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Relationship of competitiveness and social cohesion in the European Union

INTRODUCTION

In my current study I try to prove that due to the economic and financial crises, and the fierce global competition, the European Union does not have any other choice but to strengthen its competitiveness on contrary of cohesion. The signals of a paradigm shift can be detected in the development policy of the EU. The development policy, based on market mechanism, will be determined by competitiveness factors. The movement from the bureaucratic co-ordination to the market co-ordination is inevitable in the allocation of the EU funds. The change of paradigm can be established studying the structure of the current financial perspective. The shift toward competitiveness is beneficial for the core regions of the EU, projecting the vision of the two-speed Europe. Tensions are to be awaited because the newly accessed member-states are first of all interested in cohesion and social-economic close up.

I use the available secondary sources and statistics in order to underpin my hypothesis. It states that the future economic policy of the European Union will be determined by the intensification of competitiveness.

The economic, social and territorial cohesion is based on three strategic directives in the period of 2007–2013:

- Enhancing the attractiveness of the member-states, regions and cities by ameliorating their access, securing the appropriate quality of services and maintaining the environment.
- Fostering innovations, the entrepreneurial spirit, the knowledge based economy and the new information communication technologies.
- Establishment of more and better jobs, increasing employment, developing the absorption abilities of employees and enterprises, investments in human resources.

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The following principles are to be taken into consideration so that the renewed Lisbon strategy can be accomplished. The cohesion policy within the renewed Lisbon strategy strongly concentrates on the creation of a knowledge-based economy, research and development, as well as innovation. The sustainable development is further maintained by harmonising the coincidence between the economic, social and environmental protection dimensions. The national development policies regard the environmental protection as a vehicle generating growth that strengthens the competitiveness and increases the employment. The environmental aspect has already been considered in the preparation phase of the programmes. Furthermore, the equality between genders and anti-discrimination is emphasized.

In the framework of the Cohesion Fund and with the aim of convergence, the member states and regions, entitled to maintenance, have to prefer those European integration projects that refer to their territory. Special attention has to be paid to the cross-border connections within the Trans-European networks transportation projects. In order to improve regional development and the effectiveness of the transportation projects, the geographically isolated regions have to be involved in the TEN transportation projects.

The renewed Lisbon strategy contains considerable changes in comparison to the original concept. As the original Lisbon strategy concentrated on cohesion, the renewed version prefers competitiveness to cohesion.

Member states, entitled to subsidies from the Cohesion and Structural Funds, use the funds of the Cohesion Fund to the financing of their TEN projects, while they withdraw funds from the Structural Funds to finance economic fostering projects.[2]

The growth of the EU and the creation of new jobs require the shift of the economy into the direction of knowledge based activities. The EU has a big gap on the field of research and development compared to the USA and Japan. The private sector needs to struggle with an even bigger lack. The Lisbon strategy established that the member states should spend 3% of their GDP on R&D but this ratio is not fulfilled within the EU. The innovation gap of the EU, compared to other global economic players, is getting deeper and deeper. Unfortunately, the commercialisation of the technological developments does not occur in the appropriate measure. The broadening of the national and regional capacities has to be fostered so that technology and knowledge are really used in the economy. The integration of the small and medium sized companies into research and development activities is of utmost importance as these companies employ two-third of the workforce. It is rather important to co-ordinate the R&D activities of the state and the private sector so that duplicities can be avoided and

[2] Resolution of the European Council for strategic guidelines concerning cohesion (2006/702/EK), Official Journal of the European Union, L291/11.

synergy effects can be used. The cohesion policy aids the regions to establish their research and innovation capacities. The regions may take part in the European Research Space in that way.

The strategy of the integration referring to cohesion formulates the following directives:

- Strengthening of the co-operation among companies, research institutions and universities. The maintenance of the regional and trans-regional clusters.
- Maintenance of the R&D activities and technology transfers within the SME sector. The aim is to get the SME sector access to R&D services rendered by state owned research institutions.
- Maintenance of the trans-regional and trans-national initiatives. The aim is to foster the research co-operation and the efficiency on research fields prioritised by the EU.
- The research infrastructure and the human resources have to be developed on the fields disposing of considerable growth potential.[3]

