Shaping the Future of Europe

Hungary's Vision for the 2024 Presidency

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CHARTING THE FUTURE OF COHESION POLICY

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The effective functioning of the European Union's regional development policy—officially known as cohesion policy—is a strategic issue for European integration. Strengthening territorial convergence and reducing disparities in development levels between member states and regions is key. The European single market can only be truly achieved, and function effectively, if its constituent states and regions are at a broadly similar level of development. This is exactly what cohesion policy does, providing a crucial amount of development funds especially for the EU's less developed member states like Hungary.

As the program of the Hungarian Council presidency for the second half of 2024 states, however, still "more than a quarter of the EU's population lives in regions not reaching 75% of the Union's average development level," and therefore, Hungary's presidency "will aim for a high-level strategic debate on the future of cohesion policy, including its role in promoting competitiveness and employment, as well as in addressing demographic challenges" ("Programme of the Hungarian Presidency," 2024, p. 6). This chapter, after providing a general overview of the European Union's cohesion policy, will discuss the recent successes and failures of cohesion. Last, it will provide an indication of where improvement is needed for cohesion in order to better align with its declared aims in practice and render the disadvantaged regions of the EU a fair and even development.

A BRIEF HISTORY OF EU COHESION POLICY

Cohesion policy is an EU policy that aims to reduce inequalities between regions caused by economic and social disparities. By different regions, we can mean both regional economic differences within member states, primarily in the rural-urban context, and, more broadly, regional differences within the EU, for example between East and West, North and South. Although it was formally established by the Maastricht Treaty, the roots of cohesion policy and the thinking behind it date back to the 1950s and the Treaty of Rome, which stipulated that regional disparities within the then-only six-member European Economic Community would be reduced. In this form, however, it did not achieve much, as it had not yet become an official Community policy. Enlargement, the accession of Ireland, Denmark and the United Kingdom in 1973, and periodic economic problems such as the coal crisis brought the need for a more effective regional development policy back to the fore, and the European Regional Development Fund (ERDF) was set up as a result. Nonetheless, the developing internal market of the Community, the progressively closer integration and the accession of new member states like Greece, Spain and Portugal, called for new approaches as southern countries were lagging considerably behind older members in economic terms (Navracsics, 2023).

The idea has come to the fore that the catch-up of "lagging countries/regions" should be pursued more through Community support, as this is more efficient in the long run and is in the interest of the whole Community. In 1986, the Single European Act designated the European Social Fund and the European Agricultural Fund, alongside the ERDF, to promote these objectives. From this time onwards, we can speak of a truly Community-level regional policy, since it was already operating on the basis of systemic principles and rules, such as the coordinated operation of the aforementioned funds, as well as long-term planning. Even with this, however, Community funding could not replace national funding (Navracsics, 2023).

The next step in this direction was the Cohesion Fund, created in 1993 as an innovation under the Maastricht Treaty to help new Member States meet the convergence criteria as part of the overall process of catching up, and included a rigorous review system. In the years that followed, cohesion policy priorities were progressively complemented with employment policy, for example, becoming a priority area. The enlargement of the EU to the east in 2004 and 2007, which nearly doubled the number of member states, also marked an important change. The role of cohesion became more important than ever, as most of the acceding countries were lagging far behind older member states, since the former Eastern bloc countries had followed a very different economic development path than their Western and Southern peers (Navracsics, 2023).

Cohesion policy is, in effect, made up of three principal areas: social, economic, and territorial cohesion. While economic and social cohesion has been an objective for the European Community since the Single European Act of 1986, achieving territorial cohesion only became a prominent objective in the late 1990s and early 2000s. It was only in 2008, with the Lisbon Treaty, that territorial cohesion was formally introduced as the third dimension of EU cohesion. This was mainly motivated by the concerns of older member states about the enlargement to the east, namely that territorial disparities and differences in economic performance within the EU would have a negative impact on growth after the accession of new countries (Petri, 2024).

Cohesion policy is a long-term policy designed in seven-year cycles, in line with the principles set out earlier, and this should be taken into account when assessing its effectiveness, although the process for assessing the policy is ambiguous. It is undeniable that economic disparities between member states in the West and member states in the East have narrowed, especially in the case of member states that joined the EU as part of the eastern enlargement, such as Poland, Hungary, Romania or the Czech Republic, but in many cases the rural-urban divide has further widened within countries.

