ECONOMIC AND SOCIAL COHESION OF THE EUROPEAN UNION

Marina KESNER-ŠKREB, MSc
Institute of Public Finance, Zagreb

Glossary*

Economic and social cohesion is an expression of solidarity among the member states and regions of the European Union. The aim is balanced development throughout the EU, reducing structural disparities among regions and promoting equal opportunities for all. In practical terms, this is achieved by means of a variety of financing operations, principally through the Structural Funds and the Cohesion Fund. Every three years the European Commission presents a report on progress made in achieving economic and social cohesion and on how Community policies have contributed to it.

At European level, the origins of economic and social cohesion go back to the Treaty of Rome (1957), in which the preamble refers to the reduction of regional disparities. In the 1970s, Community action was taken to coordinate national instruments and provide additional financial resources. Subsequently these measures proved inadequate given the situation in the Community, where the establishment of the internal market, contrary to forecasts, had failed to even out the regional differences. With the adoption of the Single European Act in 1986, economic and social cohesion proper was made an objective, alongside completing the single market. The Maastricht Treaty (1992), finally, incorporated the policy into the EC Treaty itself.

Economic and social cohesion is essentially implemented through the regional policy of the European Union. In addition to the reform of the common agricultural policy and enlargement to the Central and East European countries in 2004, regional policy was one of the major issues discussed in Agenda 2000, which covers the period 2000-2006, largely because of the financial implications.

Regional policy is the European Union's second largest budget item, with an allocation of 348 billion euro (2006 prices) for the period 2007-2013 (278 billion euro for the Structural Funds and 70 billion euro for the Cohesion Fund). This repre-

* *Received*: October 29, 2010
Accepted: November 2, 2010

sents 35% of the Community budget and is the second largest budget item.

Enlargement to 27 member states in January 2007 has brought an entirely new order. The area of the European Union has increased by over 25%, its population by over 20%, but its wealth by only 5%, approximately. Average GDP per capita in the European Union has fallen by more than 10% and regional disparities have doubled. Since 60% of the regions whose development is lagging behind are in the 12 member states that joined the EU in 2004, the centre of gravity of regional policy is shifting eastwards.

For the period 2007-2013, economic and social cohesion will have to concentrate more on crucial development concerns in the field of economic growth and employment while continuing to support regions that have not completed the process of convergence in real terms. Structural assistance also remains necessary in geographical areas facing specific structural problems (areas undergoing industrial restructuring, urban areas, rural areas, areas dependent on fishing, and areas suffering from natural or demographic handicaps). Finally, simplification and decentralisation of the management of regional policy financial instruments (Structural Funds and Cohesion Fund) will be the watchwords of the regional policy reform for the period 2007-2013.

As has been mentioned, the Structural Funds and the Cohesion Fund are the financial instruments of European Union regional policy, which is intended to narrow the development disparities among regions and member states. The Funds participate fully, therefore, in pursuing the goal of economic, social and territorial cohesion. There are two Structural Funds:

- the *European Regional Development Fund* (ERDF) is currently the largest. Since 1975 it has provided support for the creation of infrastructure and productive job-creating investment, mainly for businesses;
- the *European Social Fund* (ESF), set up in 1958, contributes to the integration into working life of the unemployed and disadvantaged sections of the population, mainly by funding training measures.

In order to speed up economic, social and territorial convergence, the European Union set up a *Cohesion Fund* in 1994. It is intended for countries whose per capita GDP is below 90% of the Community average. The purpose of the Cohesion Fund is to grant financing to environmental and transport infrastructure projects. However, aid under the Cohesion Fund is subject to certain conditions. If the public deficit of a beneficiary member state exceeds 3% of national GDP (EMU convergence criteria), no new project will be approved until the deficit has been brought under control.

LITERATURE

EnterEurope. Available from: [http://www.entereurope.hr/page.aspx?PageID=98].

Europa - Gateway to the European Union. Available from: [http://europa.eu/pol/reg/index_en.htm].

European Parliament. *Fact Sheets on the European Union* [online]. Available from: [http://www.europarl.europa.eu/parliament/expert/displayFtu.do?language=en&language=FR&id=74&ftuId=FTU_4.5.1.html].

Glossary. Available from: [http://europa.eu/scadplus/glossary/economic_social_cohesion_en.htm].