STUCTURAL EFFECTS OF THE FINANCIAL FUNDS OF THE EUROPEAN INVESTMENT BANK

The European Investment Bank integrates the common development strategy of the European Union when formulating its strategic directives and business policy. The actual financial policy of the EIB is based on the Europe 2020 strategy accepted in 2010. The maintenance of an intelligent, sustainable and inclusive growth, formulated in the Europe 2020 strategy, was taken over by the EIB. The bank has evoked a separate working group so that the banking products and services suit the best way transportation, research and development, innovation and environmental protection investments. The intelligent growth means a knowledge-based, innovated economic growth. Sustainable growth is understood as the establishment of a competitive economy using the resources in a more efficient way. The aim of the inclusive, endogenous growth is to achieve high employment and economic, social and territorial cohesion. The development strategy of the EU contains 5 outstanding areas: employment, research and innovation, climate protection and energy, education and the fight against poverty. The aims are strongly interconnected with each other. The broadening of the research, development and innovation capacities and the rational resource management contributes to the fostering of competitiveness and employment. The biggest challenge is to increase employment and productivity in the framework of the "knowledge triangle" that comprises of the maintenance of education (increasing

[3] Op. cit.

the number of people possessing a diploma), fostering research activities and intensified innovation activities (using the research results in the economy).

The EIB approved more than EUR 4 billion for different educational investments and EUR 7 billion for research, development and innovation projects.

The first sheet presents the financing spent on a knowledge-based economy:

Table 1: EIB fund allocation EUR Mill.

	2010	2000 - 2010
Infrastructure	4761	25
Education	0,31	0,59
R&D	0,69	0,41
Others	0,36	0,20
Total	0,21	0,07

Source: EIB annual report 2010. 19.

The EIB strives to foster the financing of the knowledge triangle because these investments serve not only the increasing competitiveness but they also contribute to fight poverty and social exclusion.

The EIB elaborated the Risk Sharing Finance Facility (RSFF) with the European Commission so that the research and development projects, the innovations with high risk and profit factors can be financed. The fund was financed by the EIB and the European Commission. EUR 10 billion were disbursed for R&D and innovation investments in the budget period (2007–2013). The total amount of these investments makes up at least the double of this.

The structural credit line facilities of EIB also have to be mentioned. In 2010, the bank financed the convergence regions, hit by the financial crises, with 25,9 billion EUR. This amount of money makes up 41% of the total loan sum of EUR 63 billion granted in the EU. The member states may use these loans for financing projects accepted by the structural funds.

The bank of the union also provides technical assistance to the newly-joined 12 member countries regarding the preparations for the most important investments approved by the structural and cohesion funds.

The following common European programs are distinguished:

- JASPERS - common program maintaining the investments of the European regions (EIB, European Commission, EBRD, Kreditanstalt für Wiederaufbau),
- JESSICA – common European initiative maintaining sustainable city development investments (EIB, European Commission,
- JEREMIE – common European funds maintaining micro-, small and medium sized enterprises (EIB, European Commission),
- JASMINE – common program promoting European micro-financing institutions (EIB, European Commission).

The European Investment Bank elaborates an operational plan for 3 years that is monitored biannually and evaluated annually. The operational plan of 2012–2014 contains all targets and sums up the crucial priorities and activities. Special emphasis is laid on it so that the strategy of the bank is harmonised with the budget of the EU beginning 2014.

Several strategic parameters were developed to reform the operational plan. They are as follows:

- Sustaining the core business model in order to grant the outstanding creditworthiness of the bank
- Maintaining the long term transparent investment projects
- short- and middle term measurements are needed to be taken for the financial stability of the bank and amelioration of the quality of the portfolio.

In order to overcome the economic and financial crises, the bank reorganised its internal procedures and modified its financial services. Due to the changes, the EIB managed to remain the leading financial institution of the EU. 90% of the total credit volume concentrates on the financing of the member states. According to the Europe 2020 strategy, the EIB finances projects representing high value added regarding economic growth, employment, cohesion, and environmental protection. The EIB provides preference to projects to be accomplished in regions lacking the necessary capital. The bank puts special emphasis on the climate protection commitments of the European Commission and the member states.

The bank prioritises the single investment projects in order to reach maximal efficiency and to be in line with the common goals set by the EC. The common goals are as follows:

- to increase the growth and employment potential of the EU
- economic and social cohesion
- projects contributing to the climate actions-program[4]

The co-operation of the EIB with the European Commission and other financial institutions specialised in long term project financing unambiguously showed the synergy effects. The development of the common actions greatly contributes to the common risk-division mechanism. The EIB furthermore provides financial and technical advisory activities in order to strengthen the political goals of the union. The EIB needs to elaborate financial solutions tailored to infrastructural projects covering the whole Europe. These projects necessitate long preparation periods because of the joint financing of the state and the private investors and due to the fact that several states are involved. Considerable economic disparities between member-states cause further delays concerning the investments to be financed by

[4] The EIB Group Operational Plan 2012–2014.

the EIB. 50% of the bank financing concentrates on the infrastructural and energy efficiency projects. The European small and medium-sized enterprises sector is a crucial pillar of the European economy. The SME sector faces serious financing problems hindering economic growth and innovations. The bank needs to fulfil different criteria at the same time: ranking of fund resources, pricing of financial intermediaries, use of the funds in the utmost efficient way in the interest of the final beneficiaries. The European Investment Fund is charged with securing risk capital for the SME sector. The European Micro-Financing Fund financed by the EIB and the European Commission is trusted by the European Investment Fund.