THE CURRENT STATE OF COHESION POLICY: SUCCESSES AND FAILURES

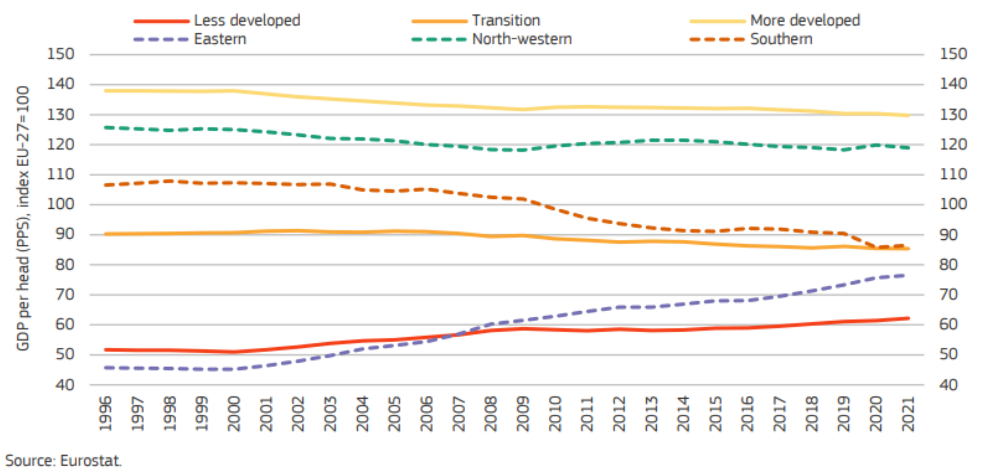
Cohesion funds have played a crucial role in improving economic conditions in Europe, particularly in underdeveloped regions, including within Hungary. These funds, however, come with challenges and controversies. The regions catching up to EU average levels are generally only urban regions, and cohesion policy has failed to effectively address demographic issues.

The largest part of the EU's current long-term budget for 2021–2027, the Multiannual Financial Framework (MFF), is allocated to "Cohesion, Resilience and Values." Additionally, the EU's emergency recovery instrument, NextGenerationEU concentrates almost exclusively on this area. Overall, the Cohesion, Resilience and Values category takes up €1,203.2 billion—out of €2,017.8 billion total—in the 2021–2027 EU spending, indicating an exceptional opportunity for cohesion projects to come to fruition in the current budget period (European Commission, n.d.a). For this period, the Commission has set five policy objectives: (1) a more competitive and smarter Europe, (2) a greener, low carbon transition towards a net zero carbon economy, (3) a more connected Europe by enhancing mobility, (4) a more social and inclusive Europe, and (5) a Europe closer to citizens by fostering the sustainable and integrated development of all types of territories (European Commission, n.d.b). The 2021–2027 funds and programs serve these objectives, and, as Petri sets out (2024), there are several of them that serve the aim of cohesion.

The "Investment for Jobs and Growth" objective amounts to a total of €322.3 billion, of which €202.3 billion is destined for less developed regions, €47.8 billion for transition regions and €27.2 billion for more developed regions. In addition, €42.6 billion is allocated to Member States benefitting from the Cohesion Fund (of which €10 billion will be allocated to the Connecting Europe Facility). This is complemented by almost €2 billion for the outermost regions and half a billion for interregional investment in innovation. The European Regional Development Fund (ERDF) resources for the European territorial cooperation (Interreg) objective total €8,050 million. Additionally, the Just Transition Fund, supporting the areas most affected by the transition to climate neutrality and aiming to mitigate regional disparities, as well as ReactEU, supporting key sectors in the recovery from the COVID-19 crisis, amount to a combined €70 billion.

Figure 1

GDP per Head in EU Regions in Purchasing Power Standards, Percent of EU Average, 1995–2021

