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Background information

1. Concept of convergence / cohesion (economic cohesion theory)

Cohesion is defined as the reduction over time of the income disparities between regions or countries. There has been a dispute over many decades between the economic school of convergence and the economic school of divergence, i.e. between the hypothesis that the free market automatically creates convergence and the hypothesis that the free market may also cause divergence. The empiric evidences show that the convergence and divergence tendencies take place simultaneously in the European Union.

The economic and social discrepancies that occurred in the Euro zone after the 2008 financial crisis brought in the forefront of the debate the topic on convergence, particularly the genuine sustainable convergence. The sustainable convergence imposes a multidimensional process. Currently, the meaning of the concept of convergence refers especially to structural convergence, seen as a convergence towards economic structures / resilient economies, i.e. towards economies that can cope with shocks, as proposed in the Five Presidents' Report of June 2015, titled Completing Europe's Economic and Monetary Union. This report seemed to have settled politically the dispute between the school of convergence and the school of divergence in favour of the first, opting for the free and flexible markets as the main convergence tools. This actually reflected the paradigm shift occurred in the EU during the last decades through the progressive change of the balance between the European solidarity and the responsibility of the states, in favour of the latter. Under this new paradigm, the convergence appears as a national responsibility to have structural reforms that enhances the resilience of economies through free and flexible markets.

The theory of convergence through markets is intensely countered by those saying that convergence is a problem exceeding the national responsibility, needing EU level institutions, policies and tools for imbalance control.

2. Evolution of the Cohesion Policy reasoning

The main EU policies for achieving convergence are the Cohesion Policy and the Common Agricultural Policy. They are explicit redistributive policies. The resources assigned to these two traditional policies for decreasing the discrepancies prevailed over all the previous Multiannual Financial Frameworks, but the tendency is to diminish the assignment.

The Treaty of Rome (1957) set the solidarity mechanisms under the form of two funds: the European Social Fund and the European Agricultural Guarantee Fund. In 1957, for regional issues, the European Regional Development Fund was created, and in 1994, the Cohesion Fund.

The European Single Act (1986) introduced for the first time a specific title stating that the implementation of the common policies, including the internal market, must take into account the objectives of the economic and social cohesion. It was known by default that the economic integration may cause divergence, favouring the industrial core of the EU, and therefore policies and tools for imbalance compensation were needed.

It can be noticed that the reason of the Cohesion Policy changed over the time. Initially, the existential reason of the European Structural Funds was to aim directly to diminish regional discrepancies. The EU regions were defined and targeted as beneficiaries of various types of assistance. The redistributive logic was progressively and partially replaced by the competitivity logic, the Structural Funds adjusting to the Lisbon Agenda[1].

The current reasoning of the European Regional Policy was inspired by the new theories of economic growth, especially the endogenous growth theory (Danuta Huber, European Commissioner for Regional Policy; European Regional Policy: History, Achievements and Perspectives, 29 November 2007). If the endogenous factors are the core of the Regional Development Policies, they can foster “upward growth”, leading to higher growths and productivities all over the region. According to the new logic, the Cohesion Policy is moreover an assignment policy rather than a redistribution policy. The assignment is carried out through conditioned grants targeting the local growth resources. Under this pattern, the innovation incentives influence positively the innovation rate in a region,and thus the global growth rate. In fact, there is a compromise between efficiency (by innovation incentives) and equity (by cohesion incentives).

The paradigm shift of the Cohesion Policy has set in the same context the concepts of competitiveness and cohesion, both concepts being considered as complementary. Under this new paradigm, the potential of the EU Regional Policy to bring about more cohesion between regions is based on the capacity to implement structural reforms, as set out in the Lisbon Agenda, then in the 2020 Strategy and the policies of the European Semester. The new paradigm of the Cohesion Policy based on the competitiveness logic was first reflected in the MFF 2007-2013 and then in the MFF 2014-2020 that linked the investments funded through the European Funds to the structural reforms of the Lisbon Agenda and respectively the Europe 2020 Strategy.

Competitiveness is a very ambiguous concept. There are several interpretations. The currently privileged interpretation in the EU can be found in the Five Presidents' Report: “a competitive economy is one in which institutions and policies allow productive firms to thrive. In turn, the development of these firms supports the expansion of employment, investment and trade.” Synthetizing, the prosperity of the

[1] The Lisbon Agenda was an action and European economy development plan for the timeframe 2000-2010, initiated in 2000, that provided structural reforms for economic competitivity enhancement through the knowledge-based economy. The Lisbon Agenda was followed by the European 2020 Strategy.

enterprises automatically leads to the prosperity of all. It is the triumph of the supply economy over the demand economy.

Nevertheless, this definition of competitiveness is challenged by the economic academic environment, but it is mostly invalidated by the overwhelming empirical evidence of increasing income and wealth inequality in recent decades, with negative effects on social stability and implicitly on political stability.