In the framework of the climate action program, the EIB faces severe difficulties due to the low risk-taking willingness of the commercial banks, the economic recession and the uncertainties experienced in the regulation of the renewable energy sector. In order to reach tangible results on the European level, the EIB will reduce the average project size compared to the past periods. The projects are to be classified according to a transparent enlisting order so that the value added of the bank can be maximised. The second chart demonstrates the outstanding financing position of the knowledge economy and the environmental protection very well.

Table 2: Credit targets

Category	Unit	2011.	2012. plan
Convergence	bln EUR	21	18
Knowledge economy	bln EUR	9,8	8,4
EIB loans	bln EUR	9,8	8,4
European Investment Fund	bln EUR	1,2	1,3
Trans-European networks	bln EUR	9,5	6,3
Environmental protection	bln EUR	15,9	11,3
SME sector	bln EUR	10,4	11
EIB loans	bln EUR	10,4	11
European Investment Fund	bln EUR	1,3	1,3
Energy projects	bln EUR	12	9,5

Source: EIB Group, operational plan 2012—2014. EIB 16th February 2012. 15.

Figure 3: Political goals

Goals	Unit	2011	2012	2013	2014	2012-14 average
Credits contributing to growth and employment targets	bill. EUR	39,5	32,7	31,8	30,8	31,8
Knowledge economy, EIB loans	bill EUR	9,8	8,4	8,1	7,8	8,1
Knowledge economy, European Investment Fund	bill EUR	1,2	1,3	1,3	1,3	1,3
Trans-European networks - transport	bill EUR	8	6	5,8	5,6	5,8
competitive and safe energy supply	bill EUR	7,5	4,5	4,5	4,4	4,5
SME sector EIB loans	bill EUR	10,4	11	11	10,7	10,9
SME sector EIF guarantees	bill EUR	3,8	2,8	2,4	2,3	2,5
urban rehabilitation	bill EUR	3,8	2,8	2,4	2,3	2,5

Source: EIB Group, operational plan 2012-2014. EIB 16th February 2012. 15.

The third chart shows exactly that the EIB financing reflects the priorities of the Europe 2020 strategy.

Half of the total credit volume of the bank is made of infrastructural and energy projects. All of these projects play an important role in increasing the economic growth and employment. This fact underpins the emphasis the EIB lays on transportation and energy projects. The urban infrastructure developments proceed in the framework of the JESSICS program.

The following additional regional development targets have to be considered in the convergence regions:

1. the geographical location of the disparity level
2. the special parts of the operation plan of the European Commission
3. the abolishment of the lacks experienced in the implementation of the acquis communautaire (environmental standards).
4. the increase of the productivity and interconnection of the regions.

In the future, the EIB will pay an intensified attention to the climate action programs, the infrastructure and energy projects, bearing considerable economic multiplication effect. Such sectors belong to the preferred financing priorities of the EIB, in which the European enterprises dispose of comparative advantages. Such sectors are, for example, biotechnology, environmental protection vehicles. The support of the “greener growth” does not only refer to the renewable energy sources but to the industrial infrastructure and the energy efficient development of transportation and shipping, too.

The bank develops new financial products by combining the structural funds of the EU and its own sources so that it may serve even more efficiently the goals laid down in the Europe 2020 strategy. The new banking products provide an alternative solution to extend funds of the EU and EIB by sharing the risks.

The role of the SME sector cannot be questioned regarding growth and innovations so it remains central element of the EIB's financing policy. The EIB elaborates business development plans in co-operation with decisive commercial banks, specialised in the SME sector, so that loans can really foster the competitiveness. The European Investment Fund greatly contributes to the economic growth of the EU by its micro-financing, mezzanine loans and risk capital. The European Investment Fund and the EIB play a major role in strengthening the innovations and developing the entrepreneurial spirit by linking the competitiveness and innovation programs of the EU and the JEREMIE financing tools.

DIVISION OF THE FUNDS OF THE STRUCTURAL FUNDS AND THE COHESION FUND

The main goal of the European cohesion policy is to assure the institutionalized financial framework for different projects, which contribute to the economic growth of the member states. The cohesion policy revises all 7 years. The expenditures of the regional and cohesion policies are managed by three structural funds, the European Regional Development Fund, the European Social Fund, and the European Cohesion Fund. The European cohesion policy is based on three pillars: convergence, regional competitiveness and employment, European territorial co-operation.