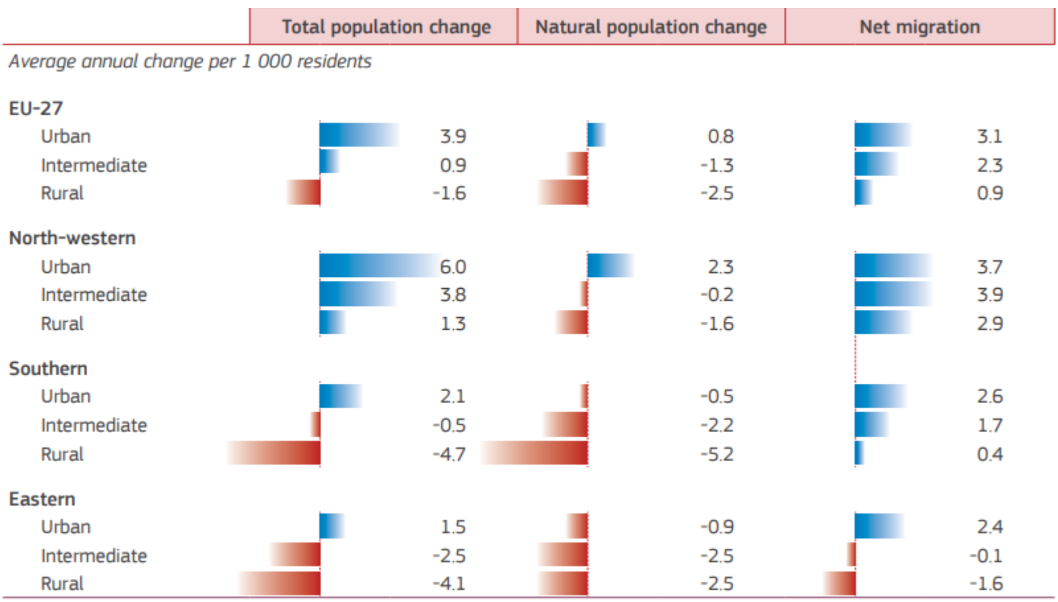


Note. From "Ninth report on economic, social and territorial cohesion" by the European Commission, 2024, p. 6, https://ec.europa.eu/regional_policy/information-sources/cohesion-report_en. Copyright 2024 by the European Union.

The EU's Ninth Report on Economic, Social and Territorial Cohesion was published by the Commission in March 2024 and notes a great number of successes with regard to cohesion policy, especially in cases like that of Hungary. The report claims that average GDP per capita in the member states that joined in 2004 rose from about 52 percent of the average to almost 80 percent by 2023. During the same period, unemployment fell from 13 percent to a mere 4 percent. The convergence, contends the report, was driven by an increase in productivity in the less developed regions. It is noteworthy that the same catch-up did not materialize in the underdeveloped regions of the southern member states (European Commission, 2024). These tendencies are all the more important for Hungary, for three—if we exclude French overseas territories, four—of its eight NUTS 2 regions, which are the regions eligible for cohesion policy support, were among the twenty poorest regions of the EU in 2022, according to Eurostat (2024).

Figure 2

Total Population Change, Natural Population Change and Net Migration by Urban-Rural Regional Typology, 2010–2021



Note. From "Ninth report on economic, social and territorial cohesion" by the European Commission, 2024, p. 194, https://ec.europa.eu/regional_policy/information-sources/cohesion-report_en. Copyright 2024 by the European Union.

The report contends that cohesion policy has played a pivotal role in the overall improvement of employment and social indicators, especially among its Eastern members, whose poverty rate is now converging to the EU average of 21 percent—southern states are still stagnating around 25 percent. The gap between more and less developed regions also narrowed to 9 percentage points in 2022, from around 14 percent in 2016 (European Commission, 2024). Moreover, disparities in employment rates between more and less developed regions narrowed by 2022. Although employment rates remain weaker in less developed regions at 68 percent in 2022, compared to 78 percent in more developed regions, the gap decreased by 5 percentage points from 2013 (European Commission, 2024).

Altogether, cohesion policy has played a crucial role in generally uplifting Europe economically, but the effect has been particularly noteworthy in underdeveloped regions. The report suggests that based on macroeconomic modeling, the 2014–2020 and 2021–2027 programs, taken together, could increase EU GDP by 0.9 percent by the end of 2030. This impact is much stronger in countries where support is concentrated, including Hungary: Croatia's GDP will grow up to 8 percent in 2030, 6 percent in Poland and Slovakia and 5 percent in Lithuania compared to what it would be in the absence of cohesion support (European Commission, 2024).

Nonetheless, EU cohesion fund support is not without its challenges and controversies. As Navracsics (2023) discusses, a key but unwelcome feature of cohesion in the European Union is its skewedness. That is, the less developed regions that perform well and thus catch up with the rest the most dynamically are overwhelmingly urban ones. The reason for this can be traced back to economies of scale. First, we can see a general correlation between the quality of digital infrastructure and the catch-up potential of an underdeveloped region. As cities usually have the quality and quantity of digital infrastructure required for swift development in contemporary times, they start from a better starting position than rural areas, where building up infrastructure is much less economical due to the dispersed populace and greater distances to be covered. Therefore, while currently the EU's cohesion policy rightly stimulates investing into digital infrastructure, due to its single, general approach, these investments remain geographically concentrated. A better mechanism is needed to target rural areas (Navracsics, 2023). As the ninth cohesion report says, especially in eastern member states, it is a general characteristic that genuinely impressive convergence to the EU's average level of development is driven solely by high growth rates in already better-developed regions—usually in the capital city region—exacerbating domestic regional disparities. Hence, subnational disparities will be masked by good national performance (European Commission, 2024).

