

4. Thematic scenario 'Economy'

**David Evers (NISR), Iván Illés (CRS-HAS), Marek Kozak (EUROREG),
Gerhard Heimpold and Martin Rosenfeld (IWH)**

4.1 Scenario base – Economy

4.1.1 Present situation and trends

4.1.1.1 *Current state of affairs*

Europe is one of the developed regions of the World where the level of per capita income is more than three times higher than the World average. But, taking into account the entire ESPON space, it is only 70% of the US level and lower than that of Japan. The desire to improve European economic performance has driven EU policy over a long period and has led to the Lisbon process at the beginning of the current decade. The US achieves higher per capita GDP through both higher labour productivity and higher employment input. This should imply that there is room for the EU to grow faster than the US through the assimilation of existing technology and organisational practices and through increasing activity rate. But convergence came to an end at the beginning of the 1980s and has remained unchanged since. Productivity increased more dynamically in Europe, but it was 'compensated' by weak employment performance and falling working hours. By 2000, about one third of the difference in per capita GDP can be attributed to lower European labour productivity, one third to fewer working hours and one third to lower employment rates. In 1970, all of the difference could be attributed to lower labour productivity.

Contrary to the post-war period where growth and catching up with the US could largely be achieved through factor accumulation and imitation, innovation at the frontier has become the main engine of growth. This in turn called for new organisational forms, less vertically integrated firms, greater mobility both intra- and inter-firm, greater flexibility of labour markets, a greater reliance on market finance and a higher demand for both R&D and higher education. However, these necessary changes in economic institutions and organisations have not yet occurred on a large scale in Europe and, in addition to the problem of low demand in Europe, it is this delay in adjusting the institutions, which accounts partially for Europe's growth deficit.

4.1.1.2 *Current territorial differentiation*

At the beginning of the modern age, economic disparities within the regions of Europe were rather moderate. The overwhelming majority of the European economic landscape was agricultural. Here disparities depended on the geographic conditions, the quality of the soil and on the density of rural population. Disparities began to increase with the advent of industrialisation.

After the Second World War, regional concerns moved on to the policy agenda. There were many reasons for this. One was the increasing emphasis across Europe on equality issues and questions of redistribution. At the same time, the severity of the regional problem increased in many countries, with moves away from agriculture and downturns in traditional

heavy industry resulting in both unemployment in problem regions and significant migratory flows to major urban centres. The result was the emergence of a regional policy in the 1950s in a political and social climate where government was considered to have an important role in redistributing economic activity. The central pre-occupation of regional policymakers during this period was convergence.

The economic climate changed markedly from the start of the 1970s, starting with oil crises. Western Europe encountered a long-term slowdown in economic growth, with sluggish increases in productivity, inflationary pressures, restricted investment, persistent widespread unemployment and pressures on state budgets. The political agenda moved against active government intervention, especially regarding direct subsidies to firms.

Since the mid-1980s, new concepts of regional development began to emerge. The competitiveness of economies was increasingly attributed to the ability to innovate. Technological and organisational changes were altering the way in which companies organised their activities, both internally and with suppliers and customers.

The challenge for regional development has been to respond to the increasingly complex map of regional and local problems. The policy response has been a new type of regional policy concerned with the strategic management of regional development. The most important part of this new policy has been the reform of EU level regional policy and the reform of the Structural Funds in 1988-1989. With this reform, the European Union seriously embarked on a regional cohesion policy to reduce these disparities.

However, significant disparities remain: even where catching up is occurring relatively fast, the full process can take a generation and in new member countries much more. In addition, although most regions may experience at least some convergence, their performance varies widely.

The situation regarding unemployment is even less positive. Unemployment in the EU25 hovers around 10%, which is roughly equivalent to 20 million people. Unemployment is concentrated in some regions, while others are hardly affected. The closing of the GDP gap that has occurred in the last one and half decade in the less developed regions is predominantly due to increases in productivity growth, rather than higher employment.

4.1.1.3 Major future trends

Among the several trends observable in the European economy, we have selected three major themes for closer examination.

1. Globalisation and internationalisation of the European economy;
2. Demographic developments;
3. Information and Communication Technologies and increasing income gaps in European society.

4.1.1.4 Globalisation and internationalisation of the European economy

In the last decades, the expansion of international trade and international investment far outpaced the growth of output and income. This expansion is caused by decreased transaction costs. On the other hand, technological improvements have led to significantly lower transport and communication costs. On the other hand, successive multilateral agreements have significantly brought down the barriers to trade. Clearly, countries have become more integrated in world economy during centuries. But this has not been a continuous process.

The WTO member states have removed a number of major trade barriers in manufacturing, while the Single Market Programme of the European Union has gone far beyond that by

removing many other trade barriers through the establishment Community wide standards and combating market-disrupting practices like state aid. This does not imply that integration cannot proceed much further. National borders still exert a large impact on trade. The creation of a single currency in the European Union may help to make borders less important as barriers of trade – something that has not yet fully materialised

There are, however, also uncertainties concerning the further liberalisation of world trade. One of the uncertainties for the future is whether the WTO negotiations will eventually come to a successful conclusion. The other major uncertainty is the volatility of international financial markets. Today huge flows of money move across the globe and react to even the smallest differences in profitability. The flows of short-term capital can suddenly change direction and lead to wild fluctuations in exchange rates.

In any case, as the results of project 3.4.1 have shown, the European economy is still very introverted, with the total of exports plus imports from outside the ESPON space representing less than 15% of GDP. Considering that trade is measured in prices and GDP in value added, one can safely conclude that less than 10% of the GDP of the ESPON space is traded with the outside world.

4.1.1.5 Demographic developments

The demographic challenge of the future finds its roots in the past. It is related to the 'baby boom' following the Second World War and a structural decline in fertility rates thereafter. In the next ten or twenty years, the share of the population above 65 years will be much higher than it is today. Hence, the old-age dependency ratio will more or less double in the next 30 years.

Ageing is first and foremost a problem of distribution between young and old generations, and this has clear economic ramifications. Unless productivity rises significantly or other forms of taxation (on other revenues than labour) are put into place, the tax burden of the young working generations will rise, sometimes dramatically. The estimation falls into the range of 3-5 % of GDP in the majority of EU countries. The problem of an increasing tax burden on young working generations is reinforced by an other factor: namely increasing public expenditure on health care. Considering that old people 'consume' the most part of health care services, the increase in health care expenditure will be in the range of 1-3 percentages of GDP between 2000 and 2030.

4.1.1.6 Information and Communication Technologies

The growing importance of knowledge for economic development will accelerate the structural change of the economy. *New, knowledge-based sectors*, for example, bio-, nano-, material- and ICT, will significantly influence the economic growth and productivity growth, whereas the *'old' branches* will undergo either a deep restructuring or a decline in the course of globalization pressure. The impact of the knowledge society to a large extent does not result from few high tech sectors, but more from the *use of the advanced technologies*, developed in the leading high tech-branches, *in all sectors of the economy*.

During recent decades low-skilled wages have lagged behind high-skilled wages in a number of countries, while the unemployment rate among the low-skilled has risen more sharply. This divide between skill levels may intensify in the coming decades. Changes in technology – especially the widespread application of ICT – could raise the demand for skilled workers, raising the skill premium and, thereby, increasing income inequality.

4.1.2 Existing relevant EU policies

There is no economic policy conducted at the EU level as such. Instead, there are various policy sectors and policy ambitions that are directly related to regulating or bolstering the European economy. The Lisbon Strategy, first articulated in 2000, is a good example of a Community wide economic policy objective. Implementation of this strategy will transpire via various sectors, the most important being regional policy, R&D and competition policy.

4.1.2.1 Regional policy

Regional policy is one of the oldest policy sectors of the EU. Although the aims of regional policy have changed over time, the primary objective has been to reduce regional disparities and stimulate employment in order to allow the different regions in Europe to compete on an equal footing in the common market. At present, it commands the second largest budget of the EU (after the agriculture) and issues subsidies in the form of co-financing for mainly infrastructure, land development and human resource development. It is difficult to quantify the physical impact of regional policy, due to a problem of isolating causality, but anecdotal evidence does seem to suggest an impact on governance — cross-border cooperation has become more common, as has attention for sustainable development. A positive economic development of recipients is generally acknowledged (job and GDP growth). Currently, the line set out for the next structural funds period (2007-2013) shows some more inclination to address more Lisbon-based objectives (Competitiveness Objective). In addition, pressure from affluent member states to reduce budgets and increase effectiveness is also manifest. This may pave the way for employing the structural funds as a means to implement the Lisbon strategy.

4.1.2.2 R&D policy

European-level support for scientific research stems from a 1957 agreement to coordinate efforts in nuclear research, but only really got off the ground in the 1980s with the initiation of the Framework Programmes. FPs seek to stimulate economic development indirectly by funding basic research and unprofitable yet useful (long term) knowledge activities. Generally universities and multinational corporations have profited from the FPs, and they have helped the EU its raise its level of R&D spending. However, as is painfully clear by the midterm review of the Lisbon strategy this is still lower than Europe's main competitors. In any case, R&D will figure prominently in any scenario of Lisbon implementation. On the other hand, the FPs may also come under fire of competition policy, if they stray too far from supporting non-competitive basic research and attempt to directly push the Lisbon goals.

4.1.2.3 Competition policy

The aim of EU competition policy is to help the internal market to function by ensuring that a level playing field exists. Main activities involve reducing state aid, liberalization and privatization of state-owned companies and regulating mergers to prevent monopoly formation. Currently, the liberalization of the services sector is on the agenda, which is highly relevant for the Lisbon strategy since the knowledge-based economy is largely services related. The success of competition policy is linked to that of the common market where, between 1958 and 1972, trade between member states grew three times faster than outside. In the process, however, competition policy sometimes comes into conflict with other policy sectors. Both R&D policy and regional policy, which also offer targeted subsidies to businesses, walk a very fine line between serving community wide goals and offering state aid.

In conclusion, these three policy fields— among others naturally, but for the purposes of expediency only these have been selected — offer some tools for Lisbon. Changes in governance, embedding ideals of competition in the institutional framework at the local level can be achieved via regional policy. This can also be utilized to link strategic areas and jobs via infrastructure investments and training programmes. R&D is employed as direct stimulation, and competition to end unfair practices that hamper growth. As indicated, there is also a very delicate balancing act between concerns of regional equality, economic competitiveness and free trade in the main sectors relevant to the Lisbon strategy.

4.1.3 Driving forces and scenario hypotheses

The thematic scenarios for the economy that were created in the context of ESPON 3.2 are of the prospective policy type. This means that the independent variable is EU policy. For this reason, much attention will be paid to the decision to adopt a particular kind of policy strategy, the various measures implemented to this end, and, finally, the impacts these may have on social and economic cohesion and spatial development. Because the intent is to examine the effects of different policy directions, as many ancillary variables will held as constant as is possible. In all scenarios it will therefore be assumed that globalization, that is the ongoing intertwining of international networks and economic relationships, will continue to increase. In addition, the rise of the knowledge, information or creative-class economy will also be assumed to continue in each scenario. Finally, that the EU agricultural budget will continue to be reduced under pressure of budgetary constraints, environmental concerns and successive WTO negotiations.