3. The European Commission's proposals on the new Multiannual Financial Framework 2021-2027 and the ongoing negotiations

The European Commission presented in May 2018 a package of legislative proposals on MFF 2021-2027 suggesting "a modern budget [...] that protects, empowers and defends". The Commission's approach was based on the European added value as opposed to the "net balance" ("just retour") -based accounting approach, which usually dominates intergovernmental negotiation. This approach is complemented by the Commission's proposal to increase own resources in the EU budget revenues, with the proposed new own resources reaching approximatively 12 % of the revenue. These are based on the common consolidated corporate tax base, the auctioning revenues of the Emission Trading System and the non-recycled plastic packaging waste.

The Commission proposed a level of expenditure commitments of 1.11 % of EU-27 GNI and focused on the new priorities by providing more funding for research and innovation, digital economy, security and defence, migration and border management, external action, climate and support programs for youth. At the same time, the Commission's proposal cut down the Cohesion Policy funds by 10 %. The Commission also proposed the conditioning of the Structural Funds by the European Semester and the rule of law.

With regard to the regional development and cohesion post-2020, the Commission proposed five investment priorities optimally intermediated by the EU: (1) a Smarter Europe, (2) a Greener Europe, (3) a more Connected Europe, (4) a more Social Europe, (5) a Europe closer to citizens.

The investments for regional development will be strongly focused on the first two objectives. Between 65 % and 85 % of the Structural and Cohesion Funds will be assigned to these priorities, depending on the relative well-being of the Member States.

The European Commission's proposals on the new post-2020 multiannual financial framework reflect the strengthening of the competitiveness logic in the Cohesion Policy. Thus, the European Commission's factsheet stated: "Cohesion Policy supports reforms for an investment-friendly environment, where businesses can thrive. Full complementarity and coordination with the new, enhanced Reform

Support Programme will be ensured". Also: "To further set the right conditions for growth and job creation, new "enabling" conditions will help remove barriers to investments."

At the same time, the current outlook of the Cohesion Policy requires increasing recourse to the private sector, the market in general. The European Strategic Investment Plan (the Juncker Plan), launched in 2014–2015, proposed a major shift in the public money use paradigm. They will no longer be used to invest in physical assets, but mainly as a guarantee for structured financial instruments that draw private investments. To this end, the European Commission proposed under MFF 2021-2027 the more intense use of the financial instruments, stemming from the finding that important investment gaps cannot be eliminated only by granting subsidies.

Therefore, the Commission encourages Member States to transfer a part of Cohesion Policy resources to the new Invest EU Fund in order to access the guarantee provided by the EU budget. The new framework includes also special provisions to gather more private capital.

The MFF 2021-2027 negotiation is underway and the controversies are mainly about three issues: (1) the overall level of spending, (2) the structure of spending, (3) the adoption date of the financial envelope. There are broadly two groups of states: (1) the Friends of Cohesion, (2) the Friends of Better Spending. The first group wants a higher level of spending and maintaining intact the Cohesion and Agriculture Funds. The second group advocates a lower level of spending and a better use of money, opting for the new programs rather than the traditional policies, such as Cohesion Policy and the CAP. The second group is more decided and seems more united than the first group.

The European Parliament, by way of the Resolution of 14 November 2018 (Interim Report on the Multiannual Financial Framework 2021-2027), stated that the funding for Cohesion Policy and CAP should remain the same and, in order for the budget to be able to fund also the new priorities, the assignment level should reach 1.3 % of EU-27 GNI.

In the Declaration of 6 March 2018 of Finance Ministers of Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands and Sweden, it is mentioned the need to link the post-2020 MFF with the implementation of structural reforms: "The post-2020 Multiannual Financial Framework can help to foster sustainable growth and can be better aligned to the implementation of structural reforms, whilst respecting the responsibility and ownership of Member States for such reforms. Structural reforms are key for strengthening the resilience and potential growth of Member States and the EU as a whole".

In the Joint Statement of Friends of Cohesion on MFF 2021-2027 of 29 November 2018, the representatives of the Czech Republic, Cyprus, Croatia, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Slovakia and Slovenia supported among others: “The degree of political ambition should shape the content and magnitude of the MFF, and not the vice versa. A strong, safe, and prosperous Europe requires sufficient level for financing to the both existing and new policies with clear Europe added value.”

With regard to the date of the adoption of the MFF 2021-2027, although the Commission and the European Parliament proposed and supported the conclusion of the negotiations by the end of this legislative term, i.e. during the Romanian Presidency, the European Council of 13 14 December 2018 calls on the Romanian Presidency to “develop an orientation for the next stage of the negotiations, with a view to achieving an agreement in the European Council in autumn 2019”.