Article 25. of the regulation 1083/2006/EK provides economic, social and territorial instructions for interventions concerning the aforementioned structural funds. The harmonious, balanced and sustainable development of the EU is always considered. [5]

The accession of the new candidate countries deepened the inequalities among the regions. The opportunity, that the poorest regions with great growth potential are to be located in the new member states, has to be considered. The new element of the cohesion policy, the territorial cohesion has a central role. The 13th point of the resolution met by the European Council concerning the cohesion policy contains as follows: "territorial dimension of the cohesion policy is of crucial importance and all territories of the EU should have access to the development sources for growth and employment purposes. Strategic guidelines have to consider investment needs of towns and rural territories in the interest of harmonious development, sustainable communities and social integration."[6]

[5] Resolution of the European Council (06.10.2006.) concerning the common strategic directives for cohesion (2006/702/EK), Official paper of the EU, 21.10.2006.

[6] Resolution of the European Council (06.10.2006) concerning strategic guidelines of the EU (2006/702/EK), official paper of the EU, 21.10.2006.

The overwhelming part of the budget of the cohesion policy refers to convergence issues. The cohesion funds are used in the poorest regions, where the GDP does not reach 75% of the European average. The developmental funds are, first of all, spent on infrastructure and transport projects. 100 European regions belong to this target with 170 million inhabitants, one third of the total European population. The convergence regions are located in the Middle-Eastern European countries and in the Mediterranean countries. 170 regions belong to the regional competitiveness and employment target. In this case, the developmental funds are used for co-financed investments contributing to the strengthening of competitiveness and innovation capacities, the development of the human resources and absorption capabilities of the workforce.

The European territorial co-operation target supports the joint actions between the different regions and the change of experience. A decisive proportion of the funds is spent on the development of the cross-border co-operations. 81,5% of the funds at disposal are spent on convergence issues, as 16% are spent on competitiveness and employment issues, while 2,5% of the funds are used for European territorial co-operation purposes.[7]

The financial perspective for the period of 2007–2013 stipulated EUR 347 billion for the development funds of the EU. The European Regional Development Fund receives EUR 201 billion, the European Social Funds receives EUR 76 billion, while the European Cohesion Fund receives EUR 70 billion from the total amount. The cohesion policy needs to reach considerable results on the field of economic and social cohesion, and reduction of the developmental disparities between the regions. The concept is based on the establishment of the modern regions that function as the engine of economic growth and competitiveness in the unified European economic space. The EU lays big emphasis on the exchange of experience and the well-functioning procedures and processes. It is exceptional in the history of the European Union that EUR 350 billion are spent on regional developments in a period of financial perspective.

In March, 2000, the leaders of the EU approved a new strategy for economic growth and employment on the Lisbon summit. It was aimed that the EU's economy would become the most competitive economy. As there are considerable disparities among the old and new member states considering the allocation of the funds. In Spanish and Portugal convergence regions, 80% of the total investment volume is spent on convergence targets, as in Danish competitiveness regions, 92% of the total investment volume serves competitiveness objectives.

Although, Bulgaria, Romania, and Poland should execute serious national, regional and local infrastructure projects, they decided to spend the funds on targets stipulated in the Lisbon strategy.

[7] Cohesion Policy 2007–2013, National Strategic Reference Frameworks, January 2008. Luxembourg: Office for Official Publications of the European Communities 2007.

The European Council set four priorities in the renewed Lisbon strategy: more knowledge-based innovation investments, fostering of business opportunities in the SME sector, increasing employment and more efficient use of the energy sources. The new cohesion programs prefer these priorities. More than EUR 85 billion are allocated to the knowledge-based economy in the current financial perspective. The new programs provide a further fund of EUR 13 billion to human resources development of enterprises and innovative procedures contributing to more efficient work organisation. The funds also help to abate the difficulties caused by restructuring. It is also aimed that the entering of the labour market is eased for young employees and the institutions responsible for employment issues are modernised. The decision makers recognised the outstanding role of the public education and professional trainings.

Table 3: The division of the subsidies granted by the ERDF and ESF during the financial perspective 2007–2013 in the 27 EU member states

development fields	%
culture	2,2
energy	4
environmental protection, prevention	18,7
increase of durable employment	0,4
human resources	0,4
combat against social exclusion	0,1
development of the absorption capabilities of employees and enterprises	0,3
information society	5,6
investment into the social infrastructure	6,2
mobilisation on the field of employment	0,1
cost reduction hindering regional development	0,2
R&D, innovations	23,8
development of institutional capacities at local, regional and national level	0,6
technical aid	3
tourism	2,3
transportation	28,3
urban and rural regeneration	3,8
Total:	100

Source*:* Cohesion Policy 2007–13, National Strategic Reference Frameworks, January 2008. Luxembourg: Office for Official Publications of the European Communities 2007. 7.