The scenarios are arranged along two axes. These represent the two economic policy concepts that should have the largest impact on the spatial development of Europe: efficiency and competitiveness on the one hand, and equity and cohesion on the other. These axes will be discussed in turn.

4.1.3.1 Equity and cohesion Axis

Over the past decades, economic, social and territorial cohesion policy became one of the most important policies of the European Union, representing about 36-38% of the Community's budget expenditures. There can be no doubt, economic and social cohesion objectives of the EU played a very significant role in some countries' development. Though with different intensity and with different financial resources, member states also wanted to further mitigate internal social, economic and territorial disparities in development and income. As a result, EU and national 'cohesion type' policies have played a decisive role in Europe's development in the last half century.

The formulation and implementation of equity considerations and cohesion policies were always accompanied by criticisms and debates. Criticisms became louder especially in the last years. Cohesion policy has been made out to be one of the scapegoats for not achieving the Lisbon objectives. The debates on the future of cohesion policy are manifold and far from conclusive. Ongoing discussions include: what share of the Community budget should be spent for these purposes? How large circle of countries and regions should benefit from cohesion measures? Should cohesion support be limited in time? What kinds of projects can be funded using cohesion support?

The horizontal axis of the system of coordinates represents the equity and cohesion dimension. The left side indicates a lower level of cohesion policy and the right side a higher level. The place of a particular policy mix along this axis depends not only on the size of financial means available for cohesion and social equity purposes however. It depends also

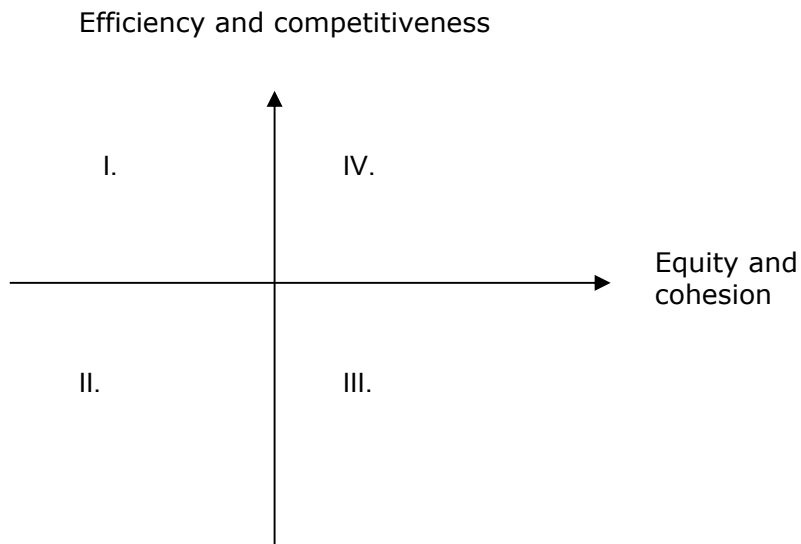
on the importance, attached to these policies, on their being more targeted, concentrated and on their system of delivery.

4.1.3.2 Efficiency and competitiveness Axis

Competitiveness has become the key notion in the economic policy of recent times. It includes not only economic efficiency, but innovation, marketing, flexibility, structural change and risk management as well. Several recent studies demonstrated that Europe’s lagging behind the US in GDP per capita is attributable less to productivity per working hour (efficiency), rather to the lower working hours per person employed, to the lower employment level, to the lower level of innovation, to the smaller share of fixed capital accumulation, to the lower expenditure on R&D, to the small amount of venture capital, to high taxes and to the low level of labour and capital mobility. To achieve improvements in all these weaknesses needs substantial changes in microeconomic and macroeconomic policies, in the system of welfare services and in governance methods and practices. All these are included in the dimension of the vertical axis representing efficiency and competitiveness.

4.1.3.3 Scenario logic

The four segments of the system of coordinates, divided by the axes, represent the four scenarios of European economic policy developments and their spatial impacts. The four segments represent: I. Higher efficiency and competitiveness – lower equity and cohesion; II. Lower efficiency and competitiveness – lower equity and cohesion; III. Lower efficiency and competitiveness – higher equity and cohesion; and IV. Higher efficiency and competitiveness – higher equity and cohesion respectively.



4.1.4 Sources of information

The list below includes only the principal sources of the scenario base. Several other sources were considered and utilised. Their complete list is to be found in the bibliography attached to the scenario base.

For the description of secular development trends of the World and European economy the basic source was the book written by Angus Maddison: *The World Economy: A Millennial Perspective*, published by the OECD in 2001. In the description of the present macroeconomic situation, we largely utilised the study 'An Agenda for a Growing Europe' prepared by the High Level Group in 2003 under the chairmanship of Professor André Sapir. The description of the regional situation and development was based first of all on the *Third Report on Economic and Social Cohesion*, published by the European Commission in March 2004. An important source was the Discussion Paper of the European Policies Research Centre at the University of Strathclyde, *Glasgow Benchmarking Regional Policy in Europe*. Furthermore, we utilised the study, written by the European Investment Bank 'A survey of socio-economic disparities between the regions of the EU' (Daniel Moucque), and two articles of Christian Vandermotten (*Une nouvelle typologie économique des régions européennes* and *Les disparités spatiales en Europe et leurs Évolutions: 1960-2000*). Finally, for the description of future trends, we utilised as basic source the study written by Ruud de Mooij and Paul Tang *Four Futures of Europe* (2003) at the Dutch Centraal Planbureau.

4.2 Scenarios

4.2.1 Logic of scenario selection

For such huge, multifaceted and complex systems as the European economy and European spatial development an infinite number of development scenarios can be outlined and described. The four scenarios described below represent four of these infinite possibilities. They have not been selected randomly; they have a systemic relationship to each other. This is because, when developing scenarios, it is important to make the different alternative futures distinct from one another, immediately identifiable and plausible.

Importantly, the scenarios are of the **prospective policy type**. This means that the independent variable is EU policy. For this reason, much attention will be paid to the decision to adopt a particular kind of policy strategy, the various measures implemented to this end, and, finally, the impacts these will likely have on social and economic cohesion and spatial development. Because the intent is to examine the effects of different policy directions, as many ancillary variables as possible will be held constant. In all scenarios it will therefore be assumed that globalisation, that is the ongoing intertwining of international networks and economic relationships, will continue unabated. In addition, the rise of the knowledge, information or creative-class economy, discussed at length in the scenario base, will also be assumed to continue in each scenario. Other crucial economic variables, such as the exchange rate between the dollar and euro, stock market performance, shifting global fortunes between world regions will be excluded from the analysis (or held constant in all scenarios) in order to isolate the impact of policy.

A few preliminary remarks are in order regarding the selected axis-system methodology. Ideally, the typology created by the axes would exclude all reference to specific policies or policy objectives (e.g. the Lisbon strategy) as these are continually modified, and exclude any notion of success or failure since this would clearly give a priori biases regarding desirability: this must be discovered after the scenario exercise, rather than be assumed beforehand. This being said, the two axes have not been selected arbitrarily in terms of EU politics. In fact, the underlying rationale for this choice can be found in the European

Union's own approach to promoting economic development. Perhaps the best statement regarding the ambitions of the European Union in terms of the economy can be found in the Lisbon/Göteborg strategy to become by 2010 'the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment.' This dual emphasis on efficiency/competitiveness on the one hand and equity/cohesion on the other comprises the underpinnings for the two scenario axes (we have chosen not to include sustainability/respect for the environment as an independent variable in our analysis). Furthermore these two axes are conventionally positioned against one another as a simple trade-off, but we will show that they are better viewed as dimensions that are not necessarily mutually exclusive. Before presenting our scenario sketches, this method will be elaborated further with a brief description of the two axes.

4.2.1.1 Equity and cohesion axis (horizontal)

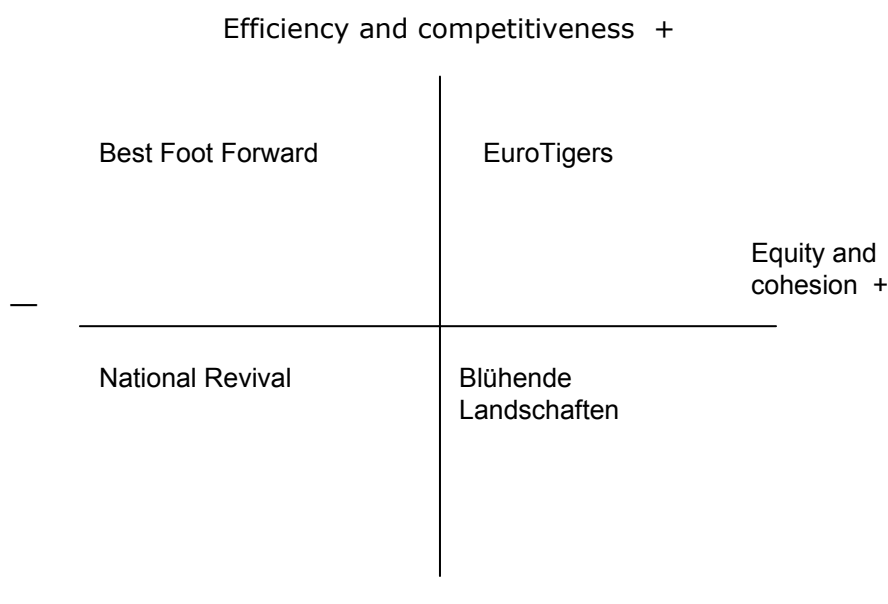
The horizontal axis of the system of coordinates represents the equity and cohesion dimension of the scenario. A high score on this axis therefore implies that these kinds of redistributive policies will be given priority over other economic measures. There is a specific history to this approach: EU and national 'cohesion type' policies have played a decisive role in Europe's development in the last half century. Over the past few decades, regional policy became one of the most important policies of the European Union, and now represents over 35% of the Community's budget expenditures. The formulation and implementation of equity considerations and cohesion policies have always been accompanied by debate.²³ Nevertheless, the EU's economic and social cohesion objectives have played a very significant role in some countries' economic development, not in the least because they demand similar investments on the part of the member states. Member states also wanted to mitigate internal social, economic and territorial disparities in development and income, though with different intensity and with different financial resources.

4.2.1.2 Efficiency and competitiveness axis (vertical)

The vertical axis of the system of coordinates represents the efficiency and competitiveness dimension of the scenario. A high score on this axis will imply policy priority being given to stimulating economic growth via improving efficiency and competitiveness. This reflects the current zeitgeist in economic policy circles. Several recent studies have demonstrated that Europe's lagging behind the US in GDP per capita is less attributable to productivity per working hour, and more to the fewer working hours per person employed, lower employment level, lower level of innovation, the smaller share of fixed capital accumulation, lower expenditure on R&D, the small amount of venture capital, high taxes and finally low labour and capital mobility. To achieve improvements in all these areas, substantial changes have to take place in microeconomic and macroeconomic policies, in the system of welfare services and in governance methods and practices. All these are included in the dimension of the vertical axis representing efficiency and competitiveness.

²³ These debates are related, on the one hand, to the future dimension and resources of these policies: what share of Community investment should be spent on these purposes, what should their share be in the Community budget? How effective are they in achieving their goals? On the other hand, the orientation of cohesion policy is also debated: who and what should be supported? Should it be restricted to infrastructure, environment, education and culture — as many experts suggest — or should it be extended to the support of job-creating business enterprises as well? How large a circle of countries and regions should benefit from cohesion measures? Should cohesion support be limited in time?

