

FIGHTING SPATIAL DISPARITIES, ENHANCING TERRITORIAL COMPETITIVENESS: EUROPEAN UNION REGIONAL POLICY PARADOXES

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ABSTRACT – Competitiveness strategy agreed in Lisbon in 2000 was seen as a radical change in the economic and social policy of the European Union. However, this strategy, meant to be a response to globalization, mass unemployment, and deindustrialization, has disappointing results. This failure may be partly explained by the structural funds dispersion between the traditional objective of territorial solidarity, the Lisbon imperative of competitiveness and after 2001, sustainable development.

Keywords: competitiveness, European Union, Lisbon Strategy, regional policy, spatial cohesion

Since the special Lisbon European Council of 23 and 24 March 2000, the European Union (EU) has chosen to put competitiveness at the top of its agenda. The aim of this new strategic goal has been to turn the Union into “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”. However, the concept of competitiveness as applied to territories, such as national member states or the whole EU, was born in the United States in the early 1980's. It is fundamentally an elitist and liberal concept whereas EU regional policy has pursued, since the first treaties, a ‘social model’ built on spatial cohesion, solidarity, and social welfare. How has the EU’s territorial conception attempted to manage these contradictory economic and socio-spatial goals? In this short think piece, we examine the competitiveness objectives and measures adopted by the Lisbon strategy since its inception and consider the extent to which these are compatible with the pursuit of spatial equity, long associated with the European social model.

AN AMERICAN PARADIGM

The concept of territorial, regional, or national competitiveness was born in the US in the 1980's and 1990's. Despite numerous debates about the usefulness of this notion (Krugman, 1994), competitiveness has become a central discourse within public policy circles worldwide, but especially in western countries (Bristow, 2005). The success of Japan, newly industrializing Asian economies (NIE) and China in international trade calls into question the prospects for the continued hegemony of American industrial power. Technologically, the US domination is threatened. The growing market share of Asian manufactured goods points to a global shift leading to a new trajectory of the US economic decline. The need to recapture the domestic market and reposition the US exports has become an imperative. In 1980, the Office of Foreign Economic Research, representing the Federal Department of Labour, presented the first report on the US competitiveness to President Jimmy Carter. In 1985, the Reagan administration created the President's Commission on Industrial Competitiveness and then, under the Omnibus Foreign Trade and Competitiveness Act of 1988 (a set of measures intended to curb the worsening US trade balance) the Competitiveness Policy Council was formed. This federal panel of independent experts that began the work in 1991 was to write four reports on the

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topic of competitiveness². The activities of this institution ceased in 1997 when public funding ended and it is now a private organization - the Council on Competitiveness (<http://www.compete.org/>). Established in 1986, the Council provides advice to the US government. Thus, during the cycle of 12 years of Republican presidencies (the two mandates of Ronald Reagan being followed by that of George Bush), there was no break in the programme of research on competitiveness. The Clinton administration took up the new economic paradigm at the Little Rock Conference (Arkansas) in December 1992. Today, the defence of the US competitiveness is the job of a special unit of the Department of Commerce, the International Trade Administration (ITA) which has three missions: "Promoting Trade and Investment, Strengthening Industry Competitiveness, Ensuring Fair Trade". Within the ITA, a specially designated unit, MAS (manufacturing and services), is dedicated to promoting the global competitiveness of the US industry, expanding its market access, and increasing its exports. Americans are precursors on this subject.

Thanks to the works of Michael Porter, the concept of national competitiveness has attracted world fame. An economist and Professor at Harvard Business School (HBS), Porter is the author of 'The Competitive Advantage of Nations' (1990). This worldwide bestseller is required reading in the bibliographies of most business school students. Porter has been the bedtime reading of an economic, political and media, global elite for two decades. The powerful influence of his narrative on policy thinking is confirmed by the Global Competitiveness Report (GCR), written in association with the Davos World Economic Forum (WEF). The GCR report is clearly deeply influenced by Porter, who provides consultancy services to multinational corporations (MNC) as well to governments. In 2001, he founded the HBS Institute for Strategy and Competitiveness (ISC), which was to be his ideas vector, "dedicated to the study of competition and its implications for company strategy; the competitiveness of nations, regions, and cities; and the relationship between competition and society. The Institute seeks to develop new theory, assemble bodies of data to test and apply the theory, and disseminate its ideas widely to scholars and practitioners in business, government, and non-governmental organizations such as universities, economic development organizations, and foundations". Porter's theory about competitiveness is today not only ideologically hegemonic in the US but across the whole world.