The European Union allocates five times more funds for the common energy policy, the efficient use of energy sources and renewable energy sources during the current financial perspective than during 2000–2006 in the convergence target. This tendency is even more decisive in the regional competitiveness objective. The fourth chart demonstrates that the R&D, the innovations, the transportation and the environmental protection play the most important role within the cohesion targets.

The new cohesion programs strive to use the synergies in the most complete way. The Trans-European transportation networks have a privileged position among the convergence targets.

Efficient state administration is inevitable to accomplish the Lisbon strategy. For this purpose, EUR 3-6 billion were allocated for the modernisation of the local, regional and national administration.

Table 4: The division of the subsidies granted by the European Social Fund during the financial perspective 2007–2013 in the 27 EU member states

development fields	%
increase of durable employment	28,4
human resources	32,9
combat against social exclusion	13,1
development of the absorption capabilities of employees and enterprises	17,8
information society	0,2
investment into the social infrastructure	0,2
mobilisation on the field of employment	1,2
R&D, innovations	0,1
development of institutional capacities at local, regional and national level	2,8
technical aid	3,3
Total:	100

Source: Cohesion Policy 2007–13, National Strategic Reference Frameworks, January 2008. Luxembourg: Office for Official Publications of the European Communities 2007. 7.

The fifth chart shows that the decisive share of the ESF funds are spent on the establishment of the enduring employment and the development of human resources. The annual budget of the European Union totals approximately EUR 120 billion. This amount of money makes up 1% of the GDP of the member states. The structural and cohesion funds have a proportion of 33% within the total EU budget. The European Social Fund disposes of 8% within the total EU budget. The European Social Fund spends EUR 75 billion on the establishment of qualitative jobs. The structural funds have a proportion of 35% within the entire EU budget totalling 42 billion EUR annually. The GDP per capita ratio defines whether a region belongs to the convergence or regional competitiveness target. In case of the convergence regions, the co-financing of the ESF can make up even 80% of the total costs.

In the framework of the convergence target such employment projects are financed that shift the economic growth and employment rate to the average of the EU. In the framework of the regional competitiveness target, the European Social Fund supports the labour market of such countries and regions that become more competitive following these financings. In all member states the convergence regions receive more funds. The new member states receive proportionally more funds than the older ones. This measurement is in line with the expectation that the new member states need to close up their economies and accommodate their labour market to the global expectations. This reflects the cohesion serving function of the ESF unambiguously. The regions in need are supported so that the European Union becomes more and more unified.

FINANCIAL PERSPECTIVE OF THE EUROPEAN UNION BETWEEN 2017–2013

Table 5: Financial perspective 2007–2013 (mill EUR at prices 2004)

description	2007	2008	2009	2010	2011	2012	2013	2007–2013
1. Sustainable growth	51 267	52 415	53 616	54 294	55 368	56 876	58 303	382 139
1.a. Competitiveness for growth and employment	8404	9097	9754	10 434	11 295	12 153	12 961	74 098
1.b. Cohesion for growth and employment	42 863	43 318	43 862	43 860	44 073	44 723	45 342	308 041
2. Preserving and maintenance of natural resources	54 985	54 322	53 666	53 035	52 400	51 775	51 161	371 344
from which: Costs and direct payments relating to the market	43 120	42 697	42 279	41 864	41 453	41 047	40 645	293 105
3. Citizenship, liberty, safety, justice	1199	1258	1380	1503	1645	1797	1988	10 770
4. EU as global partner	6199	6469	6739	7009	7339	7679	8029	49 463
5. Administration	6633	6818	6973	7111	7255	7400	7610	49 800
6. Compensations	419	191	190	–	–	–	–	800
Total commitments directives	120 702	121 473	122 564	122 952	124 007	125 527	127 091	864 316
in % GNI	1,100%	1,080%	1,070%	1,040%	1,030%	1,020%	1,010%	1,048%

Source: European Commission: ICEG Working paper 20., 30.06.2007. 6.

Investigating the financial perspective 2007–2013 (Table 6) it can be stated that the main emphasis is laid upon competitiveness. The provision for competitiveness for growth and employment increases by 6-7% annually. The provision for agriculture and rural development was decreased by 3% on an annual basis.