4.2.1.3 Visual depiction of scenario logic



The four segments of the coordinate system, divided by the two axes, represent the four scenarios of European economic policy developments and their spatial impacts. The four segments represent:

- High efficiency/competitiveness — low equity/cohesion (Best Foot Forward)
- High efficiency/competitiveness — high equity/cohesion (EuroTigers)
- Low efficiency/competitiveness — high equity/cohesion (Blühende Landschaften)
- Low efficiency/competitiveness — low equity/cohesion (National Revival)

Again, these scenarios are *prospective policy scenarios*, because they explore the impacts of changes in some important national and community priorities. The dimensions of the axes represent the importance and priority of individual policies. Their measurement by exact quantitative indicators is rather difficult though we shall try to quantify them when possible. To facilitate the analysis, the most important policy areas affecting the economy in which the EU has competence will be considered in more detail in the scenarios. Competition (internal market) policy, regional policy and R&D policy will play a particularly important role in the scenarios because they directly relate to economic development. It is therefore important to note that some policies undergo periodical revisions rather than continual adaptation. Since the 1980s, regional policy has been defined by 'structural fund periods', and R&D policy by consecutively numbered Framework Programs. At the end of each term, the policy is evaluated and modified in order to increase effectiveness, adapt to changed circumstances or to achieve different policy goals, making the transfer date significant. It should be stated that these periods are roughly five years, but have different starting dates so that they do not necessarily run parallel to one another. Therefore, decisions on, for example, regional policy in one year, can affect the decision on a framework programme a year or two later. An indication of how periods can interrelate is presented in the table below.

	1980	1985	1990	1995	2000	2005	2010	2015	2020	2025	2030
SF			1	2	3	3	4	5	6	6	7
FP		1	2/3	3/4	5	6	7	8	9	10	11

Table 9 Structural Funds and Framework Programme policy periods

4.2.1.4 Territorial impacts of scenarios

Of course, the scenarios are much more complex than the duality that the axis structure implies. The economy of Europe is impacted by various policy sectors, such as agriculture, competition, transport and the environment, which cannot always be placed unambiguously within the dimensions of equity and efficiency.

Since only the integrated scenarios will be supported by the MASST model, only certain qualitative and rather guarded statements will be made here regarding *expected* results. In addition, although the regional economic impacts will be the primary point of attention, interfaces with other territorial areas will be addressed. These include demography (i.e. migration), environment (quality and change in policy), transport (congestion and modal split), and rural areas (functional change, vitality).

4.2.1.5 Organisation of scenario sketches

Since the four scenarios are prospective policy scenarios, the emphasis is on the driving forces leading up to the decision to adopt a particular strategy, the specific package of policy measures designed to implement it, and its effects. To aid readability and comparability, each scenario sketch is organised identically, according to the structure presented below.

1. Scenario hypothesis
2. Driving forces
3. Contextual elements
4. Strategy
5. Implementation
6. Developments and events (storyline)
7. Impacts
8. Territorial image of 2030
9. Summary and conclusions

4.2.2 Economy Scenario 1: Best foot forward

This scenario describes a situation where the EU pursues a strong policy in favour of economic competitiveness. Well-performing regions and sectors are bolstered in order to allow them to achieve an internationally elite status in the global knowledge economy. Matters of cohesion and sustainability are secondary.

4.2.2.1 Scenario hypothesis

As indicated in the scenario base, the economic competitiveness of Europe is seen as increasingly tenuous in a context of rapidly developing Asian competitors, a dominant North American block that continues to attract the best knowledge workers, conflicting sectoral policies, outdated social welfare systems and looming ageing of the population. Following the publication of the 'Kok report' on the discouraging progress of the Lisbon strategy in late 2004, it is clear that drastic measures need to be taken to reverse the trend towards stagnation (EC, *Facing the Challenge*, 2004). It is also acknowledged that a clear gap still exists between Europe and Japan and the United States in levels of investment in R&D. The scenario assumes that the level of globalisation will continue to rise in terms of market liberalization (WTO), movement of labour (knowledge workers) and capital (footloose industries). In addition, the scenario excludes the possibility of a major collapse of the world economy through war, disease, natural disaster or market failure, assuming that global trade will continue to rise. The importance of the knowledge economy for the European economy is also taken as a given for the coming period.

The basic hypothesis of this scenario is that efficiency considerations will gradually dominate European and national policies. Europe consequently follows the objective of catching up with the US and the Far East in respect to competitiveness and growth. The rate of investment will be increased and investment will go mainly to high-tech and competitive sectors of the economy. Institutions, regulations and policies which are regarded as obstacles of competitiveness and catching-up, will be revised and reforms serving growth and competitiveness will be implemented. Other government expenditures will be restricted, which will have an impact on social, employment, environmental and cohesion policies. Simultaneously, business environment will be improved: corporate taxes will be reduced, new entries into the market will be facilitated, and excessive regulations (e.g. concerning employment) will be reduced. State aid will mainly support R&D and innovation. The obstacles of the mobility of capital and labour will be reduced, taxation will be harmonised in a relatively low level.

4.2.2.2 Driving forces

Since all scenario sketches have policy as the main independent variable, 'driving forces' represent here the factors that put pressure on the policy arena to maintain, strengthen, modify or abolish a particular policy strategy. The main driving forces of this scenario are the ambitions of the Lisbon strategy coupled with the publication of disheartening progress reports thereof, effects of European expansion, globalisation and increasing pressure from international competitors in the knowledge economy.

Political climate: the sobering 2004 midterm review by the High Level Group chaired by Wim Kok placed Lisbon once again at the top of the European agenda. The conclusion was clear: 'The Lisbon strategy is even more urgent today as the growth gap with North America and Asia has widened, while Europe must meet the combined challenges of low population growth and ageing. Time is running out and there can be no room for complacency. Better implementation is needed to make up for lost time' (quoted in COM (2005) 24). Meanwhile, there is evidence, from ESPON among others, of the problematic and sometimes counterproductive functioning of CAP.

Enlargement: while the effects have not yet been felt, the incorporation of ten new members with a GDP per capita just of 46% of the EU25 figure will have profound impacts for EU sectoral policy (particularly CAP and regional policy), which could place an unwanted strain on the EU budget, compromising efforts for boosting competitiveness.

Globalisation: the ongoing opening of international markets (WTO) further exposes Europe to its competitors, heightening the imperative for achieving the Lisbon objectives. As knowledge becomes capital, competition will increasingly take the form of attracting and securing the best knowledge-intensive industries and workers.

4.2.2.3 Contextual elements of the decision to place Europe's 'best foot forward'

As stated, in this scenario the tenets of the original Lisbon strategy, to become the most competitive knowledge-based economy in the world, constitute the main point of departure. In the context of questionable progress on the Lisbon strategy, the enlargement is particularly problematic. Most new member states are hardly competitive even within the context of Western Europe, let alone with Asia and North America. This will be exacerbated by the entry of Bulgaria and Romania in 2007. There is a growing apprehension among the more affluent members that the political weight of the new entrants in the Commission and Parliament may result in more emphasis on redistribution. This is evident on an individual level with measures such as restricting migration from the N10 and the phased implementation of CAP in the new member states, and some elements (more prominent role for Lisbon in the *Third Cohesion Report*) of regional policy. By 2005, there was a growing awareness among core member states that they must band together if a programme of economic competitiveness is to be preserved: akin to the 'Europe of two-speeds' discussion the year before. For this reason, some cohesion-oriented policies will have to be sacrificed in order to enable the EU to put its 'best foot forward'.

Core countries conspicuously espousing the 'best foot' philosophy include the United Kingdom, Austria, the Benelux, Sweden and Finland – and particularly the business sector in these countries. Sympathisers but not overt proponents include France and Germany as both countries contain some elite regions, but also some clearly lagging ones as well (Britain, despite the fact it clearly has lagging regions, also has a more liberal tradition than Continental countries). Countries such as Italy are divided on the issue, whereas Ireland, Spain, Portugal and Greece are opposed on economic and ideological terms (all have experienced the benefits of cohesion policy). Although the strategy will not benefit all regions equally, the citizens of Europe also seem convinced of its necessity: according to the 2004 Eurobarometer Report, for example, 'European public opinion is ready for solutions in order to foster growth and address crucial issues like unemployment or the future of pensions' (EC, *Eurobarometer on Lisbon Agenda*, 2 Feb 2005). Public opinion also shows that a 'vast majority' believes that a knowledge-based society is the best way to deliver this.

4.2.2.4 The 'best foot forward' strategy

Employing a 'back to basics' argument, the coalition successfully pushes through a programme to realise Lisbon by concentrating its resources on its main assets. There is already some indication of support for this in the wake of the conclusions of the midterm review of Lisbon: 'Lisbon's overburdened list of policy objectives has obscured the importance of these actions which can drive productivity growth' (COM(2005)24, p. 13).

The strategy entails massive injections of funds into technology development, education in hard sciences, support for ICT infrastructure and the like in order to bridge the investment

gap between the EU and Japan and the US. The 'best foot forward' is an intensely pro-EU strategy, as the European level will be relied on to deliver many of the changes via regulation and financial support. It is also emphatically Europhilic in nature as it wishes to champion the best aspects of Europe, allowing the EU to act as a beacon for the best minds on the globe.

Since the ultimate goal is to attract and retain the world's best human capital in the knowledge economy, additional investments will be required to further enhance the quality of facilities and amenities in Europe's most competitive regions. This means that the European Union must 'ensure that our universities can compete with the best in the world' (COM(2005)24, p. 9). Already some specific measures are being proposed such as the creation of a European Institute of Technology. However, the 'best foot forward' strategy goes further: funds must be directed to disseminating an image of Europe's elite universities as a unified alternative 'ivy league' rather than an archipelago of excellence, as they are now commonly perceived. Educational credentials are standardised and streamlined throughout Europe, and rankings published regularly. The most successful institutions are rewarded with 'EU top' status, entitling them to additional funding and other benefits. The latter include, for example, preferential treatment in land-use conflicts regarding their physical expansion, relaxation of immigration laws in order to draw top professionals and students, and programmes for benefit packages (subsidised travel and housing schemes) for students and staff. Additional funding would be earmarked towards research facilities and networking activities designed to attain spillovers.

Since the central regions (Pentagon) are currently the main driving forces and carriers of Pan-European growth and competitiveness, most of the investments will be directed to these areas. These are also the regions with the highest level of 'creativity' as understood by Florida (2002). EU subsidies will therefore be provided for improved infrastructure in the Pentagon (to counteract congestion) and to dynamic companies and organizations (universities) engaged in the knowledge economy. Information and resources will be pooled in order to construct a powerful MegaEuroRegion with the critical mass to attain and remain at the top of the world knowledge economy. In order to finance this, the structural funds will be increasingly directed towards the objective defined in the *Third Cohesion Report* 'Competitiveness for growth and employment', and will be explicitly tied to the Framework Programmes for stimulating R&D. Related to this, the budget of DG Research will be increased substantially, and tied to supporting programmes that contribute to economic competitiveness. On the other hand, CAP funding will be reduced dramatically. Aggressive competition policy will also be pursued to ensure that labour, goods and services are allowed to flow freely in Europe, on the assumption that this will further enhance the competitive position of top locations. In addition, spatial measures are taken to improve the attractiveness of the core area of Europe (or at least offset some of the negative spatial consequences of economic development) for knowledge workers (Florida, 2002).