Another area where cohesion policy has been insufficient is demographics. The ninth cohesion report highlights that by 2050, the EU's working-age population is expected to shrink by 50 million, a dramatic decrease in a community of 450 million, and therefore low unemployment and high labor demand will put more pressure on labor markets (European Commission, 2024). In contrast, Dubravka Šuica, the Croatian Vice-President of the European Commission for Democracy and Demography, claims that the EU working age population is expected to fall by "only" 35 million by 2050 (Petri, 2024). According to Šuica, while the vast majority of European regions will be affected by demographic decline, the decline will be more pronounced in less developed and rural regions, leading to increased inequalities. Population aging increases the demand for health care and places greater financial burdens on pension systems.

This is all the more important as an economic downturn ensuing from population decline could have serious political consequences. A 2020 study presented by the European Commission's Directorate General for Regional Policy found that lower unemployment, an ageing population and a less skilled workforce, among others, render it more likely that hard Euroscepticism will be rife in local societies. We have already seen the consequences of this, having played a significant role in the successful 2016 Brexit vote in the United Kingdom (Petri, 2024).

Navracsics (2023) adds to this, introducing the perspectives of the EU's eastern member states. The Western European labor market that opened up to the workforce of these states had a draining effect on the EU's new members post-2004. While the free movement of labor force is a natural phenomenon in a market economy such as the EU, the emigration of the workforce, especially young and better-educated people, had a dramatic effect on many of these countries. It is not unprecedented for a new member state to lose over a quarter of its population over twenty years, mostly due to emigration. Such a shocking loss of workers had a grim impact on their development potential, especially in already less developed regions, which had to endure the greatest losses in human capital.

Therefore, cohesion policy in the EU should not only manage demographic problems ensuing from declining natural birth rates but should also develop plans in response to the specific difficulties of the regions emptying out on the peripheries of the European Union. The farther away a region is from the EU's core territories and the more rural a character it has, the more likely it is to be affected by demographic problems (Navracsics, 2023). These regions often struggle with every type of demographic decline: plummeting birth rates, migration from the countryside into towns and cities, as well as the post-accession emigration to better-off member states.

WHAT CAN HUNGARY DO TO IMPROVE COHESION POLICY?

Cohesion policy needs to find a solution for the phenomenon that the dynamically developing regions in the EU are almost exclusively urban ones. Cohesion policy, therefore, should not only include incentivizing infrastructural investments and their effective implementation but should also embrace a mechanism for targeting these investments to cover intermediate and rural areas as well. This is made more difficult, however, by the fact that the implementation of infrastructural investments is a national competence. The EU, therefore, cannot create a uniform development policy toolkit that applies to every state. Instead, more efficient coordination attached to the policy could bring us to a fairer distribution of funds (Navracsics, 2023).

Cohesion policy, however, is not exclusively about territorial cohesion. This has been especially true for the last decade. There have indeed been debates within the European Commission about the right balance between the two dimensions of cohesion. Namely, currently there seems to be a rift between Elisa Ferreira, Portugal's Commissioner for Cohesion and Reforms, and Nicolas Schmit, the Luxembourgish Commissioner for Jobs and Social Rights, with the latter clearly prioritizing social cohesion and equity over the elimination of territorial disparities (Petri, 2024).

In a similar manner, Vasco Alves Cordeiro, President of the EU's Committee of the Regions, warned against the potential centralisation of cohesion policy directly under the Commission President, concentrating solely on economic recovery or economic convergence while giving up on the social and territorial dimension of cohesion (European Committee of the Regions, 2024). He added in an interview that a reform that would give the right to distribute cohesion monies into the hands of national governments instead of regions "will kill cohesion policy" because the territorial approach will likely to be missing from it, implying that funds would be distributed inefficiently, i.e. not helping those the most in need (Packroff, 2024).

