Community's main instruments for regional policy (Bachtler, 1995: 223). The Single European Act of 1987 paved the way for implementing these five objectives of 1988 reform. These objectives composed of underpinning the regions which are industrially lagging as well as to improve the facilities of agricultural structure in rural areas. By virtue of applications and agreements by the end of 1992, consideration on regional policy needed a new and more powerful dimension through an existence of an institution which is dealing more with regional issues, rather than conceptualizing those policies in general. With respect to this, the Treaty on European Union and the revised Treaty on the European Communities (TEC) entered into force on 1 November 1993 after it is agreed in Maastricht on 7 February 1992. The 1993 reform left the objectives of the period 1994-1999 more or less unchanged:

- Objective 1: promoting the development and structural adjustment of regions whose development is lagging behind:
- Objective 2: converting regions or parts of regions seriously affected by industrial decline;
- Objective 3: combating long-term unemployment and facilitating the integration onto working life of young people and of persons exposed to exclusion from the labour market, promotion of equal employment opportunities for men and women
- Objective 4: facilitating adaptation of workers to industrial changes and to changes in production systems;
- Objective 5: promoting rural development by (a) speeding up the adjustment of agricultural structures in the framework of reform of common agricultural policy and promoting the modernization and structural adjustment of fisheries sector, (b) facilitating the development and structural adjustment of rural areas; and
- Objective 6: development and structural adjustment of regions with an extremely low population density (as of 1 January 1995) (Inforegio, 2008: 15).

With the objectives that were determined for the period of 1994-1999, Europe has shown that growth and employment are the core tasks in the framework of regional policy. However, through the 2000's the target of the objectives was widened by applying these tasks onto a sustainable base.

It is significant to add such a dimension, because it provides MS a more efficient approach to struggle against unemployment and especially to eradicate it in agricultural sectors.

In this regard, the 1999 reform reduced the number of Structural Funds Objectives from six to three, and the remaining three objectives are:

- Objective 1: promoting the development and structural adjustment of regions whose development is lagging behind;
- Objective 2: supporting the economic and social conversion of areas facing structural difficulties, hereinafter; and
- Objective 3: supporting the adaptation and modernization of policies and systems of education, training and employment (Inforegio, 2008: 19-20).

Although the number of objectives has reduced, the CP has transformed objectives into becoming more targeted. The current and general understanding of CP is determined with three objectives in the report of 2006 and it is applied for the period of 2007-2013:

- ***Convergence***: aims at speeding up the convergence of the least-developed Member States and regions defined by GDP per capita of less than 75 % of the EU average;
- ***Regional competitiveness and employment***: covers all other EU regions with the aim of strengthening regions' competitiveness and attractiveness as well as employment; and
- ***European territorial cooperation***: based on the Interreg[2] initiative, support is available for cross-border, transnational and interregional cooperation as well as for networks (Inforegio, 2008: 19-20).

The treaties of Maastricht (1992), Amsterdam (1997) and Nice (2002) reaffirmed the policy's importance and its scope was even broadened by the draft Lisbon Treaty of 2006 by a new, territorial dimension (Inforegio, 2008: 2). With respect to this, Lisbon Treaty has reinforced the objectives of CP with a strong grappling in many issues, such as globalisation, demographic changes, sustainable energy sources, climate changes and security threats, in the institutional structure of EU.

All in all, all these reforms over CP have strengthened the institutional power of the EU and have allowed it to take more effective decisions in regional issues.

[2] Interreg is the program that aims to stimulate cooperation between the regions of Europe by the ERDF. It was first applied in 1989.

Nomenclature Units of Territorial Statistics

Social and economic cohesion need analytical data of the regions to assess the administrative applications, economic integration and to explore the lagging regions. In order to get this data, it is needed to map out workings that are interpreted with statistics of the regions. NUTS, in this aspect, is a graded form of mapping out the regions upon some principles. This graded form is based on the institutional divisions that are currently in force in the MS. One of the principles applied, defines the subdivision of national territories into regions in two different ways. Normative regions refer to territories of communities that are living in common historical and cultural background, and that its size is large enough to carry out the allocated duties efficiently. Whereas, analytical regions are primarily based on geographical reasons (Eurostat, 2007: 9).

Economic activities in some certain regions could be more specific than others, such as mining, farming and finance. NUTS excludes specific territorial units and local units in favour of regional units of a general nature (Eurostat, 2007: 10).

Depending on their administrative structure, NUTS subdivides every MS into three different regions. 'At regional level (without taking municipalities into account), the administrative structure of the MS generally comprises two main regional levels (*Länder* and *Kreise* in Germany, *régions* and *départements* in France, *comunidades autonomas* and *provincias* in Spain, *regioni* and *provincie* in Italy etc.) This additional level therefore corresponds to a less important or even non-existent administrative structure, and its classification level varies within the first 3 levels of the NUTS, depending entirely on the Member State: NUTS 1 for France, Italy, Poland, Romania, and Spain, NUTS 2 for Germany, NUTS 3 for Belgium, etc.' (Eurostat, 2007:10)

These principles that are designed for NUTS reveal such statistics and according to Eurostat (2007) these statistics aim to support such purposes:

-For the collection, development and harmonization of Community regional statistics,

- For socio-economic analyses of the regions,

-For the framing of Community regional policies (Eurostat, 2007:10)

NUTS are significantly needed to put the essential economic requirements of the regions into practice by using the data that it receives through national institutions and to create a better insight in structuring administrative levels. In this respect, it could be considered that NUTS have been a process in CP's evolution and has assisted in elaborating more targeted objectives for economic and social cohesion.

Structural Funds and Cohesion Fund

The EU's regional policy was launched in 1975 with the establishment of the European Regional Development Fund (ERDF). However, European Social Fund (ESF) and European Agricultural

Guidance and Guarantee Fund (EAGGF) have already existed since the Treaty of Rome as part of solidarity mechanisms. The Single European Act of 1987 recognised that economic and social cohesion within the Community[3] was an essential part of the completion of the single market and initiated a major reform of the Community's main instruments for regional policy (Bachtler, 1995: 223). According to Article 158 of the Treaty Establishing the European Community, in order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions, including rural areas (Article 158, 1986). In this context, the European Union's regional policy seeks to reduce structural disparities between EU regions, foster balanced development throughout the EU and promote real equal opportunities for all. Based on the concepts of solidarity and economic and social cohesion, it achieves this in practical terms by means of a variety of financing operations, principally through the Structural Funds and the Cohesion Fund (EC, Regional Policy). The Structural Funds are distributed into five groups:

- ERDF aims at reducing regional disparities, reconverting regions in industrial crisis, and promoting underdeveloped rural areas.
- ESF finances training programs for the re-entry of long-term unemployed, self-employed and young workers' entry into the labor force.
- EAGGF finances the adaptation of agricultural operations in declining regions to new forms of agriculture and development of new economic sectors in rural areas.
- Financial Instrument for Fisheries Orientation (FIFO) – provides financial support to coastal regions with traditional fishing industries affected by the sector's decline.
- Cohesion Fund (CF) finances infrastructure projects, European transport networks, and environmental programs in states with a GDP below 90 percent of the European average to facilitate their convergence with more developed countries (Marin Albistur, 2005: 121).

Although Structural and Cohesion Funds vary in area of use, they mainly focus on some basic factors in terms of their contribution towards convergence between regions. Emerging economically dynamic structures in sub-regions in conjunction with training human capital, encouraging both local and foreign entrepreneurs for investment, increasing the rate of using technology, respecting environment by promoting greener and more sustainable development, generating permanent

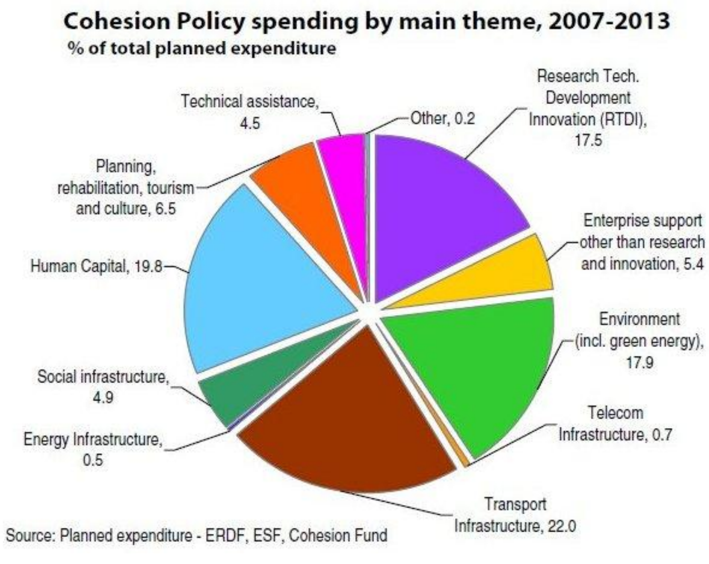
[3] Commission of the European Communities

institutions that work with regional institutions in a harmony are the factors that shape the allocation of the Funds.

Although, the EU budget is divided into different expenditures, the highest portions are generally allocated for the Common Agricultural Policy (CAP, around 40 %), and Structural Funds (around 36 %). According to proposed EU budget for 2014-2020, CP will be funded by 33 % of the whole budget (€336 billion). The proposal predicts allocating 63 % (€649 billion) will be allocated for other policies, such as agriculture, research and external, while keeping 4 % (€40 billion) for Connecting Europe Facility from the whole budget (Corpakis, 2011: 6).

Cohesion Funds, in this sense, aim to reduce economic and social disparities in those countries where Gross National Income (GNI) is less than 75 % of the European community average. For the period of 2007-2013, the Cohesion Fund focuses in Bulgaria, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia. Spain is eligible to a phase out fund only as its GNI per habitant is less than the average of the EU-15 (EC, Regional Policy). The MS that accessed in 2004 and 2007 have relatively more regional disparities than the other countries and all recently accessed 12 MS are taking advantage of Cohesion Funds for the period of 2007- 13. Besides, in terms of spending the Funds by main themes, transport infrastructure has the biggest share – 22%- which is important for the restructuring of new regions (See: Figure 4.1).

Figure 4.1: Cohesion Policy Spending by main theme, 2007-2013



The second biggest share of CP is spending on human capital – 19.8%- that is followed by environmental spending -17.9%- and research technology, development and innovation (RTDI) spending -17.5%. As is can be seen from the figure, the first three spending allocations after the biggest one, are the evidence of changing targets of CP. These new targets are designated by Cohesion Policy Objectives which will be scrutinized in the next section.

Analysis: Cohesion Policy Objectives

Regional disparities between the MS were the main motivations behind the overall purpose of CP. According to Article 174 of the EU Treaty, 'Cohesion Policy aims to promote harmonious development of the Union and its regions by reducing regional disparities'. Even only with this concise purpose of reducing regional disparities, CP has covered quite a distance in determining more targeted objectives for each cohesion objective. Nevertheless, some researches demonstrate that CP objectives becomes more functional and practical whether the overall purposes of each objective become more compatible to each other and supports one another. CP also underpins the growth model of the Europe 2020 strategy including the need to respond to societal and employment challenges that all MS and regions face. The policy supports such development with a clear investment strategy in every region by increasing ***competitiveness, expanding employment, improving social inclusion and protecting and enhancing the environment*** (EC Fifth Cohesion Report, 2010: xxxii). In this regard, following parts of the CP objectives demonstrate how the current policies aim to achieve these targets and a range of researches on related issues. In the end of each section, each CP objective has been measured with two related indicators, one which evaluates whether these targets have practically performed and the other measuring whether the reforms achieved has reduced the distance between the MS.

Economic Cohesion

Economic growth, unemployment and accumulation of factors of production could be the main subjects that economic cohesion aims to fix. Although it is conceived that there are a range of reasons that are a part of achieving the goals of economic cohesion, some orthodox indicators such as, GDP annual rate, GDP growth rate and GDP per capita ratios are essential indicators to measure these aims. Nevertheless, this classical approach of evaluation has been discussed whether these indicators and methods are sufficient and reliable to measure the performance of a particular region and to perform appropriate policies for that region only. While some regions within a country perform better than others, similar economic policies have been applied to them, causing the lagging regions incapable of catching up with favoured ones and favoured regions incapable of gaining an original way for growth. As emphasised by the OECD (OECD, Investing for Growth, 2009): 'Since the end of the 1990's Governments across the EU have progressively emphasised the regional dimension of economic policy. At the centre of this approach is the challenge of designing policies that are appropriate at the local level (EC, Fifth Cohesion Report, 2010: 43). Degrading these new policies to the local level by the hand of such supra-national institution like the EU is as much an issue of economic cohesion as social cohesion. Fifth Cohesion Report presents a broad content, but the literature tends to group determinants of growth into the following broad categories[4]:

- 'Accumulation of factors of production, usually physical and human capital as well as technology: Such accumulation is supposed to be facilitated by well functioning financial and labour markets and is affected by various other features such as:
  - the age structure of the population;
  - natural geography which includes the endowment of natural resources but also the region's topography;
  - economic geography which focuses on aspects such as access to large product or factor markets or the density of economic activity within the region;
  - the policy and institutional context which encompasses aspects such as the quality of governance or the macroeconomic framework of which the regional economy is a part.