Table 6: Changes of the structure and priorities of the financial perspective 2000–2006 and 2007–2013 (mill EUR at prices 2004)

Commitment provisions	2000–2006 (at 2004 prices)	%	Commitment provisions	2007–2013 (at 2004 prices)	%
1. Agriculture	330 544	44,33%	1. Sustainable growth	382 139	44,21%
1.a Common agriculture	292 287	39,20%	1.a. Competitiveness for growth and employment	74 098	8,57%
1.b Rural development	38 257	5,13%	1.b. Cohesion for growth and employment	308 041	35,64%
2. Structural activities	258 656	34,69%	2. Preserving and maintenance of natural resources	371 344	42,96%
Structural funds	230 900	30,96%	from which: Costs and expenses relating to the market	293 105	33,91%
Cohesion Fund	27 756	3,72%	3. Citizenship, liberty, safety	10 770	1,25%
3. Internal policies	52 439	7,03%	3.a. Liberty, safety, justice	6630	0,77%
4. External actions	34 486	4,62%	3.b Citizenship	4140	0,48%
5. Administration	38 099	5,11%	4. EU as a global actor	49 463	5,72%
6. Reserves	4258	0,57%	5. Administration	49 800	5,76%
7. Pre-accession subsidies	23 493	3,15%	6. Compensation	800	0,09%
8. Compensations	3750	0,50%			
Commitments	745 725	100,00%	Commitments	864 316	100,00%

Source: European Commission: ICEG Working paper 20., 30.06.2007. 15.

The seventh chart exactly shows the structural changes in the commitment provisions. The Treaty of Rome strived to establish the European economic and political union. The member states had to delegate several national competences to European level so that the aforementioned goals could be reached. The extending European competences and targets necessitate the growing contribution to the common European budget. The different country groups within the EU dispose of different interests. The net in-paying countries regard the common budget as a basis and not the common policies and targets. The net in-paying countries require the proportional division of the funds and the stronger representation of the national interests. The beneficiaries of the common budget support solidarity, the strengthening of convergence and the redistribution of the common budget. The character of the common budget has considerably changed due to the accession of the Mediterranean countries. The underdeveloped peripheries needed the redistribution of the common funds.

The cohesion needs and demands of the newly joined Middle-Eastern-European countries make the situation even more difficult because the funds to be distributed decreased and the new financing needs turn up in the middle of the economic recession. The new member states are, first of all, interested in the close-up and the deepening of the cohesion. Severe disputes are to be reckoned with between the core regions and the peripheries. The interest clash is also to be treated between the former beneficiaries and the new Middle-Eastern European newcomers. Above that, there are theoretical disputes as well. One standpoint supports the market protection while the other one struggles for the competitiveness. The decision makers of the EU face a serious dilemma. Either they strengthen the competitiveness of the core regions or they struggle for the close up of the underdeveloped regions. The EU needs to make the decision whether it supports quicker economic growth with considerable developmental differences or slower economic growth with decreasing developmental differences. Studying the Europe 2020 strategy. it is unambiguous that the EU prefers the competitiveness in the circumstances of the current recession that projects the two-speed Europe.

The size of the European budget underwent serious changes in the last decades. The common budget made up 0,4% of the GDP of the EU during 1965 to1970. An overwhelming part of the budget was spent on agriculture. The common budget was increased up to 0,85% of the GDP of the EU by 1985, so it doubled.[8]

Agriculture further played a decisive role in the budget. Structural policies became more and more important due to the accession of the Mediterranean countries. 1,24% of the GDP of the EU was assessed as the size of the European budget.

[8] ICEG Working paper 20., 30.06.2007. 9.

Table 7: Division of funds for convergence and regional competitiveness in the 27 member states between 2007–2013.

Description	Convergence			Regional competitiveness and employment		European territorial co-operation	Total
	Cohesion	Conver-gence	Ceasing subsidies	New subsidies	Regional competitiveness and employment		
Belgium			638		1425	194	2257
Bulgaria	2283	4391				179	6853
Czech Rep.	8819	17 064			419	389	26 691
Denmark					510	103	613
Germany		11 864	4215		9409	851	26 339
Eastland	1152	2252				52	3456
Ireland				458	293	151	902
Greece	3697	9420	6458	635		210	20 420
Spain	3543	21 054	1583	4955	3522	559	35 216
France		3191			10 257	872	14 320
Italy		21 211	430	972	5353	846	28 812
Cyprus	213			399		28	640
Latvia	1540	2991				90	4621
Lithuania	2305	4470				109	6884
Luxemburg					50	15	65
Hungary	8642	14 248		2031		389	25 310
Malta	284	556				15	855
Netherlands					1660	247	1907
Austria			177		1027	257	1461
Poland	22 176	44 377				731	67 284
Portugal	3060	17 133	280	448	490	99	21 510
Romania	6552	12 661				455	19 668
Slovenia	1412	2689				104	4205
Slovakia	3899	7013			449	227	11 588
Finland				545	1051	120	1716
Sweden					1626	265	1891
United Kingdom		2738	174	965	6014	722	10 613
Interregional co-operation						445	445
Technical aid							868
Total:	69 577	199 323	13 955	11 408	43 555	8 724	347 410

Source: Cohesion Policy 2007–13, National Strategic Reference Frameworks, January 2008. Luxembourg: Office for Official Publications of the European Communities 2007. 8.