EUROPEAN INSTITUTIONALIZATION OF THE COMPETITIVENESS CONCEPT

Although the theme of competitiveness was originally developed in the United States, the western European countries, which are victims of similar economic problems (mass unemployment, obsolete industrial facilities, and Asian competition ...), adopted the discourse early on, during the 1990s. However, this was against the backdrop of the Treaty of Rome (1957), which announced Europe's social fund (ESF) aims, "to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less-favoured regions". This social axis was confirmed by the creation of the European Regional Development Fund (ERDF, 1975). EU regional policy was designed to build spatial solidarity and territorial cohesion. Even the Single European Act (1986) and the Treaty of Maastricht (1992), notorious as quite liberal, have had little place for competitiveness. Influenced by the Delors' 'White Paper' on Growth, Competitiveness, Employment (1993), the Copenhagen European Council (21 and 22 June 1993) officially introduced the competitiveness issue in EU preoccupations for the first time: "The European Council pledged the determination of the Community and its Member States to restore confidence through the implementation of a clear strategy [...] to restore sustainable growth, reinforce the competitiveness of European industry and reduce unemployment". The Essen European Council (9 and 10 December 1994) concluded: "The European Council intends also in the future to pay particular attention to the competitiveness of the European economy". In February 1995, the new chairman of the Commission (Jacques Santer) set up a

² Competitiveness Policy Council, Building a Competitive America (1992); A Competitiveness Strategy for America (1993); Promoting Long-Term Prosperity (1994); Saving More and Investing Better: A Strategy for Securing Prosperity (1995).

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consultative group on competitiveness, with the task of drafting reports on the Union as well as to advise on the priorities and direction of economic policy, to improve competitiveness and to reap the benefits in terms of growth and jobs. This group was comprised of fifteen experts (senior officials, trade unionists, academics, and managers in large firms). Such activism in favour of more ambitious competitive policies, however, must deal with the Union's past: Historically then, cohesiveness has been the motto of Europe. The idea of a competition between territories was completely marginal until the 1990s.

With the Lisbon strategy, decided in March 2000, the EU has since combined both the notions of competitiveness and cohesion for a decade, suggesting that the former is a means to strengthen the latter. This strategic line was confirmed at the Santa Maria da Feira European Council (19 and 20 June 2000) which set out to operationalize Lisbon European Council priorities by launching an action plan for ICT (eEurope), creating a European Area of research (ERA) and a charter for small enterprises. The Kok report (2004) however specified that: "Clearly, special attention should be paid to concerns in society, as it would be inconsistent with the Lisbon model to achieve competitiveness gains at the price of social dumping". It underlined a gap between the US and the EU paradigm: "The Lisbon strategy is not an attempt to become a copy-cat of the US — far from it. Lisbon is about achieving Europe's vision of what it wants to be and what it wants to keep in the light of increasing global competition, an ageing population and the enlargement. It has the broad ambition of solidarity with the needy, now and in the future. To realise this ambition, Europe needs more growth and more people in work". The new EU strategy is a compromise between the requirement of territorial cohesion (inherited from the established main treaties), and the new paradigm of competitiveness (imported from the United States). It emerges as a form of hybrid governance, the result of countless compromises (as always in the history of European integration) and not as a simple transposition of the writings of Michael Porter or the U.S. Commerce Department.

PURSuing ANTAGONISTIC GOALS

European regional policy, which has recently become the largest EU budget (superior to the Common Agricultural Policy, CAP), should be the main tool of the competitiveness strategy. Structural funds, such as the ESF and the ERDF, are supposed to finance both priorities (territorial competitiveness and cohesion) and, after the Göteborg European Council (15 and 16 June 2001), a third priority: environment. The Council "agreed on a strategy for sustainable development and added an environmental dimension to the Lisbon process for employment, economic reform and social cohesion". These accumulated goals have driven the Lisbon strategy to an inflation of indicators as measures of success. In the first stage (March 2000), there were four Lisbon indicators (an annual growth rate of 3% of GDP, employment rate of 70% of the workforce and 60% of the female workforce, 85% of a class of age at the baccalaureate level). At the second stage (the Stockholm Council in 2001), four additional goals were adopted (50% employment rate of older (over 50), public deficit below 3% of GDP, public debt limited to 60% of GDP, 98.5% of directives implemented on time and reduction of direct aid States in their national economy); two of these were Stockholm goals and a simple transcription of Maastricht Treaty dispositions (deficit and debt). Thirdly, the Barcelona Council (2002) added four more indicators - a quantitative reduction in greenhouse gas emissions (implementation of the Kyoto Protocol), 3% of GDP devoted to R&D (including two-thirds of private expenditure), increased retirement age 5 years and improving subsidies structures for children care (33% of children under 3 years and then 90% for those in primary school-age). The 13th and 14th goals were established at the Brussels Council (23 and 24 March 2006): the dropout rate in superior studies should be below 10%; member states undertake to provide an offer of employment, education or training within four months to all young jobless.