- Up-to-date econometric techniques have been used to assess which of a large number (more than 60) of potential growth determinants included in the categories above are the most robust drivers of regional growth:
  - education levels (or human capital) appear to be one of the most important growth factors, especially the share of working age population with tertiary education. This also links to innovation as a higher educated and skilled workforce facilitates a rapid diffusion of knowledge and new techniques. The estimates imply that an increase of 10% in the share of highly educated in working-age population tends on average to raise growth of GDP per head by 0.6 percentage points a year;
  - gross fixed capital formation is also identified as an important factor. This directly affects the productive capacity of regions by increasing the stock of physical capital but mainly by increasing productivity and the diffusion of innovation since capital tends to embody the latest technology;
  - low unemployment rates, which reflect the sound operation of labour markets as well as factor accumulation, regional flexibility and social cohesion, also favour growth;
  - neighbourhood effects are important, in the sense that the growth performance of a region partly depends on growth in surrounding regions.

[4] Besides the initial level of development which is at the basis of the process of catching-up.

- Regions with capital cities tend equally to have higher growth rates than other regions. In general employment density (rather than population density) has a positive effect on growth, reflecting the fact that high job density leads to dense social interaction which increases the scope for knowledge dissemination, so in turn stimulating innovations and growth' (EC, Fifth Cohesion Report, 2010: 43).

Regional dimension to CP and more specifically to economic cohesion aspires to bring a flexible and original approach to growth targets of the MS. Although some common targets are crucial to conduct a holistic progression, in order for regions to gain an authentic character in practicing growth models, flexible approaches and related data to commence and to carry out are required. However, the mainstream of these requirements share some similar features. In this regard, to cover the overall purposes of economic cohesion, there is such common targets where the regions are based upon and make their specific needs occur. Similar reasoning can be considered between the CP objectives on a large scale.

Regional dimension to each CP objectives could be tackled in clustered regions as well. Member states that share similar values, like administrative order or cultural background, can be clustered in order to show what the effect of reforms has over clustered countries that have some something in common. In this regard, the following parts show some analytical research over the economic CP and an evaluation of clustered groups of MS with two related indicators.

Analytical Explanations

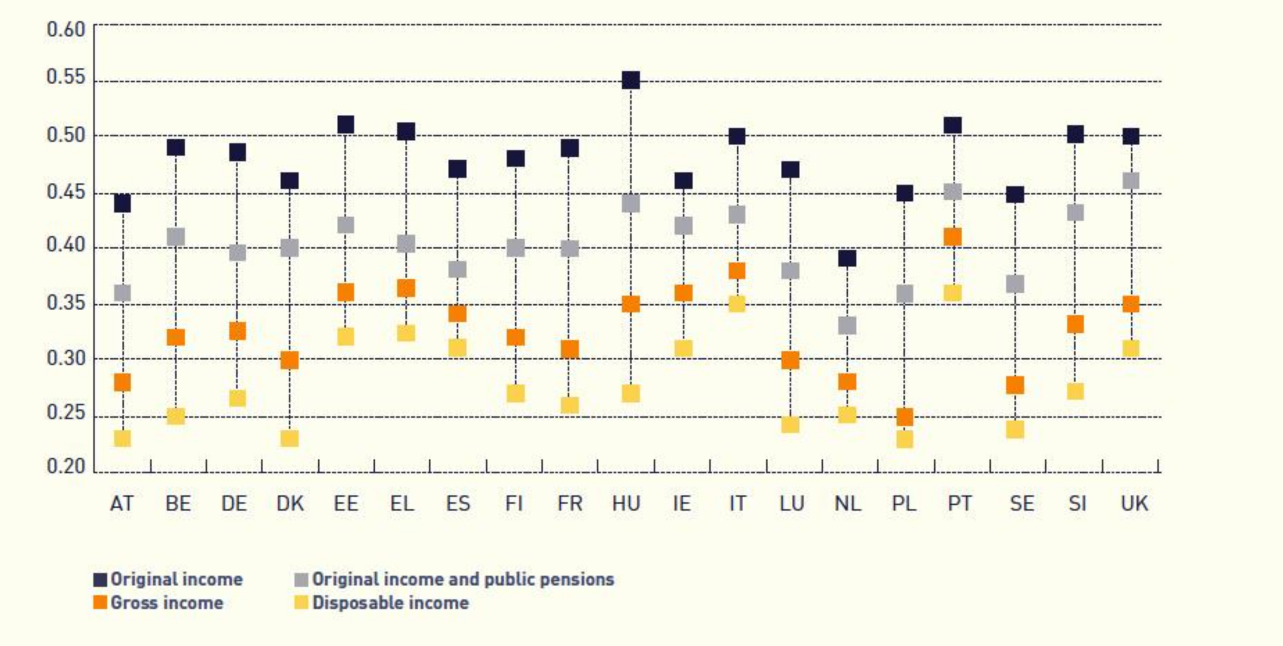
Economic growth is dependent on a range of parameters. Natural and economic geography, skill and size of labour market, compatible political and legal ground for growth and the use of modern and appropriate technology are some of these main parameters. These parameters bring the data whether bringing down the economic inequalities between the MS and stimulating the growth among them is how much applicable and in which directions they are needed to be reformed. In this regard, making national fiscal and monetary policies compatible to each other between the MS and converging them to an upper and more international level affect the overall purposes of economic cohesion. It is because, although they are specifically laid out for a specific country, they take advantage of liberal and free markets which they have to be tied to some regulations as much and strict as within the country.

Liberal markets, for instance, provide the mobility of factors. Free factor mobility among economic units coupled with common fiscal and monetary policies should produce uniform rates of return on investment. To the extent that the accumulation of capital (physical or human) is the main determinant of economic growth, equality in growth rates should eventually emerge. Together with free factor mobility, convergence of national monetary and fiscal policies should therefore be sufficient condition for achieving convergence in growth rates of national income (Canova, 2001: 11). Although monetary union is generated by the acceptance of the Euro, it was not a sufficient attempt to provide both financial and monetary convergence. GFC has shown that financial sectors need to be consolidated and need to have common rules and common audits. Permanency of such a union requests tough control and renunciation on many financial authorities especially for centrally administered states.

Despite the strict and bulky structures of centrally governed states, prominent problems concerning economic convergence have similar bases. Most of the EU projects regarding economic convergence dealt with income per capita, unemployment rates and productivity measures. With respect to providing equal conditions in income issues, EQUALSOC shows that the largest earning inequalities between 1979 and 2000 were in the UK as well as in Northern Europe. By contrast, continental European countries experienced only modest increases or even decreases (EQUALSOC, 2009). OECD data for a slightly longer period show similar increases in earnings inequality both among men and among women, whilst the gender wage gap has largely remained unchanged (OECD, 2008). Underlying the increase in earnings inequalities is the growing imbalance between pay increases and productivity increases, which has resulted in a decline in labour's share of value added (IMF, 2007). INEQ shows that European workers (especially the lower paid) have not benefitted from increases in productivity in recent decades. Furthermore, an increasing proportion of European workers have experienced a decline in total income-wages plus social contributions (EC, Why Socio-Economic Inequalities Increase, 2010: 19).

Earning inequalities are moderated by social transfers, taxes and benefits and are generally measured at the household level. While the AIM-AP project points out that cash incomes are a partial measure of economic resources associated with welfare, income inequality is generally measured by the Gini coefficient on the basis of household disposable income (See: Figure 5.1). Social transfers (taxes and benefits) moderate earnings inequalities but income inequality remains and has been increasing in recent decades. As figure 5.1 shows, disposable incomes are far more equal than original incomes. Hungary for instance has the most in-egalitarian original income (that arises primarily from earnings), but averages in the distribution for disposable income, indicating strong redistributive policies. Sweden and Denmark have comparatively low earning inequalities and are among those with the lowest levels of inequality in disposable income, with Gini's of 0.23, even though Sweden experienced a sharp increase in earnings inequality in recent decades, as shown by INEQ. The more corporatist countries, Austria, France, Germany and the Benelux, show comparatively low levels of inequality, while Southern European states, and the more market oriented UK, and to a lesser extent the new MS, are among the most unequal (EC, Why Socio-Economic Inequalities Increase, 2010: 20).

Figure 5.1: Income Inequality Before and After Social Transfers (Gini Coefficient)



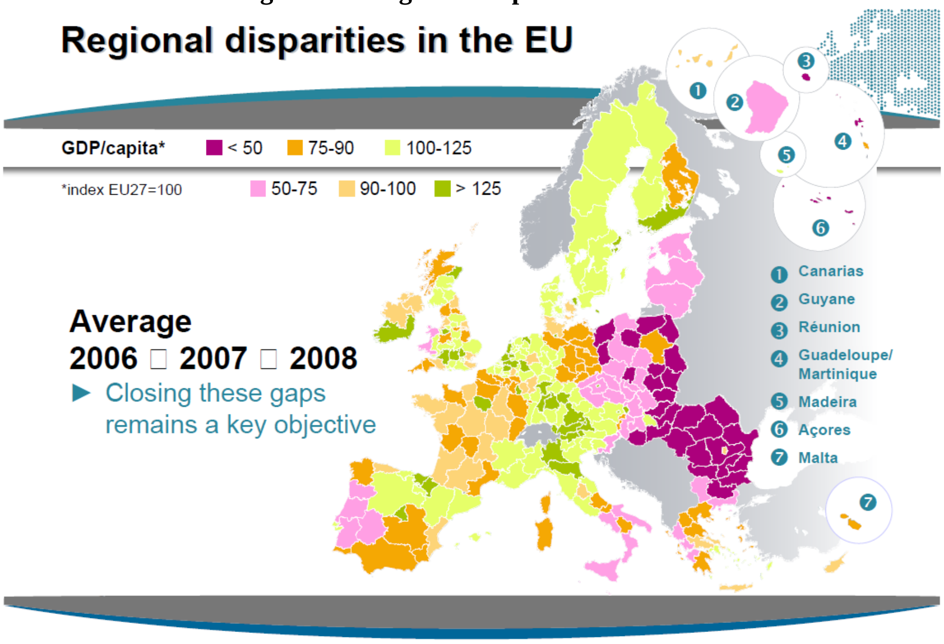
Source: EC, Why Socio-Economic Inequalities Increase, 2010: 21

As findings from INEQ, EQUALSOC, and LOWER3 show, both earnings and incomes inequalities have increased in recent decades for most EU states (See: Annex, Table 3). The level of inequality varies between different MS. For example, inequality declines marginally in Belgium but rises significantly in the UK. The main source of rising inequality for many states is the increased share of income accruing to more affluent households, those in the top quintile – (the top 20% of incomes). The increase in real incomes of the top quintile has been double that of the lowest quintile in FI, SE, DE, IT as well as the UK and the USA [See: Annex, Table: 3] though this pattern is not shared by all countries and the timing of the relative increase varied, being in the earlier period in the UK, while in the latter period for SE and DK (EC, Why Socio-Economic Inequalities Increase, 2010: 21-22).

However, inequality in income and the failure in redistribution mechanisms are only one side of economic convergence targets. Unemployment rate, in this sense, refers to the knowledge-based society and education. Moving towards a knowledge intensive society in the global economy is associated with increasing economic growth, economic integration and major economic restructuring. In mature European economies there has been a shift from manufacturing, which provided relatively well paid and regular employment for people with medium levels of skills, to services, where employment is more polarised between highly paid professional and managerial work and more routine manual service work (EC, Why Socio-Economic Inequalities Increase, 2010: 25). Economic restructuring, innovation and a highly educated and well trained workforce are critical to the development of a competitive, smart, knowledgeable economy (EC, Europe 2020), but these economic, employment and educational changes are associated with wage polarisation, primarily due to the expansion of earnings at the top of the distribution relative to those lower down and the inability of labour (especially lower paid labour) to capture an adequate share of productivity gains (ILO, 2008). Similarly education is critical to promote social inclusion by equipping people to work in the knowledge intensive industries but sectors with a large proportion of highly educated workers are associated with wider disparities in earning as shown INEQ (EC, Why Socio-Economic Inequalities Increase, 2010: 25).