Finally, globalisation is harnessed to launch knowledge-intensive firms into the 21st Century by means of proactive stimulation packages. Measures include selective tax cuts, information production and sharing schemes, selective migration policies, and exemption from certain (e.g. environmental, labour market) restrictions. Policies target large organizations with proven success or certain dynamic sectors such as information technology.

4.2.2.5 Implementation of the strategy

This section will provide a short summary of the various interventions into strategic decisions and sectoral policies that are required to realise the strategy outlined above.

EU budget. In this scenario, the taxing potential of national governments will be seriously restricted and this will have an impact on their willingness to contribute to the community budget. National contributions to the community budget will be reduced to 1 percent of GDP, or even below this level in longer term. The structure of the expenditures will gradually, but in the long run substantially, change. The share of agriculture and cohesion policy will be substantially reduced, while the share of expenditures under the heading 'Competitiveness for growth and employment' will substantially increase. The share of R&D and of external policies will also increase and private sector R&D will be encouraged via tax credits.

Agriculture: as CAP subsidies do not promote economic competitiveness in a knowledge economy – indeed agriculture is viewed in this scenario as increasingly archaic and irrelevant – the budget will be reduced substantially (the enlargement has added urgency to this, as the N10 include many poor agricultural areas). Pillar 1 support is abolished entirely, and Pillar 2 subsidies are granted to areas in which they will produce maximum amenity in top locations.

Competition: one of the main aims should be to make the Single Market more dynamic. It means better coordination between regulatory and competition policies to encourage market access for new entrants and to introduce a more pro-active policy to support labour mobility. State-aid regulations will be lifted for certain kinds of industry, particularly knowledge-intensive small business start-ups; this was the thrust of the Communication 'Working together for the Lisbon Strategy' (COM(2005)24, p. 8). On the other hand, state aid should be strongly discouraged if it interferes with or inhibits private-sector investment (see EC, *EMAC Speech Neelie Kroes*, 3 Feb 2005). In addition, the EU has to remain vigilant that promotion of elite organisations and sectors does not stifle healthy competition, and therefore existing anti-trust legislation and rules on public procurement will remain vigorous. This scenario also calls for intensifying the freedom of movement of jobs, labour and capital in Europe, as it is estimated that 'completion of a single market in services should lead to an increase in the GDP level by 0.6% and of employment level by 0.3% in the medium-term' (COM(2005)24, p. 29).

Enlargement will progress dynamically in this scenario. The West Balkans, Turkey and perhaps the Ukraine will be members already in the late 2010s and, perhaps, further countries will join the EU (Belarus, Moldova, some countries of the Caucasus, some Maghreb countries) in the 2020s. The main motives of enlargement will be to increase the market and political considerations: to ensure a stable political environment for the European economy. The heterogeneity of the European Union will further increase. The political resistance to enlargement by the more affluent member states will dissipate with the knowledge that Community resources are being directed primarily to elite areas, rather than cohesion. The new entrants, denying the aid received by other new member states in the past, orient themselves towards benefiting from the common market.

Environment and nature: insofar as environmental directives may harm competitiveness, exemptions are provided. Particularly the Framework Directive on Water and Natura2000 will be relaxed in areas in which it is difficult to meet standards without incurring great costs. Similar selective implementation/repeal will apply to air, soil and water quality and noise pollution. If possible, however, the EU will compensate elite areas for these costs in order to maintain environmental quality.

R&D: this is viewed as one of the most vital spearheads for the Lisbon strategy. Budgets of the Framework Programmes are increased dramatically, infused by links to the structural funds and CAP reductions, allowing the EU to meet and perhaps even exceed Lisbon targets of 3% of GDP (and bringing it in line with Japan and the US). According to the Commission, for example, 'an increase in the share of R&D expenditures in GDP from 1.9% to 3% ...

would result in an increase of 1.7% in the level of GDP by 2010' (COM(2005)24, p. 29). As it is acknowledged that R&D is just one aspect of the knowledge economy, the activities of DG Research will be adapted to support other forms of innovative research as well. In fact, the Commission arrived at this conclusion as well: 'by far the largest productivity effect comes from the absorption of the results of foreign R&D' (EC, 2004 *European Competitiveness Report*, p. 10), rather than being the source of this R&D. A similar conclusion was drawn empirically for the Netherlands by Raspe *et al* (2004). At any rate, the theme of FP6 (Information Society Research) could be carried on into the future in this scenario. As a result of relevant policies, R&D investments undergo a considerable increase (the 3% objective, set up by the Barcelona summit, was reached in the meantime) and, what is not less important, these investments show a growing efficiency. Tax credits will be introduced to enhance R&D investments in the private business sector, particularly for start-ups.

In general terms, the approach at the EU and national level to boost investment in R&D undergoes a paradigm shift, away from subsidies which are designated to subsidize a priori certain key technology towards creating a general R&D friendly environment, in combination with a competition-based system of funding for the best research ideas. Although the process of speeding up productivity growth is very complex and goes far beyond ICT, the latter doubtless shapes an essential ingredient on this path towards higher productivity. The significant increase in spending for R&D in combination with a growing efficiency of these investments will allow to make European high tech sectors more competitive, and a number of European high-tech industries will become world-wide leading in terms of front-end technology and economic success. Among the beneficiaries, promoted by the newly established EASR, primarily are the high-tech clusters in highly agglomerated spaces inside and outside the European Pentagon, where a critical mass of universities, research institutions and firms of relevant industries is already given and where intensive collaboration between them (to transmit the [tacit] knowledge) does already work and must not be created 'artificially'.

The initiatives to increase and more effectively use R&D investment will go along with initiatives to improve the skills in line with the requirements of the emerging knowledge society. First priority is given to policies which create better conditions for the attraction and retainment of top research personnel towards/in Europe. Fast-track working permissions for non-European top-researchers as well as non-bureaucratic visa regulations will facilitate the attraction of the 'best brains' towards Europe. Complementary reforms aimed at an improved funding of universities, particularly on favourable remuneration conditions for top researchers, will be supportive when it comes to the attraction of urgently needed top personnel for R&D. Moreover, reforms of Europe's educational system, particularly at the university level, will come into force, allowing more competition among universities to attract the most talented students and scholars.

At the European level, regulations will be introduced for the mutual recognition of qualifications and for mutual granting of the entitlements foreseen in the different national social security systems. These latter topics were even mentioned in the so called Kok report in the middle of the first decade (2004) as remaining obstacles for an intra-European exchange of well educated researchers (see *Facing the Challenge* [2004]: p. 20). The above described policies in the field of university education and research will create a strong competition among the universities where some of them will come up as 'elite universities'. As a result of these developments with respect to the education system, Europe will re-gain its attractiveness as a location for the 'best brains', and moreover, the reforms at the university level will lead to a relatively broad supply of highly educated 'knowledge-workers'. This class of well-educated people will enjoy high incomes and good employment chances. For the highly qualified workforce the capability to use advanced ICT is 'standard', while people with low skills, who earn only low incomes, are excluded from the benefits arising from ICT. Thus, Europe continues to show signs of digital divide.

Regional policy: the Structural Funds will remain important, but will be increasingly employed strategically towards supporting initiatives that facilitate the creation and maintenance of elite regions. Funds to assist innovative firms in areas with dense knowledge networks are included in regional policy under the motto 'linking innovative potential to geographical advantage'.

Transportation: congestion on roadways and rail in top regions is to be expected, given the additional economic activity. Member states must ensure that this will not undermine community investments by investing in mass transit solutions, (underground) road bypasses and multimodal transport.

4.2.2.6 *Developments and events (storyline)*

In June 2005, the European Council principally approved the financial perspectives and the regulations of Structural and Cohesion Funds for the period 2007-2013. For the first time in the history of European integration, this budget allocated significant funds not only to agricultural and cohesion objectives, but also to objectives such as growth, innovation and competitiveness. The new 'Competitiveness for growth and employment' fund was the most dynamically increasing item of the EU budget, nevertheless, its share remained modest (20%) in comparison to total expenditure even in the last years of the programming period. The real break occurred in later. After a rather unambitious and pragmatic Dutch presidency in 2004, which concentrated on 'cutting red tape' and managing daily operations following the enlargement and completion of the Draft Constitution, the political climate in Europe seemed ripe for a more visionary course. The Luxembourg presidency attempted to prepare this, but saw its hopes dashed at the eve of its term with the resounding defeat of the Constitution in French and Dutch referenda. The British term was mired in political battles over the reform of the budget, but the Austrian term placed the Lisbon agenda once again at the centre of European politics. The Finnish presidency took this forward in late 2006. As the 2010 deadline loomed ahead, the Lisbon imperative gained more and more support amongst the populace and policy leaders.

The decisive change in economic policies occurred between 2010 and 2014, during the preparation of the next programming period. Governments, especially those of the larger and wealthier member states, realised that, if they wanted to prevent a fatal lagging behind of Europe, they had to implement radical policy measures. Moreover, politically, they stand better to profit from this policy change.

The next financial perspective, for the period 2014-2020, reflected these radical changes. The share of agricultural expenditures ('Preservation and management of natural resources') decreased to less than 15 percent of the EU budget. The budgetary share of cohesion policy decreased radically – to 25 % -as well. More than half of the EU budget became allocated to the objectives of promoting overall European competitiveness and growth (to the R&D sector, to promote business infrastructure, etc.).

European governments also took steps to facilitate the emergence of an efficient and productive economy. Publicly provided welfare provisions were limited to social assistance. Insurance against labour market risks was reduced and partly shifted to the market and social partners.

Despite the radical reduction of the resources of European Cohesion policy, the Eastern member states – as a whole – converged gradually to the European average. This happened because rapid institutional reform and a catching up of technology took place also in these countries. Indeed, there was a dramatic surge of foreign direct investment flows into the Eastern regions of Europe. As a result, European Cohesion policy, starting from 2020, was abolished at all.

Member countries arrived to an agreement concerning harmonised taxation only in the early 2010s. Accordingly, old, big member countries lowered radically their tax rates, while new members raised them moderately. In sum, this resulted in an overall tax reduction in Europe, which raised the competitiveness of European firms, but restricted the budgetary manoeuvring space for governments substantially.

Competition within the European economy substantially intensified from the early 2020s. Flexibility rose at the expense of commitment in economic relations. Free trade in agriculture and services was fostered. This called for substantial restructuring in Europe. For instance, agricultural sectors with little added value contracted significantly. The same happened to textiles in a number of countries. Although this entailed substantial changes, European economies became sufficiently flexible to cope with these changes.