These objectives attempt to conciliate the historic ideal of the structural funds: cohesion, sustainable development, and new competitive economic policy. Since its beginning, the Lisbon strategy has faced a basic, intractable problem. The Kok report has considered the failures of the strategy as a consequence of contradictory goals: "This disappointing delivery is due to an overloaded agenda, poor coordination and conflicting priorities" (Kok, 2004). In order to coordinate all these

objectives, the 22nd and 23rd March European Council instituted a precise framework for the structural funds (the 2007-2013 period). Regional policy is traditionally divided into two main “objectives”. The “Convergence objective” (former objective 1) is dedicated to the 84 least-developed regions (NUTS 2) in member states. These regions have a GDP per inhabitant under the threshold of 75% of the Community average. The money available under this objective is 283 billion euros (81.5% of the total). This amount will erase regional disparities within the EU, according the ideal of solidarity. On the other hand, the “Competitiveness and Employment objective” is supposed to strengthen competitiveness in the 168 regions that are not in the convergence group. This second objective (representing 16% of regional policy) is a consequence of the Lisbon strategy: the ERDF should finance territories, not only in favour of spatial cohesion, but also for their competitiveness. Besides this binary typology of regions (cohesion/competitiveness), during this 2007-2013 period, regional policy has managed, “phasing-out/phasing-in” budgets (which should help the regions in transition between the two objectives) and a cross-border co-operation budget (the European territorial co-operation objective, 2.5% of the total). However, this apparent dichotomy between 68 regions that need support and 168 competitive areas is in reality even more complicated. In fact, at the European Council of 16 December 2005, member states agreed to introduce targeted interventions of structural funds designated by Lisbon for both objectives, not just the second one. The distinction is not clear. There is a requirement to allocate 60% of credits under the Convergence Objective and 75% of the appropriations of the competitiveness and employment objective in spending in order to achieve the Lisbon strategy, according to the criteria defined by the European Commission.

CONCLUSION

In consequence, the decisive turn, announced in Lisbon in 2000, introduced little real change in funding priorities. The cohesion budget still remains central (more than four-fifths of the total). This policy pays little attention to the most advanced territories which should be massively subsidized according to the competitive environment associated with contemporary globalization. The EU continues to assist relatively underdeveloped regions at the expense of the most advanced areas. In such conditions how can the EU build its economic champions to be able to face the US, Japan, India or China? The elitism associated with competitiveness is not mainstream in structural funds choices. Each region, independent of its type, has to account for the Lisbon strategy economic indicators. Some of the underlying goals existed before 2000 (growth, debt, deficit...): their competitive dimension is sometimes quite artificial.

Finally, in pursuit of two antagonistic goals, the EU faces a double failure. The first is from the cohesion point of view. Since the world crisis in 2008-2009, the most assisted regions have appeared very fragile: the PIIGS (Portugal, Ireland, Italy, Greece, and Spain), in financial turmoil, demonstrate that the investment of a huge amount of money in the struggle against spatial disparities has been inefficient. The state of the economies of those countries largely subsidized by the ESF and the ERDF, underlines the failure regional policy in the long run. Are subsidies a useful tool for development or just a form of temporary assistance with no real long-term benefits? The Lisbon strategy is clearly the second failure of European policy. Technological recession, trade and fiscal deficits, de-localization and mass unemployment continue to penalize the Union which, now ten years into the strategy, is not “the most competitive and dynamic knowledge-based economy in the world”. Both outcomes are widely recognized as unsatisfactory: this observation leads to at least two questions for the EU. First, is it relevant to pursue objectives for macroeconomic policy in tandem with those for territorial cohesion in spatial planning? In such a case, the budget dispersion risk is very high. Secondly, is the European solidarity ideal (social cohesion underpins the territorial cohesion objective) consistent with globalization? Competitiveness and selectivity pre-suppose territorial, sectoral, and economic strategic choices which may not be seen as egalitarian. These questions will likely be much debated after 2013, for the next EU budget.

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