Technology and innovation is critical to establishing more competitive regions and economy. Numerous researches, including the ones mentioned above, show that technologic development increases economic growth and makes regions more competitive in trade. In the long-run, technology-based development preserves environments from industry's harm. 'However, the relationship between regional growth and innovation is not always linear. It is known, however, that human capital is needed to reap the benefits of investment in infrastructure and equipment, and, among leading OECD regions closest to the 'technology frontier', those that are growing faster have higher values for traditional innovation indicators than those growing more slowly' (Fifth Report on Cohesion Policy, 2010: 53)

Figure 5.2: Regional Disparities in the EU

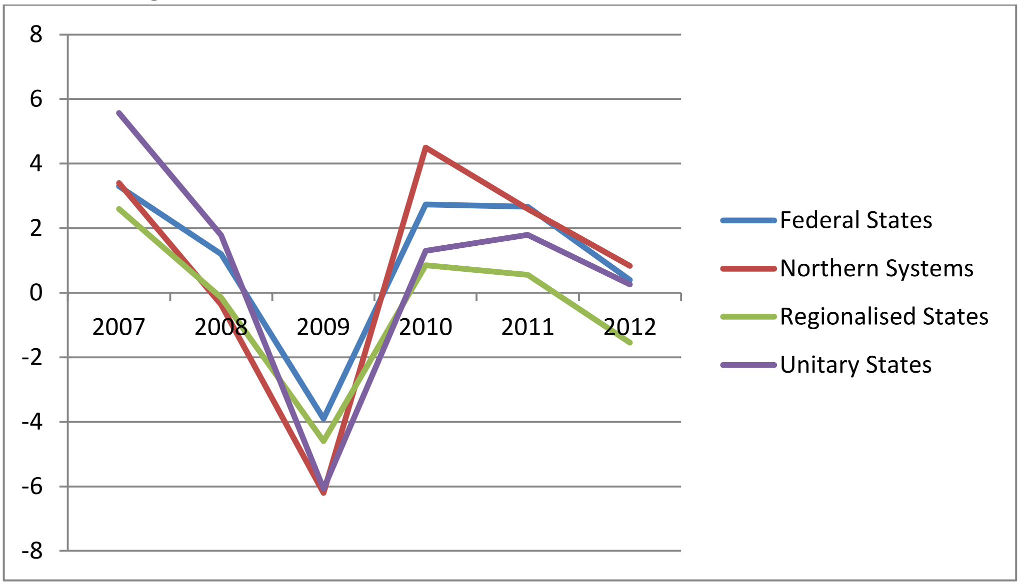


Source: EU Cohesion Policy 2014-2020, European Commission

Figure 5.2 clearly demonstrates that most of the lagging regions are located in the eastern part of the EU than the west. States with northern system (SE, FI, DK) and federal states (DE, BE, AT) have no regions that are below 50% of GDP per capita rate. Moreover, regionalised states (IT, ES) have only regions between 50-75% of GDP/capita rate with the index of EU-27. However, most of the lagging regions are in unitary states, except France, UK, Ireland, that is, it refers to regional disparities not only being the problem of economic units but also political ones. Although GDP growth rate of EU-27 countries are converging to each other (See: Figure 5.3), administrative issues in economic cohesion have an increasing importance in its social policies.

Although the number of countries, populations and economic sizes of these clusters create many differences making it hard to comment on real GDP growth rates below, it still gives an insight about how administratively close states deal with economic convergence and how far these differently governed states are converging to each other. Thus, Northern system states have better performance in real GDP growth in recent years and federal states are following them. Even though unitary states and regionalised states have almost the same deepest point during 2009 (which is the year GFC greatly affected the EU) both parties performed well. However, political will has changed in both ES and IT in recent months and the effect of this change has inherently been perceived in economic area, that is, growth rates for both states have the lowest rates among all MS.

Figure 5.3: Real GDP Growth Rate of Clustered EU Member States



Source: Eurostat, author's own calculation

As regions are considered with their human and physical capital together, it can be seen that the existing technology in that region serves that region's necessities. Traditional production process, in this sense, can be innovated by improving new technologies. In this regard, regions' potentials will generate further development in that specific sector. Improvements in technology also have an aspect that integration of human to the environment is supposed to be as least harmful as possible. In order to achieve this, it is crucial to designate sustainable development targets. EC's Europe 2020 Targets, in this context, are putting emphasize in how to create more *sustainable, smart* and *inclusive* growth.

According to Europe 2020 Report, there are three mutually reinforcing priorities for the EU:

- Smart Growth: Developing an economy-based knowledge and innovation.
- Sustainable Growth: Promoting a more resource efficient, greener and more competitive economy
- Inclusive Growth: Fostering a high-employment economy delivering social and territorial cohesion (EC, Europe 2020, 2010: 3).

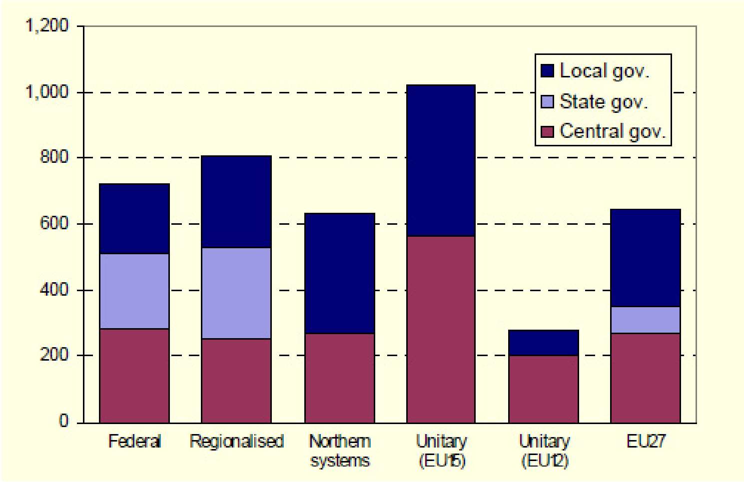
In order to reach these goals, national governments also have duties to do. As a matter of fact, even though the EU lays out supra-national policies for MS, it is MS which do more of the work. Thereby, policies at national level and public expenditure for development are rather significant indicators for the future of economic cohesion. In relation to budgetary aspects, the expenditure for development has been analysed in the MS of the EU. The expenditure for development (EfD) is an aggregate of public expenditure which embraces the eligible expenditure under EU Cohesion Policy and is directly comparable with it. On the basis of an estimation characterised by a certain degree of approximation, the EfD amounted to 645 per capita in the period 2002-2007 in the EU-27, equivalent to 2.9% of GDP and 14.4% of gross fixed capital formation (Ismeri Europa, Applica 2010: 7).

At EU level, decentralised governments undertake 65% of total EfD. Over the period 2002-2007, EfD is estimated to have increased in real terms by more than GDP, the main growth elements being central government and 'economic affairs' (See: Figure 5.4). Economic affairs is also the major element in EfD and involves around 50% of total expenditure (this function includes enterprise environment support, transport, telecommunications and other relevant policy fields). The remaining 50% is shared between environmental protection, housing and community amenities, health, recreation & culture, education (See: Figure 5.5). EU Cohesion Policy accounted for 11% of total EfD in the EU-25[5] in the period 2000-2006. In the countries of the 'objective convergence' it is more important (up to 82% of total EfD in specific cases), but it is also significant in other states: 7% of the total in Italy, 5% in Germany and 4% in the UK. Only in 5 countries, contribution is less than 3% of EfD (Austria, Belgium, Denmark, the Netherlands and Luxembourg) (See: Table 8.5).

[5] EU-25 refers to all Member States, but Romania and Bulgaria.

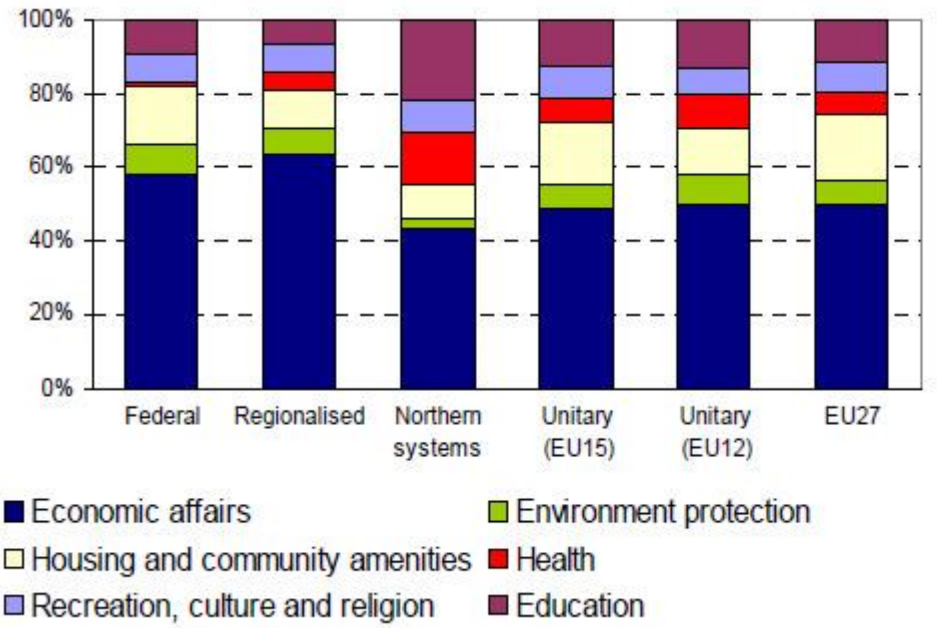
In countries where data allow a very detailed functional analysis, the EU contribution proved to be more important in the enterprise environment, R&D and environmental protection (Ismeri Europa, Applica 2010: 7-8).

Figure 5.4: EfD per head in different types of states by administrative level (2000-2007; EUR)



Source: Eurostat

Figure 5.5: EfD by function of government
(General Government EfD=100; 2000-2007)



Source: Eurostat

Economic concerns were the main motivations in establishing the EU, but its sphere is diversified with the improvements in technology. That has affected the application of decision making bodies. In this regard, according to Conclusions of European Council Meeting of 1-2 March 2012, the Council has agreed upon several decisions in economic policy. Article 18 proposes the following targets concerning innovation and research:

- completing the European Research Area by 2014; in this connection the European Council welcomed the Commission's intention to propose an European Research Area (ERA) framework in June 2012.
- improving the mobility and career prospects of researchers;
- rapidly establishing and implementing the inventory of EU-funded R&D an the single innovation indicator;
- an intellectual property rights valorization instrument at the European level;
- the participating MS reaching a final agreement in June 2012 at the latest on the last outstanding issue in the patent package;
- creating the best possible environment for entrepreneurs to commercialise their ideas and create jobs and putting demand-led innovation as a main driver of Europe's research and development policy; in particular, creating an effective EU-wide venture capital regime, including an 'EU passport', a financing scheme in support of innovative Small and Medium Sized Enterprises (SMEs). Considering a ' or fund or funds' to provide cross-border risk capital and making more effective use of pre-commercial public procurement to support innovative and high-tech business;
- strengthening key enabling technologies which are of a systemic importance for the innovativeness of industry and the whole economy (European Council, EUCO 4/12, 2012).