In the meantime, a radical enlargement of the European Union and especially of the European Economic Area took place. In 2007, Romania and Bulgaria, in 2012, with a new 'big bang', all countries of the Western Balkans became members of the European Union. The main driving forces of enlargement were economic and political factors. European enterprises required new markets for their products and markets for secure investments. They wanted new and cheap labour for their new plants and outlets. On the other hand, they wanted stable political environment for the European economy. In the 2010s Switzerland and Norway joined the Union without difficulty. In 2020, Turkey, the Ukraine, Moldova, Armenia, Georgia and Azerbaijan became members of the European Union. In the same year, the EU signed free trade agreement with Russia, all former Soviet republics in Central Asia, with the countries of the Maghreb, Mashreq and the Levantine coast. In 2030, a European Union of 700 million inhabitants and a European Free Trade Area of 1,2 billion people, became a decisive factor in the World economy. But even so, they represented only 7,6 and 13 percent of the World population, respectively. The Far East, Japan, China, Southeast Asia and India with 3 billion inhabitants and with a rapidly growing economy had become serious competitors on the World markets. Hence, the European Union, the United States and Latin America agreed upon a 'backdoor free trade' agreement in 2025. The transatlantic economic integration actually had gone beyond a free trade agreement: it led de facto to a single market in which a large number of formal and informal barriers to trade were removed through mutual recognition. This holds in particular for the service sectors. This significantly fostered growth in the ICT sector in Europe.

4.2.2.7 Impacts

In the discussion of impacts in the four scenarios, this will be done, whenever possible, in terms of Pentagon vs periphery (macro), EU15 versus N10, North vs. South (former cohesion countries) and rural vs urban.

The expectation is that successful implementation of the 'best foot forward' strategy will produce a moderate gains in overall **economic growth**. The improved competitiveness of a limited number of businesses and institutions largely in the Pentagon is the engine behind this growth. There will be catching up of the N10 in later years, but initially they will have difficulty competing with the subsidized and already well-developed areas in the EU15. The same is true for some of the former cohesion countries, with the exception of Ireland. More than direct subsidies, the relief given as a result of reduced payments via Pillar 1 will be noticed by consumers in the form of reduced prices, providing an extra boost for the retail sector and consumer services. The loss of vitality in rural areas will create additional migration to urban areas, a source of inexpensive labour.

With regard to **rural development**, the share of CAP in the community budget will be substantially reduced. Rural areas will undergo a fundamental transformation. Agricultural production activity will be concentrated to those farms and those areas, where competitive production can be realised. These are mostly larger farms where the geographic, soil, climatic and hydrological endowments are favourable for agriculture and where markets are easily accessible. In other areas, full-time agricultural production activity will be radically reduced, even abandoned. Land will also be reused for environmental, recreational, and other non-agricultural purposes. The two types of land use will be separated not only at the local level but sometimes at regional level as well. It means that in some regions rural employment opportunities will be radically reduced. This will occur, first of all, in the new member states of Central and Southeast Europe (the present share of agricultural employment is 20-30% in Romania and Poland) but also in some Mediterranean countries.

These people will look for new employment first of all in the urban centres of their own country, but also in the European core area. Many more will remain, however, and become even more disadvantaged. The overall decrease in rural population will be however compensated by urban residents moving to rural areas adjoining urban centres.

In terms of **transport** flows, the probable impact of 'best foot forward' is a rise in traffic volumes between the most important urban areas in the European core. Congestion of the roadway network may lead to the continued growth in air travel via regional (suburban) airports and better utilisation of the high-speed train network, which is geared towards linking important urban centres. Whether the improvements in infrastructure are sufficient to offset the expected growth in transport in the Pentagon is uncertain. More certain, however, is the continued lack of accessibility of peripheral areas.

With regard to the **environment**, it is to be expected that this scenario is hardly sustainable. Waivers of environmental rules entail the acceptance of more intense levels of pollution, and the low priority given to this area and Natura2000 in general will most likely translate itself into reduced environmental quality in the Pentagon. More peripheral areas may notice little change, as work continues to be created elsewhere.

The spatial-economic changes will also be reflected in demographic development. Institutional obstacles to **migration** within the EU will be removed and efforts will be made to overcome other obstacles to labour movement (in terms of the standardisation and acceptance of diplomas, overcoming the language barrier, etc). Consequently, a relatively large flow of migrants will be drawn to the core areas of Europe. Active recruitment of skilled outside the EU is encouraged. These migration flows, however, will be substantially different from those of the 1960s and 1970s (unskilled or low skilled guest workers from the Mediterranean, Maghreb, and Turkey) and also from those of the 1980s and 1990s (asylum seekers from the poorest and war-ridden countries of the world). A large part of the new immigrants will consist of highly skilled, professional people.

4.2.2.8 Territorial image in 2030

As its name implies, the 'best foot forward' will benefit those regions that are currently capable of sustaining top universities, major financial institutions, research facilities and the like. At present, this points to the Pentagon, although obviously not all regions in the Pentagon qualify (e.g. the pockets of poverty in areas like Northern France), while some particularly strong nodes outside (e.g. Scandinavia) do. The net effect of this scenario will be a net increase in territorial disparities at the macro level (the central MegaEuroRegion versus the periphery) and the meso level (major cities versus smaller ones), and in that sense can be seen as anti-polycentric. However, since overall economic growth is expected to increase in 'best foot forward', increasing disparities do not mean necessarily the stagnation or decline of lagging regions. It could still mean growth, albeit less than the average growth rate, but growth nevertheless. But undoubtedly there will be regions in which absolute decline will occur.

In this scenario regional disparities are therefore expected to increase both between and within countries. Economic disparities are expected to increase among countries because knowledge based and research-intensive activities would generate the highest income and these activities are expected to increase faster in the core area where resources for research and innovation are most available. Paradoxically, intensive outsourcing of activities to less developed areas would not reduce but rather increase disparities, because it frees up the labour force in the core area for more productive, profitable and income-generating activities.

The concentration of economic activities is expected to increase within certain countries as well, because knowledge based and innovative economy will emerge first where geographic proximity and 'tacit knowledge' (transferable only by direct, personal contact and

experience) enhance and reinforce innovative behaviour and competitiveness. In the new member states, where FDI is — and will remain for a while — the principal vehicle of growth, the increase of disparities, as a result of the very selective location of FDI, will be marked.

In general, economic growth leads to pressures in and around urban areas for development. As this scenario is expected to produce additional economic growth, we can expect a corresponding intensification of human influence in Europe: draining of lakes, damming of rivers, building of infrastructure and construction of buildings. Urbanisation will however not occur evenly over the territory, but be concentrated in the Pentagon, and specifically in the largest settlements therein. Major urban agglomerations like Paris, London, Randstad and Ruhr will extend their influence into the surrounding regions at the expense of smaller centres, because these do not have the critical mass needed to support top economic facilities.

As noted, **urban development** in this scenario will be concentrated in the European core area, not necessarily within the administrative borders of the big cities, but rather in the Potential Urban Strategic Horizon (PUSH) areas defined in ESPON project 1.1.1. These are the surrounding areas of urban centres within reach of 45 minutes by car from the centre. The fate of the core of cities will depend much less on industry and much more on other factors, like their role as a service centre, tourism, etc. In the new member states and other peripheral areas the future development trend of the urban system is less certain in this scenario. The reason for this is that they will be highly dependent on the outsourcing activity of transnational enterprises and less on endogenous factors. If their main location strategy continues to be cheap labour, transnational enterprises will look for ever more peripheral places where this type of labour force is still available. This will result in a highly decentralised, but unstructured pattern. If those enterprises increasingly utilise the higher educated and skilled labour force of these countries, this will result in the same type of urban structure as in the more developed countries, yet at a more modest level.

4.2.2.9 Summary and conclusions

Although the growth in Europe as a whole will be more dynamic in Best Foot Forward, this will be accompanied by growing regional (but not necessarily national) disparities. Larger metropolitan areas with sufficient facilities like universities will profit from the shifts in EU policy. At the same time, sparsely populated regions will decline further. This is also likely to contribute to additional pressure on the existing transport infrastructure in the Pentagon, and will probably result in intensified environmental pollution.

4.2.3 Economy Scenario 2: EuroTigers

This scenario describes a situation where the EU pursues a two-pronged strategy of economic competitiveness and territorial cohesion. This is currently articulated in the Lisbon/Göteborg strategy, which aims at competitiveness, cohesion and sustainable development, and thus echoes the principles stated in the ESDP. The concept of polycentricity is used as a vehicle to achieve implementation.

4.2.3.1 Scenario hypothesis

In this scenario, the EU embarks on a mission to implement the Lisbon/Göteborg strategy. The approach differs markedly from the previous scenario. While large enterprises and advanced regions will adapt to the new requirements based on (own and external) private resources, knowledge-based and innovative development of small and medium-sized firms and of more peripheral regions will need to be supported by EU and national policies. It assumes also that a more differentiated approach will need to be applied to countries and regions that are in quite different situations. According to the EuroTigers strategy, support is given to areas with the potential to become competitive on a global scale, not to those which already are. Consequently, new competitive knowledge and innovation centres will emerge both inside and outside of the Pentagon. The most lagging regions are largely 'written off' as having little promise for improving the EU's competitiveness. Like the other scenarios, it is assumed that current globalisation trends will continue as well as the rise of the knowledge economy.

4.2.3.2 Driving forces

The main driving forces of this scenario are the ambitions of the Lisbon/Gothenburg strategy, European enlargement, globalisation and increasing pressure from international competitors in the knowledge economy. These will be considered in turn.

Political climate: the Lisbon/Göteborg remain the best statement of European ambitions behind which most member states and citizens can rally. The midterm reviews only emphasise the fact that more efforts — not less — are needed at the European scale. This is consistent with the ESDP and many ESPON findings. In addition, insights into the knowledge economy show that 'softer' criteria are also vital in securing a region's competitiveness, an argument for retaining the aspects of cohesion and sustainability in the Lisbon agenda.

Enlargement: there is a formidable task of reforming sectoral policy in a fair way to accommodate the new member states and bring them up to speed with the rest of Europe. It is acknowledged that the low starting point in terms of GDP per capita can translate itself into high annual growth, thus making these areas interesting to investors.

Globalisation: the mediocre economic performance of Europe in terms of annual growth could be augmented with the incorporation of developing regions (Euro-Tigers) gained by the enlargement into the EU.

Governance: economic organisations (enterprises) will apply business strategies suitable to enhance competitiveness and innovation. Governments and politicians of member states, inspired by their responsibility for the future of Europe, will implement those changes in the institutions, laws and regulations at national and supranational level which are necessary to set the European economy on a new development path, without losing the specific European achievements and social traditions.

4.2.3.3 Contextual elements of the EuroTiger strategy

With the successive enlargements, the European Union became more heterogeneous. Heterogeneity poses, without doubt, a threat to community governance, but simultaneously it is an opportunity as well. The European Union found itself compelled to apply a more differentiated approach to countries and regions being in very different situations and at rather different developmental levels. A differentiated approach is not necessarily contradictory to integration and can, in specific situations, even facilitate and promote it. Although the new member states are lagging economically, for precisely this reason they have a great growth potential, which far exceeds that of the elite areas in Europe in proportional terms. Indeed, economies in the new member states — and those of the 'old' cohesion countries as well — are now growing faster than the EU average. Obviously, their economic weight is not sufficient to give a momentum to the overall growth of the EU, nevertheless, theirs can be a valuable contribution to the spatial-economic structure of the EU, if managed properly. This is the essence of the EuroTigers philosophy.

The midterm review of the Lisbon/Göteborg strategy provides a new impetus for change within Europe. The sobering conclusions serve as a call for action to implement the strategy in its full form: competitiveness, cohesion and sustainability. This becomes a rallying cry for all member states; rather than accepting a two-speed Europe, all member states must band together to ensure that Lisbon becomes a reality. In order to raise the political support necessary in an enlarged Europe, the strategy devised to unite old and new member states stresses the complementarity of competitiveness and cohesion. Ireland is held up as a 'EuroTiger', a shining example of successful use of structural funds, and a model for the N10. Its progressive stance on intra-EU migration is also praised.