Analysing the eighth chart, it can be established that the Middle-Eastern European formally socialist countries spend almost their entire funds on convergence targets. Among the 10 accession countries only Slovakia and the Czech Republic spend a minimal share, 2-5%, on regional competitiveness and employment purposes. Hungary also spends the total fund of EUR 25,307 million on convergence and cohesion targets. 59% of the allocated funds fell on convergence and cohesion targets in Germany in the period 2007–2013. In France the situation is the contrary. 68% of the funds are spent on the strengthening of competitiveness. The fund allocation of the different countries demonstrates the establishment of the two-speed Europe very well. While the new member states and the Mediterranean countries allocate negligible funds to competitiveness purposes – with the exemption of Spain and Italy (33 and 26%) – the Benelux countries, Denmark, Ireland and France spend considerable share of the funds to intensify their competitiveness.

Table 8: Innovations within the convergence, competitiveness and territorial co-operation (2007–2013)

Convergence target							
country/ country group	total amount	innovations	proportion of innovation (%)	proportion of innovation types (%)			
				R&F	entrepreneurial spirit	innovative infocom	HR
Germany	16 079 334 622	4 678 763 983	29,10%	18,73%	4,31%	1,25%	4,80%
France	3 191 155 555	499 065 512	15,64%	6,42%	2,95%	1,90%	4,37%
United Kingdom	2 912 549 625	1 113 731 864	38,24%	21,29%	4,27%	3,93%	8,76%
Italy	20 320 956 213	6 916 063 530	34,03%	23,26%	3,14%	5,79%	1,85%
Hungary	22 889 720 839	3 323 424 847	14,52%	8,37%	1,22%	2,78%	2,16%
Poland	65 221 852 992	14 199 841 734	21,77%	13,15%	2,04%	4,19%	2,40%
EU 27	279 977 939 628	61 338 506 365	21,91%	13,22%	1,94%	3,71%	3,04%
EU 15	109 538 657 960	27 669 239 372	25,26%	15,59%	2,46%	3,78%	3,43%
EU 12	170 439 281 668	33 669 266 993	19,75%	11,69%	1,60%	3,68%	2,79%
Regional development and employment target							
country/ country group	total amount	innovations	proportion of innovation (%)	proportion of innovation types (%)			
				R&F	entrepreneurial spirit	innovative infocom	HR
Germany	9 409 281 668	3 719 975 394	39,54%	16,87%	10,17%	1,26%	11,24%
France	10 258 065 496	3 704 472 274	36,11%	19,86%	3,72%	4,41%	8,13%
United Kingdom	6 978 387 838	3 312 213 813	47,46%	22,95%	5,66%	2,31%	16,55%
Italy	6 324 890 107	2 535 583 307	40,09%	19,38%	5,93%	3,91%	10,86%
Hungary	2 031 427 761	462 802 756	22,78%	12,43%	0,97%	5,61%	3,77%
Poland	55 184 064 762	21 814 343 329	39,53%	20,56%	4,93%	3,52%	10,52%
EU 15	51 676 348 431	20 804 234 883	40,26%	20,73%	5,18%	3,35%	11,00%
EU 12	3 507 716 331	1 010 108 446	28,80%	18,00%	1,21%	6,02%	3,56%

European territorial co-operation							
country/ country group	total amount	innovations	proportion of innovation (%)	proportion of innovation types (%)			
				R&F	entreprenu-rial spirit	innovative infocom	HR
European territorial co-opera-tion	7 428 375 549	1 994 705 122	26,85%	15,99%	2,37%	6,69%	1,80%
all targets							
country/ country group	total amount	innovations	proportion of innovation (%)	proportion of innovation types (%)			
				R&F	entreprenu-rial spirit	innovative infocom	HR
Germany	25 488 616 290	8 398 739 376	32,95%	18,05%	6,47%	1,26%	7,18%
France	13 449 221 051	4 203 537 786	31,25%	16,67%	3,54%	3,81%	7,24%
United Kingdom	9 890 937 463	4 425 945 677	44,75%	22,46%	5,25%	2,79%	14,25%
Italy	26 645 846 320	9 451 646 837	35,47%	22,34%	3,81%	5,34%	3,99%
Hungary	24 921 148 600	3 786 227 603	15,19%	8,70%	1,20%	3,01%	2,29%
Poland	342 759 567 465	85 197 888 856	24,86%	14,46%	2,43%	3,75%	4,22%
EU 15	161 215 006 391	48 473 474 255	30,07%	17,24%	3,33%	3,64%	5,86%
EU 12	173 946 997 999	34 679 375 439	19,94%	11,82%	1,59%	3,72%	2,80%

Source: self-made chart.