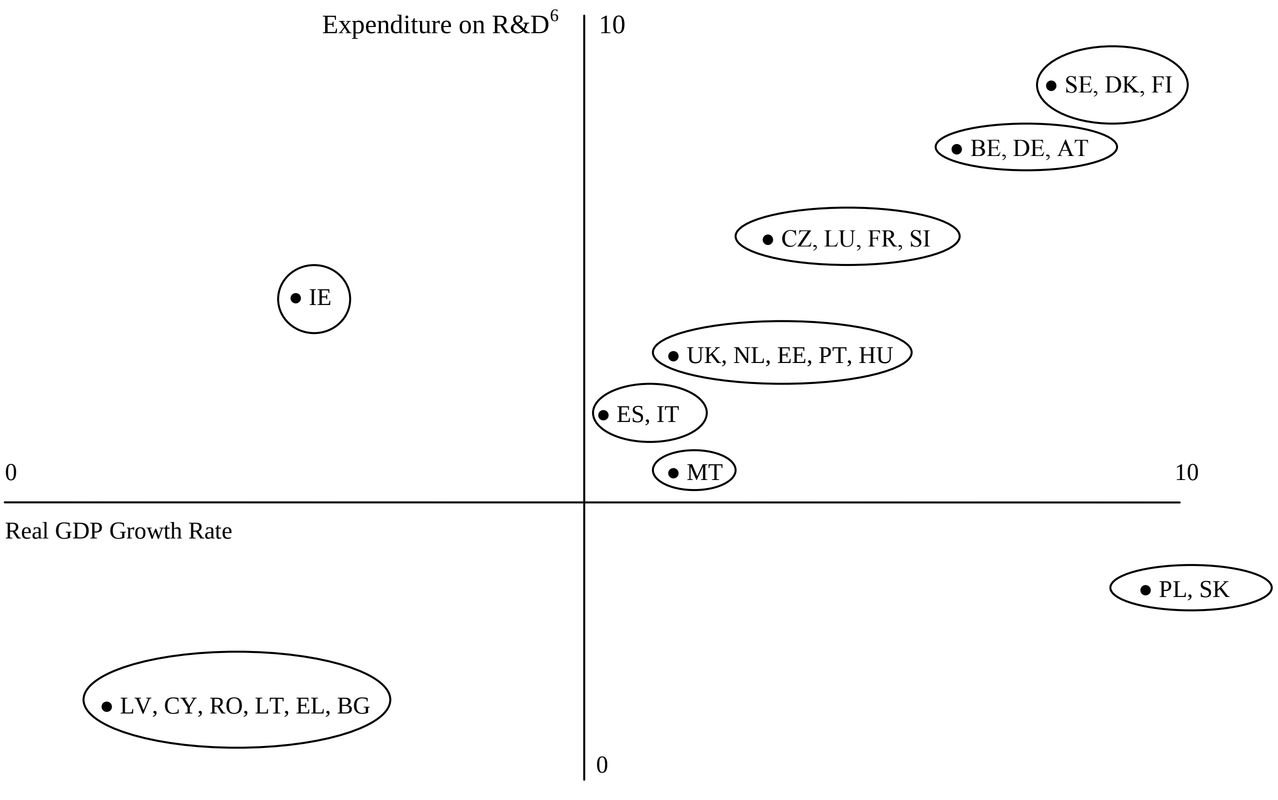
Despite the purposes of these targets at national level and at EU level, as there are economic asymmetries among MS, expenditure on R&D are not at satisfactory level across the EU. Furthermore, technologic developments are not homogenous amongst the regions. One of the prominent reasons that cause disparities in expenditure on R&D, is economic development, GDP levels and growth performances of MS. Table 4 of Annexes shows the Gross Domestic Expenditure on R&D by sector in 2005 and 2010 in MS. Accordingly, figure 5.6 compares the data of GDP growth rate of MS versus of their R&D spendings. The purpose of this comparison is to designate dispersion capacity of MS. Even though dispersion of technology and innovation depends on political will of MS, the determined clusters can give an insight concerning dispersing potentials of given clusters.

Table 4 of Annexes shows in all sectors, which are business enterprise, government and higher education, expenditure on R&D has risen since 2005. As Northern system countries (SE, DK, FI) have the highest ratios in business enterprise and higher education sectors (still rather satisfactory rates in government sector in SE and FI) among all MS in 2010. Federal States (BE, DE, AT) have the second highest overall score in business enterprise and higher education sectors in 2010.

Regionalised states (IT, ES) have higher rates than some of the unitary MS, but some of the unitary MS (CZ, FR, LU, SI for instance) have higher rates than regionalised states.

Figure 5.6 demonstrates the clusters of countries based on their real GDP growth rate in 2010 and average expenditure on R&D in all sectors in 2010. According to this, Northern system countries have the highest growth rates as well as the R&D expenditure. Federal states follow as a second-best cluster. CZ, FR, LU and SI have the third-best scores in consideration of economic performances and technology spending. UK, NL, EE, PT, HU, unitary system MS come as the fourth-best cluster. Although real GDP growth rate of Spain is below zero in 2010 (-0.1 %), instead of separating it from other member of cluster of regionalised states, it was shown together with Italy. Malta has positive scores in terms of both indicators, but also has scores below the EU-27 average scores. This is why, it was shown alone. Ireland has also a unique situation in the assessment of given indicators. IE has good scores in R&D expenditure, but real GDP growth rate is not as good as its other scores for 2010. PL and SK have the opposite situation of Ireland, since the y have good scores in real GDP growth rate, but the numbers for R&D spending could have been higher. LV, CY, RO, LT, EL, BG have poor scores in both real GDP growth rate and in R&D spending.

Figure 5.6: Comparison of GDP Growth rates and Expenditure on R&D in clusters



Source: Eurostat, author's own assessment

[6] Regarding the strength of axes, number '0' denotes the point of where there is no real growth in GDP and no expenditure on R&D. Oppositely, number 10 denotes the point where these indicators are in the highest level.

In this regard, Northern system states are the group of countries that have the highest potential to disperse the technology that is used within those countries. On the contrary, group of countries of LV, CY, RO, LT, EL, BG are considered as states of where technology dispersing-capacity is almost zero. Although economic conditions of these states are also not appropriate for the goodness of R&D expenditure, they have the potential of carrying the existing technology to a better future.

The cluster of states that have the worst scores for both indicators is actually the main subject of this section. Economic conditions and existing mentality could not be in favour of these countries. Nevertheless, there is a potential that these countries progress the existing technology at higher-education level or so. This would affect of those countries GDP rates in all terms. The system may also provide a structure where existing technology is exchanged within government and higher-education sectors.

All these regulations over the CP that have been made so far were aiming at reducing the economic gap between the MS. As is mentioned in the beginning, there were problems that were stopping CP from working better and there were proposals that were suggesting reforms, which would take the CP to a better level. As in Sala-i Martin's assumptions mentioned, technology is a key factor for poor countries to catch up to rich ones. Yet, this is not going to happen if the existing policies stay compatible with the neo-classical assumptions, thus allowing the gap to remain the same.

Social Cohesion

Social cohesion stands as the most challenging and complex CP objective amongst the others. Social cohesion also has more common goals with other objectives than economic or territorial cohesion does. Different applications in national laws and divergence on cultural and behavioural structures are what makes social cohesion complicated. Despite the fact that at theoretical level the EU aims to eliminate these differences and tries to make discrete national laws adaptable to one another, at practical level this covering approach may not work as it is anticipated due to different applications and perceptions in MS.

Nevertheless, tackling such a topic needs such a form that is supposed to be comprehensive and inclusive to some extent, but divirgent to a certain extent as well. Besides, this form needs to be flexible and feasible to apply for the enlarging Europe. One of the reasons of reforms on social cohesion is its tremendous structure on different topics and not being a subject of economic markets or a part of nature, but providing people their basic needs. In this regard, research on social cohesion aims to find out what social risks MS and the EU are facing and how to remove these risks by making them compatible to each other at the same time.

Analytical Explanations

Social cohesion fundementally aims to create such an environment where people are socially secured and provided an extensive public service that they can use with ease. Medical and juridical services, unemployment insurance, retirement pensions, education, providing confidence in public instituтons are some of the subjects of social cohesion. As is mentioned in previous parts, the agreement of 2005 at Council of Europe determined twenty indicators to measure social cohesion. These indicators essentially accord with the related articles of the Universal Declaration of Human Rights. According to Article 21-22 and 23 of the declaration, 'everyone, as a member of society, has the right of equal access to public service in his country and to social security and is entitled realisation, through national effort and international co-operation and in accordance with the organisation and resources of each state, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality. Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment. Everyone, without any discrimination, has the right to equal pay for equal work' (Article 21-22-23, The Declaration of Human Rights, United Nations).

With respect to this, social security is more of a holistic term to describe whether the existing principles of social cohesion corresponds to the essentials of human rights. In this regard, social security includes to a large extent social services and their functionality within themselves and with each other. In order to measure the functionality of social security issues within clustered group of countries, this paper will take into account social security as one of the parameters to pinpoint the MS on this specific subject.

Social security, in this aspect, is in a progression to provide a better service for people. In order to build a well-functioning social security system across Europe, it needs to be reformed to remove the social risks that people are facing today. According to a research on social risks of Europe, three main drivers, which play a significant role in the concrete manifestation of social risks, have been identified:

- 'The number of people employed on total depending on
  - the share of working age population on total population, related to demographic trends – natural trend and migratory flows;
  - activity rate of working age population related to models of behavior of different cohorts of population (men, women, aged workers, young people etc.); and
  - the share of people in employment on labour force, related to structural and conjunctural economic situations. Growth in employment rate reduces social risks because there is an increase of the number of working people in households.

- Educational attainment, which is supposed to influence the probability of remaining unemployed and of getting low levels of earnings. In both cases a low educational attainment is associated with a condition of greater social vulnerability. Empirical evidence corroborates the hypothesis that in recent years the wage gap between high and low-skilled workers has markedly increased in developed countries. There is no agreement on the causes of this widening gap; globalisation could have played a role in the reduction of the demand of low-skilled work in developed countries through an increase in imports from low cost countries and an increase in outsourcing in developing countries. Technological progress could have contributed as well with a generalised increase in skill requirements for jobs. A higher educational attainment reduces social risks because it reduces the share of low-skilled – low-wage workers, even without considering positive effects on productivity and economic growth through human capital.

- Welfare and social protection system that has the role of helping people and households to face social risks in every situation that may emerge. The adequacy of welfare systems derive from history and can be modified only gradually and incrementally; political options are relevant because increases or decreases in social expenditure or changes in its composition produce conflicts and generate costs for some social groups; financial constraints are related to sustainability in the long-run. A more comprehensive and rationalised welfare system reduces social risks because it provides help to households in the case of problematic events in the life cycle and favours equal opportunities for all and allows a better reconciliation between paid work and care commitments' (Ismeri Europa, 2009: 13-14).

As the EU has such a bulky structure that is composed of 27 MS, social security needs to have a concept that reduces such risks and in the long-term brings a more comprehensive and practical approach. Top-down approaches in applying social security across the Europe and considered *'one-size-fits-all'* in order to succeed. While this approach has favoured some of the countries, it has become unrelated to other social security systems in other countries and is far from bringing equal opportunities to them. Yet, on the other hand, bottom-up approaches commit to being more functioning as it tackles substantially different risks with original approaches. However, bottom-up approaches also pave the way for different layers to engage with each other smoothly.

In this regard, the Europe 2020 targets are aiming to bring a new understanding to conceptualise the social risks that the EU is facing today. 'Social inclusion policies, both at EU and national levels, tend to focus on specific groups of disadvantaged and vulnerable people (such as lone mothers, elderly people living alone, migrants, homeless people, ethnic minorities and people with disabilities). One of the Europe 2020 headline targets is to lift at least 20 million people out of the risk of poverty and exclusion. Such a focus tends not to have spatial dimension measures being directed at helping those concerned wherever they live. There is a growing awareness, however, of these concentrations of social exclusion in particular places, particularly in inner city areas and deprived neighbourhoods. Such concentrations also occur in rural areas, mostly in EU-12 where economic activity is limited and few employment opportunities outside subsistence farming exist. The analysis carried out in the context of the Open Method of Coordination (OMC) on Social Protection and Social Inclusion shows this clearly. This provides the basis for policy cooperation in this area in pursuit of broad common objectives, which forms the central plank of the EU social policy, since competence in this area resides mainly with MS' (EC, Fifth Cohesion Report, 2010: 187).

'It is increasingly recognised, therefore, that the nature of disadvantage affecting people in situations of poverty and social exclusion in influenced by the area where they live. The link between individual circumstances and local situations runs both ways. A concentration of disadvantaged people in certain neighbourhoods results in increased pressure on public services, reduced economic activity and private investment, the emergence of ghetto situations and an erosion of social capital. At the same time, living in deprived areas means reduced access to jobs, often inadequate public services, stigmatisation and discrimination. The concentration of disadvantage also appears to be a persistent phenomenon which can spread from one generation to the next. Social policies, therefore, need to tackle the territorial aspects of disadvantage if they are to succeed in helping people in the places where they live and to encompass the regeneration of deprived areas as well as support to the people concerned themselves. This approach is also promoted through the common principles on active inclusion, which emphasise the importance of local and regional circumstances and the need to ensure access to quality services. Area based social policy was one of the main themes of the 2009 European Round Table on Poverty and Social Exclusion organised by the Swedish Presidency, which called for increased efforts to combine ***'people-based'*** and ***'place-based'*** approaches in the social OMC, as well as in Cohesion Policy' (EC, Fifth Cohesion Report, 2010: 187).

The main challenge in applying social policies has been the approaches like 'one-size-fits-all', however every person has different characters and need specific cares for some time, it is inapplicable to implement such generalised policies. People create their own culture and way of living with the habitat that they are surrounded. They establish houses and living conditions, which ease their lives. The place where they live becomes a crucial part of their lives and social habits take form out of these places and the living conditions. Therefore, place and people are the main (f)actors of social life and the social policy inherently. Molding these cultures and habits in such shapes that they do not fit also cause big social problems.