4.2.3.4 The 'EuroTiger' strategy

The essence of the Tiger strategy is to identify specific areas and sectors that hold the most promise for rapid and sustainable economic development. Unlike 'best foot forward' these are not necessarily the elite. Proponents of the EuroTiger strategy see devoting resources solely to the elite areas as flawed for two reasons. First, they already have such formidable resources that any extra support provided by the EU would be very small in proportional terms. Second, since these top-performers are already successful (by definition), they are likely to have the resources to remain competitive without EU assistance. The EuroTiger strategy, in contrast, seeks out instances where it can make a decisive contribution. The philosophy is similar to that of regional policy where funds are only given as a critical extra push for a project, rather than comprising a significant share of the total costs.

Like in spatial development, the EuroTigers motto for economic development is that polycentricity constitutes the golden mean between equity/welfare and efficiency/redistribution. This has the clear advantage of broadening the base of political support for the strategy, seen as a prerequisite for the implementation of the Lisbon strategy (COM(2005)24, p. 12). The experience of the last years seems to confirm the viability of this strategy. The table below displays the share of capital regions in the increment of GDP in the Central and Southeast European candidate countries in the period between 1995 and 2001. In Romania and Bulgaria this share is more than 100%, because in all other regions GDP had declined. In the Czech Republic and Hungary capital regions have produced about two thirds of the increment in GDP. Even in Poland and Slovakia, where development was more balanced, capital regions produced more than one third of the increment which is much higher than the respective regions' share in population.

Country	Capital region	Share of capital region in GDP production
Bulgaria	Yugozapaden	151%
Czech Republic	Praha	65%
Hungary	Közép-Magyarország	58%
Poland	Mazowieckie	35%
Romania	Bucuresti	278%
Slovakia	Bratislavsky	38%

Source: CEC: *Third Report on Economic and Social Cohesion*. Statistical Annex. Brussels 2003

Table 10 The share of capital regions in the increment of GDP in the candidate countries 1995-2001

Country	Region	Annual growth rate	Per capita GDP as a percentage of the EU15 average	
			1995	2001
PL	Mazowieckie	10.4	42.7	63.7
IRL	Southern and Eastern	9.8	70.5	85.4
IRL	Border, Midland and Western	8.1	101.5	129.2
PL	Wielkopolskie (Poznan)	7.8	33.8	43.4
RO	Bucuresti	7.4	38.1	52.3
PL	Pomorskie (Gdansk)	6.5	34.4	41.6
PL	Podlaskie	6.3	26.0	37.0
PL	Malopolskie (Kraków)	6.2	30.4	35.3
FIN	Uusimaa (Helsinki)	5.9	128.8	140.3
NL	Flevoland	5.8	83.3	82.4
PL	Lódzkie	5.8	31.3	36.9
PL	Zachodniopomorskie	5.8	35.3	40.5
LV	Latvia (Riga)	5.7	24.7	33.4
SK	Bratislavsky	5.7	91.5	101.8
PL	Świętokrzyskie	5.5	27.3	31.2
FIN	Åland	5.4	119.2	141.6
PT	Algarve	5.4	66.0	72.4
EE	Eesti (Tallin)	5.2	33.6	38.5
HU	Közép-Magyarország (Budapest)	5.2	65.7	81.3
UK	Inner London	5.2	229.8	263.4
UK	Berkshire, Buck, Oxfordshire	5.2	119.9	149.0

Source: CEC: *Third Report on Economic and Social Cohesion*. Statistical Annex. Brussels 2003

Table 11 The most dynamic NUTS2 regions of the European Union and the change of their relative development level 1995-2001

This phenomenon is not exclusive to new member states. Practically all capital regions have increased their relative level of development (compared to EU average) in the Northern, Southern and Eastern periphery. In addition to capital regions, there are a few other regions outside the Pentagon that can fulfil the growth pole function. These regions and cities are actually the 'carriers of growth' in the relevant areas. It is assumed in this scenario that EU policy will build upon this process as a very important factor of European cohesion policy and, simultaneously, a factor of European growth and competitiveness. Additionally, this development process will largely contribute to a more polycentric structure of European space and urban network. Because rapidly growing regions are stimulated further with EU policy (regional, competition and R&D) this is likely to result in environmental problems. To

mitigate this, extra attention is also given to implementing effective growth management controls, using for example the policy suggestions included in the ESDP.

4.2.3.5 Implementation of the strategy

This section will provide a short summary of the various interventions into strategic decisions and sectoral policies that are required to realise the strategy outlined above.

Agriculture: CAP in its present form is not viewed as supporting the EuroTiger strategy because it tends to work against cohesion and supports an antiquated economic sector. There is little economic reason for maintaining the current level of European exports of agricultural products, made inexpensive by lavish Pillar 1 subsidies. However, Pillar 2 does seem to hold some promise for maintaining the environmental quality of rural areas, and can be used to ease the transition of peripheral regions to the EU.

Competition: internal market rules (including public procurement) must be rigorously applied as the development of new markets necessitates unobstructed flow of capital and labour. Markets must not be distorted with national state aid (usually to failing industry), but instead aid must be given at a EU level with the goal of acting as a catalyst to allow exciting new businesses to gain their footing that could compete at the global level.

Enlargement: this is a dynamic process in this scenario. Nevertheless, this process is not exclusively guided by market expansion considerations, as in the first scenario. The deepening of integration is also an important aspect of the process. Therefore, the enlargement process is subject to limits pertaining to political, social and economic absorption capacity. The present candidate countries (Bulgaria, Romania, Croatia and perhaps Turkey) will join the community but further enlargement is not to be expected within the time horizon of the scenario. The policy approach toward individual member states or groups of member states will be differentiated to reflect the different potentials of member states.

Environment and nature: value for a clean environment and natural heritage is seen as an asset of Europe, rather than a liability, which sets it apart from its major competitors. Natura2000 is implemented throughout Europe and environmental standards applied firmly because all of Europe's citizens have a right to clean air and water. Economic development should not have to come at the cost of the natural environment. For this reason, EU support is earmarked for rapidly growing regions in order to mitigate possible environmental damage.

R&D: investment in R&D is likely to boost GDP in Europe as it has been noted that 'government-financed R&D expenditures complement domestic industry-financed expenditures on R&D ... both direct funding of business R&D and tax incentives for R&D have a significant and positive impact on business R&D spending in OECD and EU countries' (EC, 2004 *European Competitiveness Report*, p. 11). With regard to the Framework Programme, an evaluation of FP6 showed that it was 'almost impossible' for SMEs to participate in the 'Networks of Excellence' programme and that it was particularly difficult for newcomers to become partners (High Level Group chaired by Ramon Marimon, *Evaluation of FP6*, 21 June 2004). In EuroTigers, this problem is remedied with specific measures to ensure that new and smaller organisations also reap the benefits of EU R&D policy. Instead of taking for granted a ruthless competition for scarce financial means, European policies (in coordination with national policies) follow a strategy to encourage researchers and small businesses in less favoured regions to participate in innovation processes funded either by public means or by private resources. As recommended by ESPON project 2.1.2 (2004: 23), the European policy supports a better coordination between the Framework Programmes (FP) and the Structural Funds (SF), which enhances

the innovation capability of disadvantaged regions. The pursued strong regional policy component does in no way mean a funding procedure following the 'watering can principle'. Instead, it follows the idea of strengthening those disadvantaged areas that possess the relatively best chances for catching up and becoming competitive regions with a high innovation capability.

Regional policy: the tenets of the policy proposed in the *Third Cohesion Report* (2004) are largely consistent with the EuroTiger strategy, insofar as both competitiveness and cohesion are objectives. However, EuroTiger goes further in linking the two, taking full heed of the recommendation of ESPON 2.1.2 (2004) to facilitate coordinated implementation of regional and R&D policy. The same report has shown that R&D investments in less developed regions may deliver more value-for-money as the impact on accelerating the 'catching up process' is greater.

Transport: as the EuroTiger strategy rests on the idea of polycentricity, this will become the Leitmotiv of the EU's transport policy as well. For the most part, this corresponds with initiatives already underway: the linkage of major 'peripheral' centres with the core of Europe with high-speed connections, preferably environmentally friendly modes of transport. However, a budgetary increase is necessary to translate EU-scale priorities into concrete results.

4.2.3.6 *Developments and events (storyline)*

In 2004-2005, the European Commission submitted its proposals for the regulation of Structural and Cohesion Funds in the fourth programming period (2007-2013). These regulations took notice of the previous debates on this subject. Net payer countries demanded more say in how their money was spent. There was widespread dissatisfaction regarding the tradition of providing support to eligible regions in otherwise relatively affluent member states. The argument is that development in these cases should be a matter decided at the national level rather than at the European level. On the other hand, eligible regions in poor member states do not have this luxury, and are more dependent on the EU for aid. A second issue during these debates regarded the apparent contradiction between Lisbon goals of achieving prominence in the knowledge economy and the cohesion aim of providing support to the most lagging regions.

These issues were politically resolved in the final decisions on the Fourth Structural Funds period, which enjoyed a large majority when ratified. Here, competitiveness emerged alongside cohesion as a major objective. A harmonization of the next Framework Programme and cohesion was also implemented. A marriage of the two — cohesion and competitiveness — pointed to supporting the fast-growing regions of the poorer member states: EuroTigers. The third major objective, territorial cooperation, was seen as a way to mitigate some of the externalities of growth. Some funds in this objective were earmarked for growth management initiatives in the EuroTiger regions, but these remained rather limited. One reason is that poorer regions in wealthier member states attempted to use this objective to regain some of the funding they had lost as a result of the new orientation.

Between 2010 and 2015 the EuroTigers grew rapidly, resulting in a more polycentric Europe at a macro level. The new opportunities and influx of money into the cities and the simultaneous reduction of CAP caused a major migration from rural to urban areas. Some of the problems of the Pentagon were also starting to make themselves more apparent in the EuroTiger urban regions, such as environmental pollution, sprawl and congestion. The next (Fifth) Structural Funds Period (2014-2020) saw a sharpening of the third objective to support more growth management in these EuroTiger regions, renaming it 'territorial management' rather than cooperation. The necessity for inter-regional cooperation was abandoned. Instead, aid was rewarded for implementing best practices in the area of

metropolitan planning and infrastructure development. The first two objectives were also merged into the 'Targeted Growth' objective. The eighth Framework Programme had as its theme: New Centres of Excellence, intending to create synergy between the rapid economic growth in the EuroTigers with the long-standing scientific quality in the Pentagon area.

By the time of the Sixth Structural Funds Period (2000-2006), the EuroTigers no longer qualified for the Targeted Growth objective, but still some funding from the Territorial Management objective. According to most economic indicators, there was little difference between major urban areas such as London, Paris and the Randstad and the Prague, Budapest, Bratislava network of cities. The major Polish cities also comprise a network of well-performing regions, but are less internationally oriented as the former. As a result of this catching up process, the countries hosting the original EuroTiger regions were able to support their own less-developed regions. At this time, the spill-over effects into neighbouring regions became apparent. This prompted a debate whether these fast-growing regions should be entitled to Targeted Growth funding since they were less the carriers of new growth, but profited by proximity to newly developed areas. It was decided to only apply Territorial Management funding here, and look to new centres for the main objective funding. These were to be found in the new Balkan member states and Turkey, which had recently joined the EU.