In 2015, it became obvious that the European Union must face the consequences of mass migration, mainly from Africa and the Middle East. Soon, virtually every part of the EU was affected by the problems brought by mass immigration. Dealing with the most immediate impacts of this new phenomenon—receiving and caring for immigrants—was soon supplanted by the need to socially integrate them. The European Commission has supported integration from the outset. This involves cohesion policy as well, featuring a number of proposed policy solutions that would contribute to the integration of newly arrived migrants into society. Such programs can help in the economic renewal of regions beset by workforce shortage and economic stagnation. The outbreak of the Russo-Ukrainian war presented the EU with a new challenge: Millions of Ukrainian refugees fled to the EU within a matter of days and weeks. This highlights the need for cohesion policy to become more flexible, as the current rigid rules cannot be adapted to sudden shocks. That is, mid-term programs with rigid financing systems need to be reformed into rapid-response facilities, even though the question remains whether the Commission is able—and willing—to do that (Navracsics, 2023).

However, just as Commissioner Šuica argued, Europe should not see supporting immigration as the primary solution to its demographic problems (Petri, 2024). Instead, cohesion policy should be better oriented to support investments that increase regional attractiveness, improve people's skills and retraining, and promote innovation. The Hungarian presidency has also indicated it will place great emphasis on this, saying it "plans to adopt Council conclusions on the necessary and prominent role of cohesion policy in effectively addressing demographic challenges" ("Programme of the Hungarian Presidency," 2024, p. 8).

During the Hungarian Council presidency, the changing of institutional cycles at the Commission and the Parliament only allows modest changes in policy (Navracsics, 2023). This is because the outgoing Commission will not be interested in major policy innovations given that the new Commission will take office quite late in the year and thus will lack the time, experience and political will to initiate such innovations. Nonetheless, the recent publication of the ninth cohesion report provides an opportunity for tweaking EU cohesion policy, especially given the general political cycle change underway, thus providing a promising chance for Hungary to formulate its interests in shaping cohesion policy and promote it during negotiations—either interinstitutionally or within the Council.

The Hungarian presidency has prepared for this opportunity, claiming in its program that "the aim of the Presidency is to encourage reflection on the future of cohesion policy, and to facilitate a strategic debate at the European Council" ("Programme of the Hungarian Presidency," 2024, p. 8). Such debates would most probably include the right balance between territorial and social cohesion, where Hungary, along with fellow eastern member states, will argue for strengthening the territorial dimension, ensuing from their national attributes and interests. Social cohesion, however, also features in the Hungarian Council Presidency's program, highlighting the essential link between cohesion policy and successfully addressing demographic challenges ("Programme of the Hungarian Presidency," 2024).

A further, quite sensitive, issue to consider during the Hungarian Presidency would be financing cohesion under enlargement. Hungary has historically been a proponent of the EU enlargement and will support taking the process further during its presidency ("Programme of the Hungarian Presidency," 2024). Nonetheless, admitting a large number of Western Balkan and Eastern European countries would have serious implications regarding cohesion policy. That is, all the states to be admitted are significantly less developed economically than the EU's average, meaning that they as members would become net beneficiaries, receiving large amounts of funds from the EU's budget. The accession of all possible member states would increase the EU budget by 21 percent, to 1.4 percent of the EU's GDP, while a host of countries—the Czech Republic, Estonia, Lithuania, Slovenia, Cyprus and Malta—would no longer qualify for cohesion funds due to the lowering of thresholds by the newly admitted, relatively poor countries (Moens, 2023).

If admitted, the greatest beneficiary—thanks to its size and population—would be Ukraine. According to the Bruegel think tank, Ukraine's accession would result in member states contributing on average 0.1 percent more of their GDP to the EU budget (Darvas et al., 2024). Taking the 2021–2027 MFF as a baseline, Ukraine would get €32 billion in cohesion funds plus an additional €85 billion in CAP payments and €7 billion from other EU programs while only contributing €14 billion to the EU budget. In another review, an internal note of the Council leaked to *Politico* and *The Financial Times* estimated the funds that would be provided to Ukraine during the seven-year period at €186 billion (Moens, 2023; Foy, 2023). This underscores the dilemmas of EU enlargement policy.

In conclusion, it is apparent that a number of challenges lie ahead for the European Union's cohesion policy, and, while the Hungarian Council Presidency in the second half of 2024 will only have modest chances to drive the change, it should nonetheless be ready to grab every opportunity to lead technical and higher-level discussions on the possible courses of reform in Council meetings. An effective cohesion policy that can reduce disparities in development levels between member states and regions is necessary to achieve a well-functioning European Union.

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