With respect to this, the approach of 'one-size-fits-all' is trying to be reformed. It has to be replaced by people and place based approach to bring better solutions to all sort of social conflicts that Europe is facing today. With the current financial crisis, unemployment rates have reached to record levels in some countries. 'Employment policy represents a central means of tackling issues of poverty and social exclusion, since unemployment, or inactivity, is a major cause of both. On 17 June 2010, the European Council raised the employment target to 75% for people aged 20-64. Greater participation of the young, older people and the low-skilled and the better integration of migrants can make an important contribution to this target. To improve the integration of migrants, the Commission approved the Stockholm programme in 2010' (EC, Fifth Cohesion Report, 2010: 187).

'The focus of the European Employment Strategy (EES) is however, national rather than regional, even if it is most relevant in areas of high unemployment and its success is judged inevitably in terms of reducing disparities in employment and unemployment rates within, as well as between, Member States. Like social policy, it operates through the OMC, since competence for employment remains with MS, though the ESF provides financial support to assist the pursuit of EES objectives. The essence of the strategy is that well performing labour markets are key to increasing employment and furthering social and economic cohesion, but these need to be accompanied by measures to support people should they lose their jobs. This flexicurity approach, combining active labour market measures (especially education and training) with adequate unemployment insurance and effective employment regulation, reduces the risk of exclusion and helps, and encourages, people to move between jobs and from inactivity and unemployment into the labour market. Moreover, flexible forms of work organisation both help to increase productivity by enabling labour input to be adjusted to the flow of work and assist people to reconcile work with family responsibilities' (EC, Fifth Cohesion Report, 2010: 188).

In regards to the flexicurity employment environment across the EU, the migration of high-skilled labour is a question whether it is a benefit for the country or not. In the context of EU enlargement, the labour force in the EU is relatively skilled. This would imply that in sending (receiving) skilled migration increases (decreases) inequality and unskilled migration decreases (increases) it. According to this argument, brain circulation between sending and receiving countries can be expected to generate a win-win situation in terms of reduction in inequality in both sending and receiving countries (EC, Kahanec and Zimmermann, 2009: 19). This argument is also compatible with the mainstream of CP. Winners shall not cluster only on one side, but all over, and if the people who make use of the system could be made *'the winner'*, then people everywhere will be winners. However, the consequences of migration for welfare states are still problematic. Economic migrants typically migrate from poorer regions (countries) to richer ones. This causes many disadvantages, such as language, ethnic discrimination, and in the end separation from the society.

From a European perspective of this area, Brücker et. al. (2002) carried out an EU-wide analysis. Using the European Community Household Community Panel (1994-1996) they studied the relative rates of welfare use for non-EU immigrants in eleven of the EU15 countries, assessing whether there is an 'immigrant' effect on welfare receipt when controlling for individual characteristics, such as education or family situation. Their results suggest that two groups of countries can be defined. One group contains Germany, the UK, Greece and Spain, where the rates of welfare receipt for non-EU immigrants and EU citizens are similar. In some instances, it is even lower for immigrants. The other group of countries, comprising Denmark, the Netherlands, Belgium, France, Austria and Finland, includes those where there is a significantly higher rate of welfare use among non-EU immigrants than the natives. When controlling the observable characteristics, non-EU immigrants have an immigrant impact on unemployment benefits in Denmark, the Netherlands, France, Austria and Finland, but no such effects in Germany, the UK, Greece or Spain. The evidence of welfare dependency of post-enlargement migrant is scarce (EC, Kahanec and Zimmermann, 2009: 21).

These results demonstrate that enlargement process may not be a threat for both group of countries in terms of employment and the other characteristic conflicts that the policies for migration have to consider. However, it is clear the current situation amongst the MS needs a regulation in terms of reducing the inequalities between the group of people that are in high and low income groups. In this case, unemployed immigrants represent the low-income group of people, while employed local people represent the high-income group of people. According to Brücker et.al.'s analysis, the degree of wealth in a migrated country is a significant determinant for migrants to receive a better functioning social security system. Besides, unemployed immigrants, who represent the lowest layer in the society in terms of social statue and economic income, may not feel the negative impact of the situation that they are in as much as they could feel in a less wealthy country. Yet, the question that arises in this example is whether the degree of wealth and economic conditions in immigrant receiving countries is enough of criteria to take into account in order to measure the real impact of social security policies on unemployment and in engaging immigrants to the society. In this context, the administration structures of immigrant receiving countries stand as an important standard to measure this impact. Although in most cases wealthier countries have better social security systems, it does not mean that all countries have exactly the same administration structures and the functions of these structures in exceeding countries have no effect upon unemployment and migration. In this regard, separating some layers in administration structures could be more practical to provide better public services. By doing this, local community services could map out a more targeted course of action in bringing equality between the different layers of society and reduce unemployment with more radical solutions.

Figure 5.7: Unemployment Rate 2000-2011 %

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EU-27	8.7	8.5	8.9	9.0	9.1	9.0	8.2	7.2	7.1	9.0	9.7	9.7
Euro area	8.5	8.1	8.4	8.8	9.0	9.1	8.5	7.6	7.6	9.6	10.1	10.2
Belgium	6.9	6.6	7.5	8.2	8.4	8.5	8.3	7.5	7.0	7.9	8.3	7.2
Bulgaria	16.4	19.5	18.2	13.7	12.1	10.1	9.0	6.9	5.6	6.8	10.2	11.2
Czech Republic	8.7	8.0	7.3	7.8	8.3	7.9	7.2	5.3	4.4	6.7	7.3	6.7
Denmark	4.3	4.5	4.6	5.4	5.5	4.8	3.9	3.8	3.3	6.0	7.4	7.6
Germany	7.5	7.6	8.4	9.3	9.8	11.2	10.3	8.7	7.5	7.8	7.1	5.9
Estonia	13.6	12.6	10.3	10.0	9.7	7.9	5.9	4.7	5.5	13.8	16.9	12.5
Ireland	4.2	3.9	4.5	4.6	4.5	4.4	4.5	4.6	6.3	11.9	13.7	14.4
Greece	11.2	10.7	10.3	9.7	10.5	9.9	8.9	8.3	7.7	9.5	12.6	17.7
Spain	11.1	10.3	11.1	11.1	10.6	9.2	8.5	8.3	11.3	18.0	20.1	21.7
France	9.0	8.3	8.6	9.0	9.3	9.3	9.2	8.4	7.8	9.5	9.7	9.7
Italy	10.1	9.1	8.6	8.4	8.0	7.7	6.8	6.1	6.7	7.8	8.4	8.4
Cyprus	4.9	3.8	3.6	4.1	4.7	5.3	4.6	4.0	3.6	5.3	6.5	7.8
Latvia	13.7	12.9	12.2	10.5	10.4	8.9	6.8	6.0	7.5	17.1	18.7	15.4
Lithuania	16.4	16.5	13.5	12.5	11.4	8.3	5.6	4.3	5.8	13.7	17.8	15.4
Luxembourg	2.2	1.9	2.6	3.8	5.0	4.6	4.6	4.2	4.9	5.1	4.5	4.8
Hungary	6.4	5.7	5.8	5.9	6.1	7.2	7.5	7.4	7.8	10.0	11.2	10.9
Malta	6.7	7.6	7.5	7.6	7.4	7.2	7.1	6.4	5.9	7.0	6.8	6.5
Netherlands	3.1	2.5	3.1	4.2	5.1	5.3	4.4	3.6	3.1	3.7	4.5	4.4
Austria	3.6	3.6	4.2	4.3	4.9	5.2	4.8	4.4	3.8	4.8	4.4	4.2
Poland	16.1	18.3	20.0	19.7	19.0	17.8	13.9	9.6	7.1	8.2	9.6	9.7
Portugal	4.0	4.1	5.1	6.4	6.7	7.7	7.8	8.1	7.7	9.6	11.0	12.9
Romania	7.3	6.8	8.6	7.0	8.1	7.2	7.3	6.4	5.8	6.9	7.3	7.4
Slovenia	6.7	6.2	6.3	6.7	6.3	6.5	6.0	4.9	4.4	5.9	7.3	8.2
Slovakia	18.8	19.3	18.7	17.6	18.2	16.3	13.4	11.1	9.5	12.0	14.4	13.5
Finland	9.8	9.1	9.1	9.0	8.8	8.4	7.7	6.9	6.4	8.2	8.4	7.8
Sweden (1)	5.6	5.8	6.0	6.6	7.4	7.7	7.1	6.1	6.2	8.3	8.4	7.5
United Kingdom	5.4	5.0	5.1	5.0	4.7	4.8	5.4	5.3	5.6	7.6	7.8	8.0
Croatia	:	:	14.8	14.2	13.7	12.7	11.2	9.6	8.4	9.1	11.8	13.2
Turkey	:	:	:	:	:	9.2	8.7	8.8	9.7	12.5	10.7	:
Norway	3.2	3.4	3.7	4.2	4.3	4.5	3.4	2.5	2.5	3.1	3.5	3.3
Japan	4.7	5.0	5.4	5.3	4.7	4.4	4.1	3.9	4.0	5.1	5.1	4.6
United States	4.0	4.8	5.8	6.0	5.5	5.1	4.6	4.6	5.8	9.3	9.6	8.9

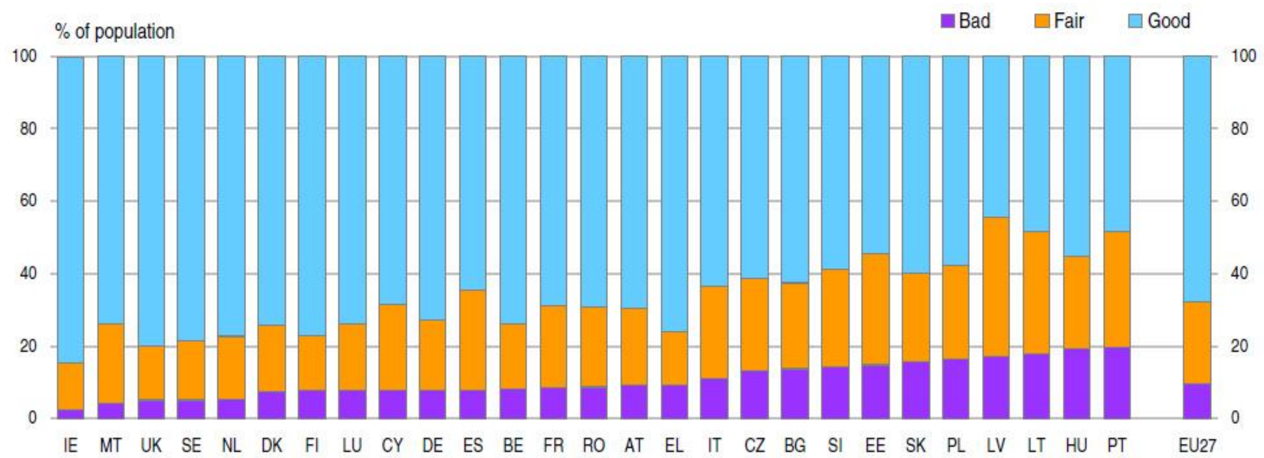
(1) Break in series, 2001.
Source: Eurostat (une_rt_a)

In this context, figure 5.7, shows unemployment rates across Europe. Amongst federal states, Germany-5.9%- has an increment in recent years, but Belgium-7.2%- and Austria- 4.2%- have relatively stable ratios and they are all below the EU-27 average, whereas Austria has the lowest unemployment rate in the EU. Northern system countries are also below the EU-27 average, but the ratios in Sweden -7.5%- and Denmark -7.6%- have increased in recent years. Even though they almost have the same rate, Finland -7.8%-demonstrates a more stable performance in struggling against unemployment. Regionalised states, Spain and Italy, had struggled against unemployment until the GFC, but recent data shows that Spain has the highest unemployment rate -21.7%- in the EU. Italy’s situation is relatively better -8.4%- and unemployment is in a downtrend, below the EU-

27 average. Among unitary states, Greece has the worst -17.7 %- and the Netherlands has the best -4.4%- performance. In almost all unitary states, unemployment rate has increased in 2009 due to effects of GFC. Unemployment rate in France is at the same level of EU-27 average – 9.7%. Unemployment rate is in downtrend across the EU. It had dropped until the crisis, but with the austerity policies on unemployment, it does not seem that it will fall off the EU's agenda in the short-term. It is also at stake to stimulate the economy by establishing a neo-Keynesian approach, but it is unclear how to manage it at national level.

Another important indicator of social security is medical care. Receiving a well functioning health care is an essential component of social security. Despite the differences between the MS in medical care, overall approach to medical care within the EU is similar to each other. Yet, it is not perceived as it is operated amongst the people. 'People's self perception of their health, however, varies widely. In 7 Member States- Portugal, Hungary, the three Baltic States- Lithuania, Latvia and Estonia- Poland and Slovakia, between 15% and 20% of the population perceived their health to be poor compared to an EU average of 10% (See: Figure 5.8). On top of this, Ireland has the smallest share of the population who consider their health to be poor (just 2.5%)' (EC, Fifth Cohesion Report, 2010: 80).