4.2.3.7 Impacts

With regard to the impact EuroTigers will have on overall **economic growth**, it is assumed that growth will increase. Specifically, a report to the European Commission *Delivering Lisbon*, stated that 'studies and simulations, conducted by the Commission, have concluded that the simultaneous and integrated pursuit of reforms [akin to the EuroTigers strategy] will produce an increase in the GDP growth potential of the Union in the order of 0.5-0.75 percentage points over the next 5 to 10 years' (COM (2004) 29 final/2, p.2).

In terms of **rural development**, EAGGF allocations to countries and regions will not dramatically decrease (their sum will remain unchanged) but within that sum the share of Guidance section will increase substantially, first and most acutely in the new member states and then in all countries in the EU. That means that radical structural changes will take place in the rural areas. Their accessibility will improve substantially. Structural Funds will support the generation of non-agricultural jobs and income opportunities in these areas. In the new member states, small villages will establish micro-regional cooperation for employment generation. Before 1989, a large part of income and employment in rural areas was generated through non-agricultural activities of agricultural cooperatives (mostly supplying services for large enterprises). After the political and economic change this source of employment and income disappeared. The acquired skills and infrastructure are still there and can be re-utilised, certainly in other organisational and ownership forms than in the past. These measures are indispensable in countries where the share of agricultural employment is still very high.

The **transportation network** will show a smaller rise in volume in the Pentagon than the previous scenario, but higher pressure outside. Connections between EuroTiger centres and the Pentagon will experience the greatest relative increase in traffic.

Migration will be a rather large-scale and dynamic process in this scenario, but not so unidirectional as in the first scenario at the macro level. For many of the new migrants, the destination of the migration will be the new growth centres outside the Pentagon area. This migration will be even more intensive than that to the traditional destinations, because, in these areas, more people will be affected by rural structural change. As a result, the Pentagon area will be partly relieved from a part of the migration pressure. Regarding the origin of migrants, in the new member states domestic migration prevailed (from less

developed and slowly growing regions toward dynamic ones), whereas in the old member states external sources of migration dominated. This was accompanied by additional social and cultural tensions.

4.2.3.8 Territorial image in 2030

As a result of EuroTigers, territorial cohesion will increase at the macro (European) level as secondary regions acting as carriers of growth — like Prague, Budapest and Warsaw — catch up to and in some respects even overtake comparable regions in the Pentagon. Territorial cohesion in Europe will however decrease at the national level as more competitive regions seize new opportunities, and are actually stimulated in doing this by the EuroTiger adapted structural funds. These increasing disparities can be regarded as transitional and provisional however. Filtering down and 'spread' and 'pull' effects will sooner or later have an impact upon the growth of the other regions of the respective countries, though this internal catching up process might prove to be very gradual indeed. Nevertheless, within countries there is always a budgetary redistribution process, so that poorer regions are beneficiaries of higher income generation in the growth poles, even in the short run.

As EuroTigers predicts a higher level of economic growth as a result of the targeted policy, we can expect changes in land-use in the most affected areas. Unlike 'best foot forward' this does not concern the largest metropolitan areas in the Pentagon, but smaller cities therein and larger centres in the periphery. Consequently, the urban development patterns discernable in this scenario are increasing pressure around the EuroTiger urban concentrations for space, reflected in rising land prices and rents. Suburbanisation around these centres and gentrification of the most attractive parts of the cities are to be expected. The influx of external investments will allow local decision-makers to make improvements in the condition of the quality of life of the inhabitants, but most probably this will be targeted towards amenities to attract knowledge-workers.

4.2.3.9 Summary and conclusions

This scenario envisions the implementation of the Lisbon strategy as it was formulated in 2004, with reference to cohesion and sustainability. There is an obvious link to be made between these economic ambitions and the three-pronged strategy of the ESDP. For this reason, the concept of polycentricity is also well adapted to the EuroTigers strategy. The outcome of the scenario is a slightly higher total GDP growth than the 'best foot forward' scenario and considerably higher growth than the next two scenarios. This is due to improved effectiveness of stimuli. The effect on territorial cohesion will also differ from the previous scenario. Here, it is expected to increase at the macro level (rather than decrease) but decrease at the meso level.

4.2.4 Economy Scenario 3: Blühende Landschaften

This scenario describes a situation where the EU pursues a strong policy in favour of cohesion. Lagging regions and sectors are bolstered in order to allow them to achieve a status fitting for a civilised Europe. Matters of sustainability and cultural heritage are major contributing factors to this strategy: especially clean industry and knowledge-oriented businesses are stimulated in lagging regions, making it unnecessary to relocate to find work.

4.2.4.1 Scenario hypothesis

In Blühende Landschaften, support is given to the most lagging regions to bring them to a certain EU minimum standard. EU and national structural support will continue to flow to less developed member states and regions. This includes support for infrastructure and environmental investments, but also for human resource developments. The goal is to make all European regions self-sustaining and have a reasonable quality of life; nobody should be forced to abandon his or her homeland to find a job and no European citizen should live in abject poverty.

4.2.4.2 Driving forces

The main driving force behind this scenario is the growing dissatisfaction in Europe of the unsustainable development path it has been following, and coping with the wide rift in economic position between old and new member states. Ideologically there should be one united and egalitarian Europe to provide a humanitarian alternative to North American hegemony. Gradual but steady economic growth is seen as preferable to the booms and busts that typify more laissez faire economies. Another motivation of this strategy is the more opportunistic desire by a number of vested interests to see cohesion support continue flowing to their regions. Finally, although not necessarily a 'driving force' *per se*, there is the general institutional friction to reform in this scenario, which plays itself out at the EU level as legitimating its existence by offering subsidies.

Political climate: the costs of sprawl and mobility are made apparent by a number of reports critical of the current neo-liberal discourse, raising public sympathy. Europe must compete in the world in terms of *joie de vivre* and not purely using sterile GDP indicators. The 2004 Eurobarometer demonstrated that the European public are of a similar opinion: they do not necessarily equate 'quality of life and economic performance' either (EC, 2005).

Enlargement: having such disparities within Europe is seen as unacceptable, as reflected in a statement by Commissioner of regional policy Hübner that, 'it is hardly surprising, in view of enlargement, that the Commission has set real economic convergence as the main objective for the future. In financial terms, this would absorb some 78% of total resources over the period of the next financial perspective' (EC, Speech/05/70: 3 Feb. 2005). The intent, of course, to be able to reduce this amount gradually as lagging regions catch up.

Governance: European institutions will continue to be dominated by intergovernmental decision-making in which business interests are only one factor of influence. Trade unions, farmers' unions, national, regional and local administrations, and — what is most important — voters' opinion are also factors to be considered.

4.2.4.3 Contextual elements of the strategy

With the subsequent waves of enlargement, the number and share of small and less developed countries have increased significantly in the European Union and so did their influence on European decision-making. Being net beneficiaries of Community budgetary allocations, their interest is to maintain a high share of cohesion and structural funds and —

perhaps to a somewhat lesser extent — that of agricultural supports. It is probable therefore, that contributions to the common budget cannot be reduced to the extent that net contributors would like to see. What can be perhaps achieved, it is the concentration of cohesion and structural supports to the least developed — mostly new — member states and their regions. In this respect, there is a kind of agreement between the largest net contributors and the poorest members. Cohesion and structural support will be spent in the least developed and peripheral areas, where it is really needed, but its effectiveness and the capacity to absorb it efficiently are ambiguous.

4.2.4.4 *The Blühende Landschaften strategy*

The goal of the Blühende Landschaften strategy is to produce a Europe in the Twenty-first Century based on the idea of sustainable and even economic development and ecological responsibility. The intent is to project these European values as an alternative to the uneven, unstable and hard capitalism of the United States and Asia. The most pressing task at the dawn of the new millennium is to bring up the most lagging regions up to a level worthy of the European Union. Some areas will be able to benefit from the implementation of contemporary and environmentally friendly technological solutions, without having to pass through the phase of dirty industry. Once a certain level of economic development has been achieved throughout Europe, the emphasis will shift on maintaining the high quality of life, peace and stability.

4.2.4.5 *Implementation of the strategy*

This section will provide a short summary of the various sectoral interventions that are required to realise the strategy outlined above.

Agriculture: as the least privileged regions in Europe are rural in character, and even more so with the 2004 enlargement, CAP will continue to command a large portion of the total EU budget. However, unlike the current regime, CAP will be changed to benefit the poorest areas with little emphasis on production, and much more on the conservation of natural and historical heritage of rural areas. Consequently, a major shift from Pillar 1 to Pillar 2 support will occur. In addition, regions in the wealthiest member states will be excluded from CAP support, but these member states will be given the option to provide like support from the national budget if they wish to do so.

Competition: state aid policies will be relaxed in so far as national funds are injected to sustain ailing industries in poorer regions, subject to environmental controls.

Environment and nature: much more emphasis will be put on a clean environment. The open space in peripheral regions is harnessed to generate renewable energy, and subsidies are available for this purpose via regional policy.

Enlargement: in this scenario, the main objective of the European Union is deepening integration. More functions and tasks are delegated to the supranational institutions, but without the fundamental reform of these institutions and of decision-making. Bulgaria and Romania will be admitted to the EU, but further enlargement will be postponed for an indefinite period.

R&D: under the burden of increased cohesion spending, the framework programmes will lose support, except insofar as R&D policy can be administered as a kind of aid in poorer regions (e.g. subsidising exchanges of personnel and information to lagging regions). The objective regarding Europe's development towards the globally leading knowledge economy is placed on the back burner. The gap between EU and US recorded in the early 2000s (see Council of the European Union 2004: p. 10) widens in the following decades.

Regional policy: undergoes a 'back to the basics' reform where the majority of structural funds are targeted towards cohesion support. Other objectives (e.g. cooperation) are secondary, and must serve the primary regional policy goal of cohesion.

Transportation: more emphasis is put on sustainable modes of transport, especially to connect peripheral regions. Additional congestion in the Pentagon is not viewed as a Community priority, but something to be tackled at the member state level.

4.2.4.6 *Developments and events (story line)*

The largest enlargement in European history was hailed as a great triumph. Never before have so many people come together under a single political entity in a completely peaceful way. The structure of the European Union as a voluntary network united by a body of common values and laws seems more adapted to the challenges of the next century than the seemingly antiquated sovereign nation-state (Rifkin, 2003). By working together, the European member states can achieve a level of refinement and social equity unthinkable only decades ago. One of the first things that must be done in this regard is a shift in mentality from blindly following the practices of the United States and Japan in supporting elitist R&D to embracing the welfare principle. As a first step in this regard, the European Commission develops an alternative economic indicator to rectify some of the distorting elements of GDP: the Welfare Indicator. From this point onward, rather than being an end in itself, GDP will only be part of the discussions around economic well being in European politics.