The European Union spends a total of EUR 342 757 567 465 on convergence, regional competitiveness and employment targets, from which innovations disposes of 25% (EUR 85,198 million). The old member countries may use EUR 48 billion; the new member countries may use EUR 35 billion from this amount of money. Comparing the actual data to the data in the financial period (2000–2006) it turns out that the funds spent on innovations have doubled.

Analysing the sheet above, it can be assessed that 60% of the funds within the convergence were spent in the new member counties, and the remaining 40% were allocated among the old member countries. The proportion is just the contrary in case of regional competitiveness and employment objectives. 94% of the funds fell on the old member states and only 6% of the funds are used in the new member states. The cohesion policy for the period 2007–2013 requires such a strategic approach that integrates the growth strategies at European, regional and local level. The new concept strives to assure that the different sectors are not developed separately and that the economic and social circumstances of the given member state or region are investigated in every case.

In the last financial period, innovations got into the centre of the vision of the cohesion policy. The regions are also spurred due to the changed circumstances to elaborate their own innovation strategy.

The renewed Lisbon strategy and the cohesion strategy decisively emphasize the importance of the innovations that are regarded as key elements in the fight with the European economic problems.

CONSEQUENCES

In the fourth chapter, I present the decisive differences undertaken in the fund allocation during the financial perspective 2007–2013, compared to the former financial period. The changes can be seen in the comparing sheet. The emphasis was shifted towards competitiveness in the financial perspective 2007–2013. The provisions for competitiveness issues grow by 6-7% at an annual basis. At the same time, the provisions for agriculture decrease by 3%. 85,5% of the funds of EUR 347,410 million at disposal are spent on convergence issues, 16% are spent on regional competitiveness issues, while 2,5% of the funds are used for European territorial co-operation.

Analysing the 9th spread sheet concerning innovations, convergence and competitiveness, in the fourth chapter I present that 60% of the funds are used in the new member states and the remaining funds are allocated in the old member states. The proportion is just the contrary in case of regional competitiveness and employment objectives. 94% of the funds fell on the old member states and only 6% of the funds were used in the new member states.

The development of competitiveness will cause tensions in the EU, because the programs of the new member states are not so sophisticated and their institutional underdevelopment greatly shrinks their absorption abilities.

The proportion of innovations is crucial within the regional competitiveness target at EU level, it makes up 39,53%. The fund allocation for innovations is, first of all, crucial in the old member states. The old member states allocate 40,26% of the funds to innovations in the framework of the competitiveness target. The same proportion makes up only 28,8% in case of the newcomers. The difference of the funds of human resource development within innovations is even more astonishing in the old- and new member countries. The EU15 spends 11% of the innovation funds on HR development while the spending of the EU12 makes up only 3,56%.

With the turning up of the competitiveness factor, the two-speed Europe is to be projected.

It can be stated that the effectiveness of the market co-ordination may result in a better quality of bureaucratic regulation. This mutual strengthening process can be regarded as success countries disposing of a developed and innovative economy. In spite of that, bureaucratic co-ordination and administration captured by social relationships and interest group networks means the main burden for redistribution based on real performance.

According to me, it was a good decision to make competitiveness the core element of the Europe 2020 strategy, even though social cohesion is negatively hit at the beginning because the establishment of the knowledge economy assures the future of Europe for the long term. When executing the strategy, utmost attention has to be paid to the amelioration of the absorption abilities for innovation of the Middle-Eastern European countries. The new member states must take further steps so that their universities and other professional education institutes suit the requirements set by the market.

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HUNGARIAN SUMMARY

Jelen tanulmányomban az Európai Unió gazdaságpolitikájában bekövetkezett nagyon jelentős változásokat mutatom be, amelyeket a pénzügyi és világgazdasági válság, valamint az ezzel párhuzamosan egyre erőteljesebben jelentkező világgazdasági verseny váltott ki. A gazdaságpolitika fő hangsúlya egyre inkább a versenyképesség erősítése, mintsem a közép-kelet-európai tagállamok gazdasági és szociális felzárkóztatása irányába tolódott el. A versenyképesség növekedését szolgáló pénzügyi források mértékét éves szinten 6-7%-kal növelték, míg az agrártámogatások mértéke 3%-kal csökkent a 2007–2013 közti költségvetési időszakban. A nagyon jelentős paradigmaváltás következtében egyre inkább elővillannak a kétsebességű Európa körvonalai. Egyre érzékelhetőbbé válnak az unió mag és periféria országai közti feszültségek, mivel a nyugat-európai tagállamok legfőképp versenyképességük erősítésében, míg a közép-kelet-, valamint dél-európai tagországok gazdaságaik mielőbbi felzárkóztatásában érdekeltek.