Figure 5.8: Self-perceived personal state of health in EU Member States, 2008



Source: Eurostat, EC Fifth Cohesion Report

As a consequence and a component of employment and medical care strategies, social insurance stands as a significant factor in social security. Social protection and pension systems, in this regard, differ throughout the EU-27. It varies amongst the MS 'as each system reflects in a certain way a specific institutional arrangement. Still there are some features which most of these systems contain, and similar developments can be observed as many MS are faced with the same general challenges regarding pension sustainability and adequacy. In general, it is useful to distinguish different pension pillars:

- a public mandatory old-age pension,
- occupational pensions,
- private saving plans.

The main structure is common across all pension systems. However, the size of each pillar depends on the institutional context of each MS and therefore differs across the EU. Pension within the first pillar are often based on the pay-as-you-go principle (PAYG) where contributions and taxes of current workers are used to finance (often earning-related) pensions of current pensioners. In many MS public pension systems entail minimum pension arrangements to alleviate old-age poverty. Savings within the second pillar aim to provide retirees with an adequate replacement rate which is more advantageous than the pension level provided by the first pillar alone. The third pillar represents individual private pension schemes. Usually, private pension schemes are voluntary, but in most MS with a third pillar private savings are encouraged via tax subsidies' (EP, Pension System in the EU, 2011: 10).

Pension liabilities are the present value of the difference between projected contributions and expenditures of the social security pension system. A high implicit pension debt signals future deficits in the social security pension system and reveals need for political action, unless there is a public pension fund big enough to cover the pension liability. All published estimates indicate substantial levels of implicit pension debt throughout the EU. Generational accounts compute present values but link contributions and benefits to individual generations. Thereby they display possible imbalances between generations. Usually, generational accounts comprise total government revenues and expenditures and do not separately present the financial flows of the pension system. Countries with high implicit debt will have to run budget surpluses in the medium term. Therefore, successful pension reforms should aim at achieving the objective of a balanced budget (EP, Pension System in the EU, 2011: 11).

Social policies, solidarity and sustainability of welfare systems in Europe are necessary for deeper and wider economic integration to go on; the big debate is between policies aiming at remedying inequalities after they have occurred (redistribution strategy) and policies aiming at preventing inequalities making the distribution of income less unequal, mainly through better and larger employment (work strategy). European institutions are driving a recasting of welfare systems with the aim to sustain publicly funded health-care, social protection and pensions, against a backdrop of demographic change, and to enable EU citizens to successfully adjust to change. A number of MS have introduced reforms in order to reduce the level of taxation on labour both through a greater control of expenditures in order to limit additional demand in the future (e.g. pensions) through a reduction of social contributions on wages by shifting part of taxation on other bases (EC, 2008, 42; Hemerijck, 2008; EC, 2006, 211). On top of this, although social cohesion needs more common practical applications, the content and the structure of these applications are the crux of the matter. Referring place-based and people-based social policies, the present conflicts need to be tackled more at the local level with its own dynamics than at the national level. By doing this, the transition of authority in social matters allows existing problems to be solved easier with less bureaucracy and more participation of the public. In this regard, Europe has experienced a trend redistribution of competences from central towards sub central levels of government over the past decades. Globalisation, European enlargement, the revival of concern with local identity, subsidiarity, CP and the crisis of welfare state all contributed to this process. This is a process where reforms are never-ending, always evolving and revealing in better forms. Now, decentralisation of administrative layers is promising a better functioning social environment where local admnistrations can levy taxes and have some serious responsibilities to promote economic and social cohesion by pinpointing problems (place-based) and work for fulfilling the accurate needs of local communities.

Decentralisation has three main components: political, fiscal and administrative. Administrative decentralisation may take, and has actually taken in the EU, different forms ranging from de-concentration (assignment of responsibility from one level of the central government to another), to delegation (redistribution of authority to a government agency or to a local unit) and to devolution (authority and resources are assigned to a fully independent public authority). Moreover, different forms of intergovernmental relationships between levels of government exist both in theory and reality: dependence, separation, cooperation, or competition for attracting resources.

The combinations of the different forms of decentralisation and of intergovernmental relationships are constitutive parts of different types of government systems. These can be confederal, federal and unitary. In the last case, the central government holds the entire sovereignty even though there are examples of local autonomy (e.g. the Nordic Countries). The literature also refers sometimes to regionalised systems in relation to European countries that have established an intermediate level of government.

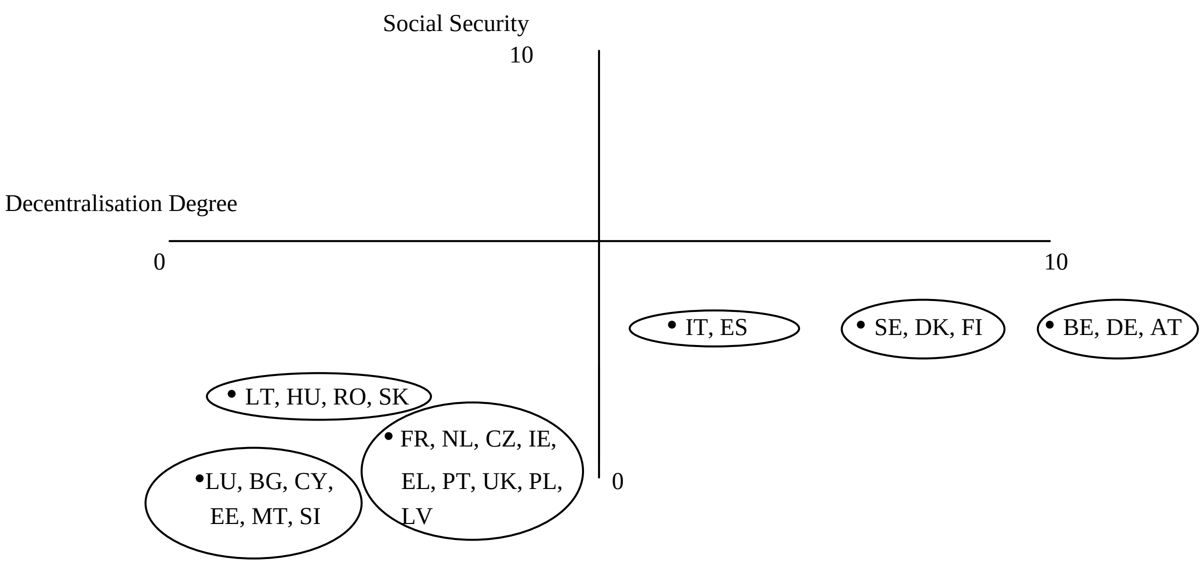
Empirical observations demonstrate that there is no strong correlation between the degree of institutional decentralisation and the level of fiscal autonomy of sub-national authorities. The relevance of the historical and political roots of the way in which institutions are organised and operate give rise to significant differences between institutional and fiscal systems.

In regards to the distribution of competences between different levels of government, the theory of fiscal federalism sets out a general framework for the assignment of functions. In principle, the basic responsibility for stabilisation and redistribution policies, together with some non-local functions such as defence, should be allocated to the central government. On the other hand, decentralised levels of government should provide those public goods and services for which consumption patterns differ across regions, therefore tailoring the supply of these to local preferences.

There is a considerable degree of uncertainty in some cases in relation to specific allocation of functions between administrations, type of taxes, levies and grants to be used. This is one of the reasons for the variety of patterns of central and sub-national provision in respect to the same goods and services. This is examined in the analysis of European Member States carried out as part of the study (Ismeri Europa, Applica, 2010: 5).

In order to have a better understanding in the degree of decentralisation among MS, figure 5.9 compares the decentralisation levels of the EU member states in applying a wide range of social policies to states' social security policies.

Figure 5.9: Decentralisation levels of the EU Member States in administering Social Policies versus Social Security[7]



Source: Eurostat, author's own assessment

[7] Regarding the strength of axes, number '0' denotes the least decentralisation degree as well as the least decentralisation degree in applying social security policies in both lines for the EU Member States. Accordingly to this, number '10' denotes the most decentralised degree for both indicators.

With respect to the clusters that are demonstrated in figure 5.9, competences in applying the social policies in federal states (BE, DE, AT) are more distributed in different tiers of government structure than the other systems among MS. Hence, they are inserted at the very right of the 'decentralisation degree' line whose number 10 denotes a strong independent degree from the centralised government structure. Northern system states (SE, DK, FI) follow the federal states, while regionalised states (IT, ES) are right after them.

On the left side of the vertical axis, the rest of the member states- unitary states- are again clustered in three groups, which are considerably determined on their sub-national levels and the number of tiers within the government structure. Thereby, the biggest group among unitary states (FR, UK, NL, CZ, IE, EL, PT, PL, LV) tends to be more decentralised than the rest of them and the tiers of government structure are more stratified. Another cluster in the middle of the other two clusters composed of group of countries (LT, RO, HU, SK), tend distribute the unitary state's competences to sub-national level, but they are relatively weaker in applying the social policies than the others. The last group of states (LU, BG, CY, EE, MT, SI) seems to perform social policies at a more centralized level than the others.

It is clearly obvious that all clusters are above the horizontal line, as all of the member states deal with social security policies at either the federal level or at national level, rather than tackling them at sub-national level.

Although, in some cases, it is reachable to have information regarding the inserting states on the graphic, it is very hard to pinpoint where states really are. On the one hand, it depends on many variables which could correspond to the definition of *'social cohesion'*; on the other hand, it depends on which indicators will be taken into account in order to pinpoint the states on the figure. The number of administrative tiers of the MS is taken into account in pinpointing clusters, since it demonstrates how competences are distributed in applying social policies among the MS. Additionally, expenditure on social security policies of the governments is also another measurement in indicating the clusters on the graphic.

All in all, according to these findings, transforming social policies to a more dencentralised structure will provide a better social security system to the MS. The procedure of performing such a system may differ from one to another, but in general the more decentralised government tiers and the administratively stronger local authorities will help more targeted and result-oriented policies to reveal.

Territorial Cohesion

Practical infrastructure of CP is mainly based upon economic and social cohesion until 1997. However, the holistic structure of CP was incomplete. Physical conditions that pave the way for applied policies were missing and this was causing the entire correlation to be deficient. What is meant by physical conditions is actually where people experience the right and simple enforcement in business, public services and environmental care. Therefore, 'in 1997, the treaty of Amsterdam introduced territorial cohesion in the article on access to services of general economic interest, which include education, health care and commercial, financial and business services. In remote and sparsely populated regions, physical accessibility is a prominent concern. This is increasingly being overcome by e-services such as e-health, e-education, e-government and e-banking. In other regions, access may be hindered by cost or a lack of knowledge of the system or, among migrants, of the local language in some cases, discrimination may also limit this access'(EC, Fifth Cohesion Report, 2010: 24).

Territorial cohesion, essentially, aims to analyse physical conditions of particular regions to make them become more functional within themselves and with other surrounded or remote regions. While territorial cohesion ameliorates physical environment for a specific region, it also reinforces the correlation between all regions. Thereby, it gains a holistic approach to deal with such conditions across Europe. Therefore, apart from enhancing public services and business across the EU, it has such purposes to create eco-friendly cities and regions, to protect the environment and to make development sustainable across Europe.

Analytical Explanations

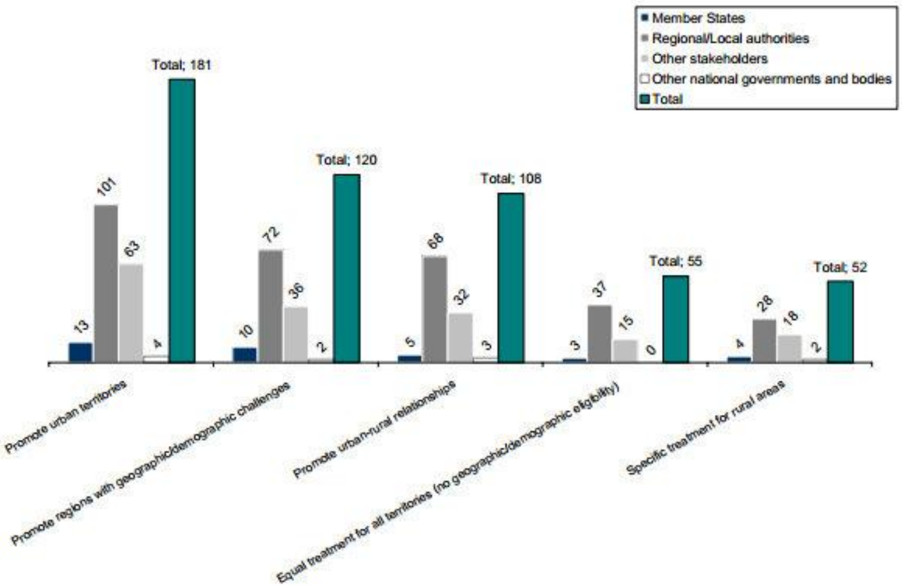
Technical progress increasingly penetrates in our lives in every respect with a lot of advantages. This progression accordingly affects industrial development by all means. Yet, designating which sort of technology is more beneficial for people and the environment in the long-term is a contradictory issue. In this case, environment-friendly technologies and sustainable production methods are in favour of both parties as well as business and trade in long term. According to the 5th Cohesion Report 'environmental protection, climate change and renewable energy production, all have a strong territorial dimension. The territorial dimension of environmental protection, which ranges from air quality and waste water treatment to protected habitats and species under Natura 2000[8] and the provision of ecosystem services, is increasingly recognised. The growing threat of climate change and the political goal to radically increase the share of renewable energy in the EU underlines the fact that policies at different levels will need to be coordinated to respond to these

[8] Natura 2000 is the centrepiece of EU nature and bio-diversity policy.

various threats and opportunities in an efficient and effective way and to avoid them counteracting each other' (EC, Fifth Cohesion Report, 2010: 24).

In order to prevent the nature from such threats and reveal their potentials in designating what sort of natural energy sources could be used within a specific region, it is necessary to establish institutions that could particularly work on these specific issues. In the 5th Cohesion Report on territorial cohesion, the necessity of these institutions is reliant on making them more capable not for a particular region, but with adjacent regions. 'Most policies focus on a single administrative geographic level, the pursuit of territorial cohesion implies a more functional and flexible approach. Depending on the issue, the appropriate geographical dimension ranges from a macro region, such as the Baltic Sea or the Danube region, to metropolitan and cross-border regions or a group of rural areas and market towns. Such a flexible geography can better capture the positive and negative externalities of concentration, improve connections and facilitate cooperation and so be more effective in furthering territorial cohesion. However, on top of everything, it is crucial to analyse regions, in order to robust territorial objectives in most possible way collaboratively with economic and social cohesion objectives. There is a need for a better knowledge of the EU in territorial terms and more robust ways of estimating the territorial impact of EU policies. On this front, Eurostat, the Joint Research Centre (JRC) and the European Environmental Agency (EEA) have already significantly increased the data available for more finely defined geographical areas. For example, the Urban Audit and the Urban Atlas provide more indicators for cities, Eurostat and the National Statistical Institutes have increased data at NUTS3 level and the JRC and EEA are providing more grid data and developing more detailed models' (EC, Fifth Cohesion Report, 2010: 24).

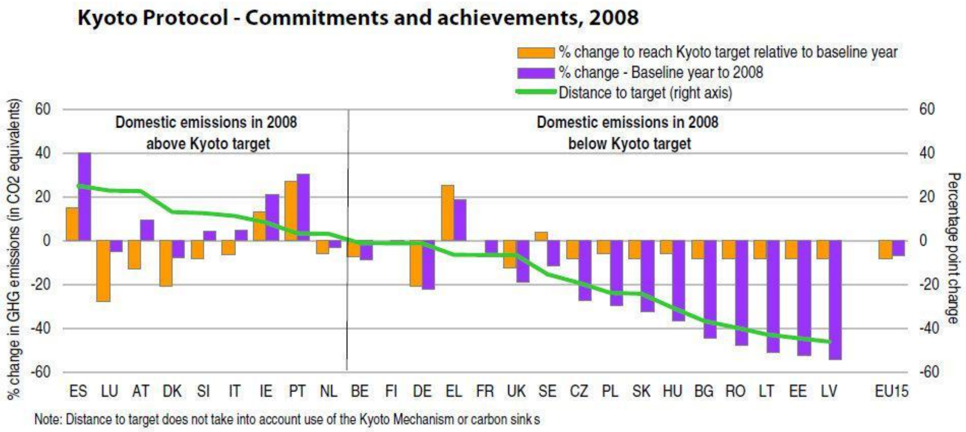
Figure 5.10: Positions on Territorial Cohesion



Source: EC, SEC 2011-590 Final

Territorial cohesion reinforces the macro-regional strategies of economic cohesion and supports the development processes in all senses. Compatibility of institutional structures of regions to social cohesion targets of CP is also another vital aspect in terms territorial cohesion. However, cohesion policy as a whole could take better account of the key role of regions by particularly considering their geographical features more. A survey concerning how CP can take better account of the key role of urban areas and of territories with particular geographical features in development process of the emergence of macro-regional strategies demonstrate an interesting result. This question was answered by 352 respondents out of a total of 444, namely 24 MS, 4 other national governments and bodies, 202 regional and local authorities and 122 stakeholders. Figure 5.10 shows the result of this question. According to this result, the biggest support from all parties is for promoting *urban territories*. *To promote regions with geographical/demographical challenges* rank number two by receiving the biggest support from regional and local authorities. *Urban-rural relationships* get the third and the middle place in the whole scale. The column of *equal treatments for all territories* is number four and *specific treatment for rural areas* receives the lowest support from all.

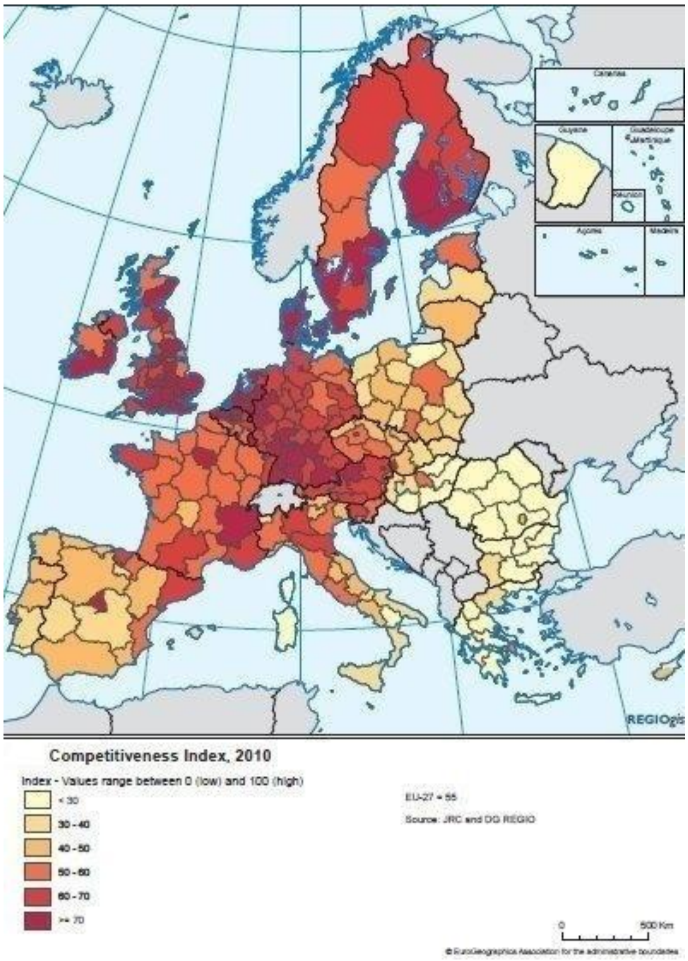
Figure 5.11: Kyoto Protocol – Commitments and Achievements, 2008



Source: Eurostat, 5th Cohesion Report

Environment protection is a significant factor in evaluating the degree of habitable and green living spaces. Kyoto protocol, in this sense, aimed at creating a global awareness in environmental issues (See: Figure 5.11). It has come into force on 16 February, 2005 in Kyoto, Japan. The Kyoto Protocol has the same ultimate objective as the United Nations Framework Convention on Climate Change (UNFCCC), which is the stabilization of atmospheric concentrations of greenhouse gases at a level that would prevent dangerous anthropogenic interference with the climate system. Such a level should be achieved within a time-frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner (UN, The Kyoto Protocol Objectives). As the Kyoto Protocol stands, it is an important indicator in evaluating countries on how strict they are with carrying out the commitments and how capable they are in tackling environmental problems. This is one of the two indicators for the comparison of clustered countries in this part. Competitiveness is another indicator to pinpoint clustered MS, as it demonstrates whether the territorial targets overlap with economic and social objectives.

Figure 5.12: Competitiveness across the EU



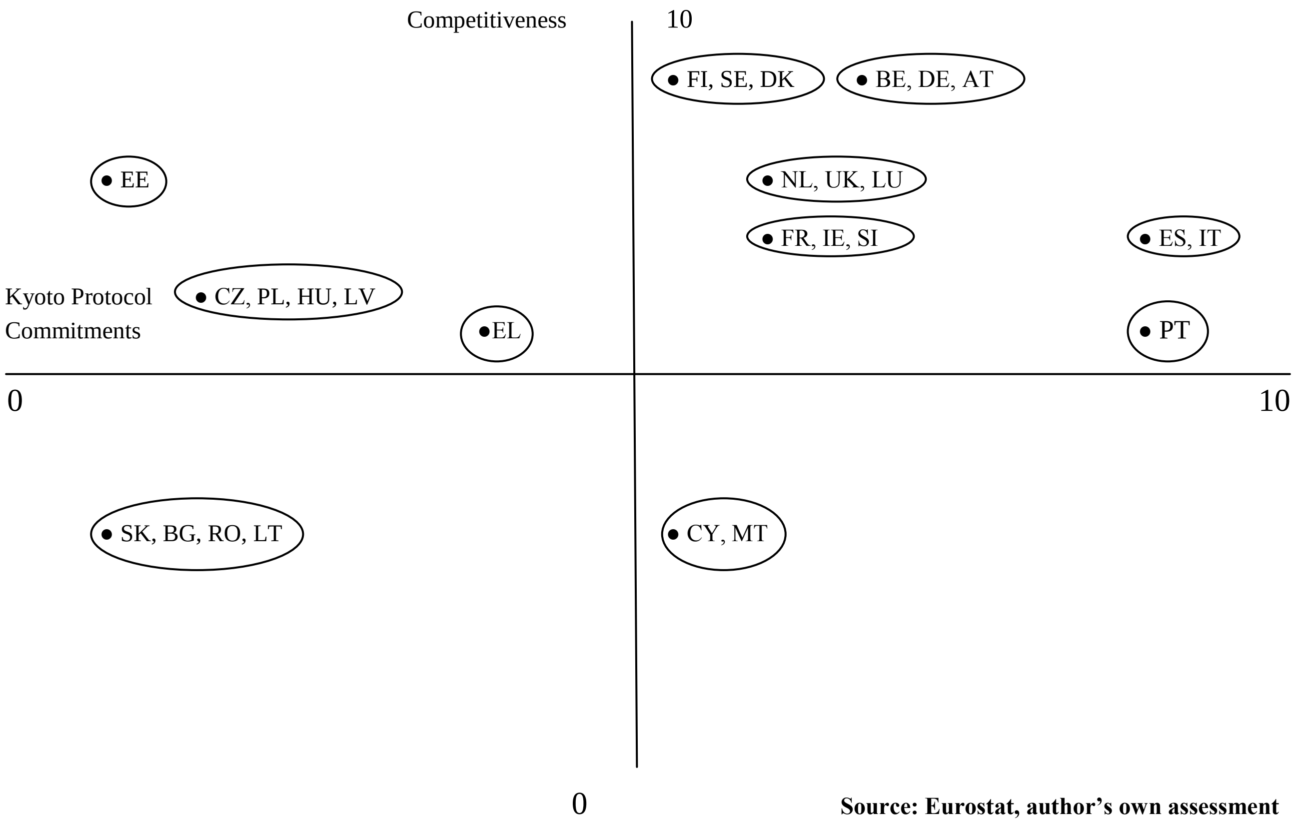
Source: DG Regio, 5th Cohesion Report

Competitiveness evaluates regions in many aspects, such as trade, medical services or transportation. All of these figures bring out whether the correlation between economic, social and territorial objectives is efficient and targeted. To give an example, a timber company in Bruges, in West-Flanders, Belgium, starts using river transport as the local government has made this way of transporting eligible across the region and it reduces the company's costs. As the costs reduce over time, the firm grows more, hires more people and decides to invest in another region. So, rehabilitating the river and paving the way for river transport enable a firm to grow and to contribute to the economy in that region. It inherently reduces the number of unemployed people in the society. Thus, it refers to all cohesion policy objectives.

Competitiveness also measures the quality of public services. To give another example, the local authority of Linköping, in Östergötland region, Sweden, decides to use online public services to cut the costs and to reduce the bureaucracy. The local government also puts some severe sanctions on polluting the environment. By doing this, local government aims to stimulate the peripheral dynamics in order to find out how to make use of renewable energy sources. Governments plans to conduct this research with universities, NGOs and upper tiers of administrative bodies. Yet, this research requires high-skilled human capital and sufficient physical capital.

Both examples cover all three CP objectives by referring some of the figures in economic, social and territorial cohesion. Figure 5.12 shows the level of region in competitiveness. There is a gap between southern-eastern MS and the central-northern ones. By taking this into account, the following figure 5.13 demonstrates the EU member states in clusters in comparing competitiveness versus Kyoto Protocol Commitments.

Figure 5.13: Competitiveness versus Kyoto Protocol Commitments across the EU Member States[9]



Source: Eurostat, author's own assessment

[9] Regarding the strength of axes, number '0' denotes the point of where MS are at lowest level in competitiveness and not successful in committing the Kyoto Protocol's targets. Oppositely, number 10 denotes the point where these indicators are in the highest level.

According to Figure 5.13, Northern system states (SE, FI, DK) have very competitive regions but they are not as good as federal states (BE, DE, AT) in committing the protocol's objectives. Federal states, on the other hand, have regions that are good as Northern system states in competitiveness, but also have better performance in committing the objectives. Regionalised states (ES, IT) perform really well in achieving protocol's commitments and are slightly above the moderate level of competitiveness index. Among the unitary states, NL, UK, LU, are better in competitiveness than the cluster of SI, FR, IE, but all states in both clusters are at the same level of performing commitments. PT is rather good in committing protocol objectives, but it is moderately good in having competitive regions. Oppositely, CY and MT are moderate countries in commitments, but not as good as PT in competitiveness. EL presents interesting figures in committing the objectives of the Kyoto Protocol, especially in gas emissions as well as a moderate country in terms of competitive regions. EE is a good performer in competitive regions, but not as willing in committing protocols. CZ, HU, PL, LV have moderate scores in term of the targets of the Kyoto Protocol, but rather poor in creating competitive regions. Lastly, SK, RO, BG, LT are the countries that have poor performances in implementing the objectives of Kyoto Protocol as well as poor in having competitive regions.

All in all, territorial cohesion is a policy that mobilizes endogenous potentials across Europe and facilitates finding new innovative solutions to improve competitiveness and to effectively respond to pressing challenges (Samecki, P., 2009). As a result of the reforms on CP, territorial cohesion has a significant place to promote peripheral economy and compatibly to move with other objectives.

Conclusions

Cohesion Policy (CP) is continually progressing. In order to promote concordant development across the EU and to integrate European communities to each other in a peaceful manner, amendments over the CP objectives will continue until it finds an ideal form. This ideal form entails comprehensive, equal and eco-friendly approaches. In this context, European Union (EU) CP has rather significant targets to achieve within integration of the regions across Europe. These targets are headlined with three objectives, which are economic, social and territorial cohesions. All three CP objectives are correlated to one another. Therefore, cooperation between these objectives is crucial.

With the last cohesion report, the overall form of the CP has been reformed yet again. Accordingly, the research within this thesis seeks to find the answer as to why the CP is being reformed constantly. It has several reasons. Theoretical concepts that the CP was based on were not sufficient in solving to occurring problems in enlarging Europe. With respect to this, neo-classic approach to economic growth was not aiming at reducing the economic disparities between the rich and the lagging MS. Rich has remained rich and the poor has remained poor. Theoretical assumptions of neo-classic approach were only promoting the notions that would not reduce the gap between poor and rich. In order to bring a fair concept that could reduce this gap, there are a set of factors such as technological dispersion and distribution of income across the countries.

On the other hand, in terms of social cohesion, creating a new perception across the EU, that is, a mix of different cultures, understandings and nations of people, is vital in establishing a common ground that creates the sense of '*belonging*' across the Europe. '*Inclusion'* of people to a common market where they can feel as equal as other stakeholders is also essential. Strengthening the local authorities and increasing the '*participation*' rate to administrative issues will also ease the bureaucracy. '*Recognition'* of public institutions and of the values of different societies is also crucial. Creating a trustful environment and '*legitimacy'* of public institutions are other prominent features of achieving social cohesion on theoretical basis.

Practically, the main reason why the CP has been reformed many times is actually a tricky question. It is because; in order for the objectives to address and cover today's and tomorrow's problems, it thoroughly has to evaluate the ongoing problems. Therefore, mapping the disparities of today's needs has to have an evolving form. Complaints could have risen if the CP objectives had not been changed and remained the same as fifty years ago. It is simply catching up with the zeitgeist and reforming over the policy inheres the change.

It is at stake whether the supranational institutions are sufficient and capable enough to fix problems such as unemployment, promoting competitiveness, dispersing technology, providing better social services. With the current economic problems, national governments tend to be more reluctant to applying EU regulations. Nevertheless, instead of taking the EU into account at supranational level alone, it is indispensable to consider it as a whole concept with its smaller bodies, including national and regional tiers. Therefore, this bulky structure needs regulations and reforms to function concertedly.

In this context, the diagrams that have been shown in the analysis part, actually aim at demonstrating what else could have been done to converge markets, to diversify governance and to create eco-friendly and more functional regions. As is shown, some of the MS are quite far away from each other in terms of given indicators, reforms over CP need to aim at reducing disparities and to allow lagging regions and MS to catch up with leading ones.

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IMF, International Monetary Fund

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Annexes

Table 1: Goal Dimensions of Social Cohesion: Reduction of Disparities, Inequalities and Social Exclusion within a Society

Life Domain \ Dimension	Regional Disparities of ...	equal opportunities / inequalities between women and men, generations, social strata, disabled, citizenship groups concerning	Social Exclusion
Population			
Households and Families		- engagement in housework and childcare - existence of family relations	
Housing	- housing conditions	- housing conditions	- homelessness - poor housing conditions
Transport	- access to / quality of transport	- access to transport	- no access to public/private transport
Leisure, Media and Culture	- availability of facilities and goods in the area of leisure, media and culture	- leisure time - access to media, recreational and cultural facilities	
Social and Political Participation and Integration		- availability of social relations and social support - social and political activities and engagement	- social isolation - social discrimination
Education and Vocational Training	- access to education and vocational training - investment in education	- educational enrolment and qualification	- lack of completed education and vocational training
Labour Market and Working Conditions	- employment opportunities and risks	- employment opportunities and risks	- long-term unemployment
Income, Standard of Living, and Consumption Patterns	- income level and standard of living	- income level and standard of living	- poverty
Health	- availability of health care facilities - health status	- health status	- permanent health impairments
Environment	- state of environment		
Social Security		- social insurance coverage, benefits	- lack of social protection
Public Safety and Crime	- crime rates	- becoming a victim of crime	
Total Life Situation	- quality of life index	- quality of life index - overall subjective well-being	- multiple deprivation

Source: Berger-Schmitt, EU Reporting, 2000

Table 2: Goal Dimensions of Social Cohesion: Strengthening the Social Capital of a Society

Life Domain \ Dimension	Availability of Social Relations	Social and Political Activities and Engagement	Quality of Social Relations	Quality of Societal Institutions	European-Specific Concerns
Population					
Households and Families	- social relations within households	- care for old-aged household members	- between household members		
Housing					
Transport					- transport connections between European Countries - frequencies of journeys between European Countries
Leisure, Media and Culture	- membership in leisure organisations	- activities in leisure organisations			- dissemination of cultural products across European Countries
Social and Political Participation and Integration	- existence of personal relations - membership in political and social organisations	- frequency of personal contacts - support within informal networks - civic engagement in public realms	- outside the household	- political institutions - church/religious institutions - social institutions	- European Identity - social relations and attitudes to other EU nationals - similarities in basic values and attitudes - social and political activities at the European level
Education and Vocational Training				- educational institutions	- exchange of pupils, students - teaching and dissemination of European languages
Labour Market and Working Conditions		- participation in the area of working life	- at the work place	- labour unions - labour offices - labour courts	- connections between European Countries in working life
Income, Standard of Living, and Consumption Patterns					
Health				- system of health care	
Environment					
Social Security				- social security institutions	
Public Safety and Crime				- legal system	
Total Life Situation					

Source: Berger-Schmitt, EU Reporting, 2000

Table 3: Trends in Households Income Inequality (Gini Coefficient)

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	Mid 1970s	Mid 1980s	Mid 1990s	Mid 2000s
Austria		0.236	0.238	0.265
Belgium		0.274	0.287	0.271
Czech Republic		0.232	0.257	0.268
Denmark		0.221	0.215	0.232
Finland	0.235	0.207	0.228	0.269
France		0.300	0.270	0.270
Germany		0.257	0.272	0.298
Greece	0.413	0.336	0.336	0.321
Hungary		0.273	0.294	0.291
Ireland		0.331	0.324	0.328
Italy		0.309	0.348	0.352
Luxembourg		0.247	0.259	0.258
Netherlands	0.251	0.259	0.282	0.271
Norway		0.234	0.256	0.276
Poland				0.372
Portugal	0.354	0.329	0.359	0.385
Slovakia				0.268
Spain		0.371	0.343	0.319
Sweden	0.212	0.198	0.211	0.234
United Kingdom	0.282	0.325	0.354	0.335
United States	0.316	0.338	0.361	0.381

Source: EC, Why Socio-Economic Inequalities Increase, 2010: 22

Table 4: Gross Domestic Expenditure on R&D by sector, 2005 and 2010 (% share of GDP)

	Business enterprise sector		Government sector		Higher education sector	
	2005	2010	2005	2010	2005	2010
EU-27	1.15	1.23	0.25	0.27	0.41	0.49
Euro area (EA-17)	1.16	1.27	0.27	0.30	0.40	0.48
Belgium	1.24	1.32	0.15	0.19	0.41	0.46
Bulgaria	0.10	0.30	0.31	0.22	0.05	0.07
Czech Republic	0.86	0.97	0.27	0.30	0.22	0.28
Denmark (1)	1.68	2.08	0.16	0.06	0.60	0.90
Germany	1.74	1.90	0.35	0.41	0.41	0.51
Estonia	0.42	0.81	0.11	0.17	0.39	0.62
Ireland	0.81	1.22	0.09	0.06	0.34	0.51
Greece	0.19	:	0.12	:	0.28	:
Spain (2)	0.60	0.71	0.19	0.28	0.33	0.39
France (3)	1.31	1.38	0.37	0.37	0.40	0.48
Italy (4)	0.55	0.67	0.19	0.18	0.33	0.36
Cyprus	0.09	0.09	0.13	0.10	0.16	0.25
Latvia	0.23	0.22	0.11	0.14	0.23	0.24
Lithuania	0.15	0.23	0.19	0.14	0.41	0.42
Luxembourg (5)	1.35	1.16	0.19	0.29	0.02	0.19
Hungary	0.41	0.69	0.26	0.21	0.24	0.23
Malta	0.38	0.37	0.03	0.02	0.16	0.23
Netherlands	1.01	0.87	0.24	0.22	0.66	0.75
Austria	1.72	1.88	0.13	0.15	0.61	0.72
Poland	0.18	0.20	0.21	0.26	0.18	0.27
Portugal	0.30	0.72	0.11	0.11	0.28	0.59
Romania	0.20	0.18	0.14	0.17	0.06	0.12
Slovenia (2)	0.85	1.43	0.35	0.38	0.24	0.29
Slovakia	0.25	0.27	0.15	0.19	0.10	0.17
Finland	2.46	2.69	0.33	0.36	0.66	0.79
Sweden (6)	2.59	2.35	0.18	0.17	0.78	0.90
United Kingdom	1.06	1.08	0.18	0.17	0.44	0.48
Iceland	1.43	:	0.65	:	0.61	:
Norway (7)	0.81	0.88	0.24	0.28	0.47	0.55
Switzerland	:	:	:	:	:	:
Croatia	0.36	0.32	0.21	0.20	0.30	0.21
Turkey	0.20	:	0.07	:	0.32	:
Japan (8)(9)	2.54	2.70	0.28	0.29	0.45	0.40
United States (9)	1.79	2.02	0.31	0.30	0.36	0.36

(1) Break in series, 2007.
(2) Break in series, business enterprise sector, 2008.
(3) Break in series, business enterprise sector, 2006.
(4) Break in series, higher education sector, 2005.
(5) Break in series, government sector, 2009.
(6) Break in series, business enterprise sector and government sector, 2005.
(7) Break in series, government sector and higher education sector, 2007.
(8) Break in series, higher education sector, 2008.
(9) 2008 instead of 2010.
Source: Eurostat (tsc00001), OECD

Source: Eurostat