In 2005, the financial perspective for the Structural Funds period 2007-2013 was approved with minor amendments. These pertained to the newly established 'Competitiveness for growth and employment' objective and to a lesser extent 'territorial cooperation'. Since nobody knew for certain who would be the beneficiary of the new funds, there was no serious resistance against the proposals. The first objective (cohesion) remained the highest in terms of budget and profile. In addition, like in every programming period which had preceded it, the Structural Funds saw an increase in its budget. A year later, another agreement was reached over the future of CAP which postponed the reforms to a later date, the issue being regarded as far too politically risky to take at the present time. After the failed referenda over the Constitution and unsuccessful attempts by the British presidency to engender far-reaching reforms in agricultural policy there was little enthusiasm to continue in this vein. In addition, the political impact of the 2004 enlargement began to make itself felt.

The increase of the agricultural and cohesion budget was approved partly as a consequence of the large number and significant voting weight of – old and new – beneficiary countries in the Council of Ministers. Some countries, first of all those neighbouring the new member states (Italy, Austria, Greece and Germany), insisted that the increased allocations should be exclusively used for environmental improvements, transport infrastructure, risk prevention, water management and for the conservation of natural and cultural heritage. They were afraid of a situation in which cheap labour costs and EU and national support to SMEs in the new member states would result in a 'rent shifting' situation that would seriously jeopardize the competitiveness of their own enterprises. They argued furthermore, that new member states could afford low corporate taxes only because they can compensate the budgetary losses by generous Structural and Cohesion Funds allocations. They required therefore that beneficiaries of Structural Funds should raise their corporate tax rates to the EU average.

Some of these demands were accepted by the Council of Ministers. Taxation was harmonized and more attention was paid to sustainability in securing structural funding.

However, these funds were still used to promote economic development in the new member states. What finally convinced the bordering EU15 countries was the argument that, without such economic development, they would receive a large influx of immigrants from these countries when the labour market unified, and consistently thereafter due to the sustained disparities. A consensus began to emerge that Europe must achieve a certain balance in its levels of economic development, if for no other reason to preserve its rich cultural diversity. Poles should not be forced by market forces to leave Poland, but should have ample opportunities in their own country. In the implementation, this discourse was, in the context of the Structural Funds (i.e. regional policy), brought down a level of scale: all European regions should be able to offer a reasonable quality of life and employment opportunities. In 2012 the term 'Blühende Landschaften' was coined by the then EU Commissioner for Regional Policy.

The next structural funds period saw the definitive introduction of the Blühende Landschaften into EU policy. CAP became subordinate to the structural funds, which, in turn, adopted a 'back to basics' strategy: fostering (territorial) cohesion. Less developed regions especially in new member states enjoyed generous Structural and Cohesion funds support. The environmental situation improved substantially, and by 2020 the damage incurred by decades of Communist neglect were all but reversed. The Commission preferred to invest in railway network improvements for passenger transport and waterways for freight, rather than motorways. New national parks were established, the surface of protected areas increased substantially, and new cultural facilities built. Tens of thousands of government and local government officers participated in training courses aimed at increasing their skills in the management of the Structural Funds. This was badly needed since small and medium sized enterprises did not exist in the new member countries before the political and economic change. All such businesses were established in the last fifteen years, and did not have the time to accumulate resources. In order to allow them to compete on equal footing with EU15 businesses, or globally, investments and know-how would need to be shared from the rest of the EU.

The heavy burden of enlargement, in terms of Structural and Cohesion Funds supports, discouraged net payer countries from further enlargement. Bulgaria and Romania joined the European Union, but further enlargement was postponed to the indefinite future. Switzerland and Norway, unwilling to pay the high price of membership, refrained from accession. Consequently, in 2030, the EU faces more or less the same problems as in 2005. The problems and tensions could not be solved because the different and confronting interests blocked change and essential reform.

4.2.4.7 Impacts

The framework of the Blühende Landschaften strategy proved flexible and robust enough for enabling the development of the European economy without major crises and shocks, but not adequate for switching it over to a substantially higher rate of growth. One of the main reasons for the lack of dynamic **economic growth**, such as in the previous two scenarios, is the failure to harness the potentials of the knowledge economy. Inefficiencies continue to exist in this area regarding the linkage between industry and science, the underdeveloped competition between universities and a lack of peer-review procedures for funding universities (Commission of the European Communities 2004, p. 179 with reference to Gordon 2004). Deficits also continue to exist regarding sufficient solutions for securing intellectual property rights and non-bureaucratic immigration procedures for top research personnel from outside Europe. The brain-drain of young graduates towards the US, already recorded in the early 2000s, is ongoing in this scenario. As a part of the equity-oriented policies pursued by the European and national authorities, support programmes to improve the skills of the (long term) unemployed will be implemented. However, the disadvantaged regions show an overall weak economic performance, and due to the absence of strong

development cores within these areas, job opportunities remain scant. Younger, well-educated residents continue to migrate towards the agglomerated spaces outward their region, seeking employment opportunities. Elderly people often become dependent on social benefits, which in turn, limits public spending for investment purposes.

In this scenario, the Pentagon loses its competitive edge in the world economy as funds are redirected to other regions in Europe, and a net loss of efficiency is produced as subsidies are disbursed according to need rather than promise. On the other hand, the environmental quality, the protection and maintenance of cultural qualities and the standard of living improve in previously lagging areas.

With regard to **rural development**, support for agriculture will be the largest in this scenario, because contrasting interests will not enable to reform the CAP radically. Consequently, 'stabilisation and peace' in rural areas will be purchased at the expense of other regions, cities and social groups of the population.

This scenario will also have different patterns of **migration**. One of the main objectives of this scenario is to create employment and income for people in their native country and region. The large transfer of resources — through EU cohesion, structural and agricultural policies — should serve this objective. But if the structure and regulation of these funds will be inadequate for creating more jobs and income, then the huge transfer of resources will not bring the expected results. Consequently, despite the massive resource transfer, disparities in employment will not decrease substantially and the intention to migrate may still be strong in many parts of the European Union.

4.2.4.8 Territorial image 2030

Looking back from the present – 2030 – Europe has changed a lot, but its basic situation and its institutions are not very dissimilar to those existing 25 years ago. On balance, disparities among countries and within countries are expected to decrease. The decrease of disparities among countries is due to two factors: first, that in the absence of massive R&D and innovation incentives and pressures even the leading European regions will not be in a position to carry out the breakthrough in productivity and high-tech, second, that EU and national cohesion and structural policies, focusing on most peripheral and underdeveloped regions, contribute largely to this convergence process.

To assess the probable impacts on urban development, we need to look to the mechanisms of the structural funds. One of the basic objectives of cohesion policy in the next programming period (2007-2013) is to improve the accessibility of services of general economic interest for every European citizen. This is the basic idea of urban development in this scenario. Cohesion and structural funds will be used to improve the provision with basic community services in all towns and cities, independently of their size and profile. Consequently, the development of urban areas will be the most balanced in this scenario. Small towns will have the same chance to receive support for improving their infrastructure, as large ones. EU level urban policies will have the most influence on actual developments in this scenario. The reconstruction and revitalisation of the central part of cities and towns will enjoy priority. EU cohesion and structural policies will not support extensive urban sprawl. The accessibility of basic services in every area will certainly slow down the excessive population concentration in large cities. Using ESPON terminology, the favoured urban formations in this scenario are FUAs and PUSH areas, and less MEGAs and PIA areas. However, the major driving force of the urban system is, undoubtedly, the economy, business and economic growth. It is the economy which creates the basic hierarchies and networks in the urban system. In absence of dynamic growth, no high level infrastructure and service provision can serve as substitute for the lack of growth poles, 'spread' and 'pull' effects. This will translate into reduced urbanisation pressure.

4.2.4.9 *Summary and conclusions*

Of all the scenarios, this seems the least likely to occur, given the current disposition of member states and globalisation tendencies. It has also been stated that 'it would be a political mistake to create a new division in Europe between a West that gives and an East that receives' (Speech/05/70: 3 Feb. 2005). In the end, it could not only result in the failure of countries like Norway and Switzerland from joining the EU, but erode the support of net-payer countries. In the end, the EU could lose legitimacy, bringing with it a revival of the nation state.

4.2.5 Economy Scenario 4: National Revival

This scenario describes a situation where support for European cooperation wanes, and nation states reassert their authority. Both competitiveness and cohesion policies are reduced, as well as other sectoral policies implemented at the EU level. Competition between member states increases, and territorial disparities increase as well.

4.2.5.1 Scenario hypothesis

In the National Revival scenario the European Union takes a more modest approach to developing its territory. As such, it occupies the lower left segment of the system of axes, characterised by low equity and low efficiency ambitions at the EU level. The basic hypothesis is that member states reassert their position in matters of economic and spatial development. The official argumentation for this position is the subsidiarity principle, but there exists also an undercurrent of popular dissatisfaction with the EU which is exploited in several key member states. In National Revival, national governments do not comply with their commitments to European policy objectives and regulations. Obstacles to free movement of labour are maintained, and the period of derogations extended, whilst the regulations of EU competition policy are more frequently evaded. Over time the advantages of integration become less and less exploited and, simultaneously, the effectiveness of cohesion policy reduced.

4.2.5.2 Driving forces

The main driving forces in this scenario are a growing dissatisfaction with Europe and a populist anti-EU movement in many key countries. The common currency, the Euro, and the enlargement are blamed as contributing to sluggish growth and high prices. Some of this sentiment originated with a key decision to limit EU cohesion support (and other support as well) to the most needy; in the more affluent countries there was less enthusiasm for redistributive policies to relatively distant regions. In these nations, the presence of the EU was felt primarily in negative terms (i.e. regulations and standards), further increasing anti-EU sentiment.

Critical reports: as in the first two scenarios, new information about the failure to successfully implement the Lisbon strategy provokes a powerful political response. Unlike the other scenarios, however, this is not interpreted as signalling a need for a new direction in policy, or intensifying policy in order to meet the Lisbon objectives, but results instead in a fatalistic view that Europe is incapable of delivering results. Throwing money at problems at the EU scale is deemed counterproductive: firms are better served by more local level approaches, and particularly by lower taxes. Curtailing EU policies in favour of overall tax reductions is therefore advocated.

Governance: trade unions, farmers and other professional organisations rally against specific imports, migrant labourer, and outlets and shops of trans-national enterprises. National elites make political concessions to offer more market protection. Sometimes these decisions are intertwined with self-interest of supporting state-owned businesses. Subsequently the integrity of the single market is compromised, and economic integration is slowed and in some cases, even reversed.

4.2.5.3 Contextual elements

The political backlash against Europe was already evident in 2004-2005 during the Dutch, Luxembourg and British presidencies. Although the historic enlargement of the European Union to include former communist countries dealt the decisive final blow to the cold war, this fact was greatly overshadowed by fear of job loss and exacerbations of 'net payer'

status among many Western European nations. Guarded beginnings of a dialogue with Turkey regarding possible membership were equally greeted with consternation and disbelief amongst an increasingly Euro-sceptic public. Finally, the defeat of the Draft Constitution in referenda in France and the Netherlands made it painfully clear that Europe is not in touch with the public. As the EU seems to be losing legitimacy, member states rush in to fill the political vacuum, citing the subsidiarity principle as justification for this.

4.2.5.4 *The National Revival strategy*

In terms of policy direction, there is no real change from the current situation at the EU level. Consequently, EU is expected to perform the same functions and tasks as before, but only with more limited instruments, possibilities and competencies. The EU will not be in the position to exert a significant influence on developments in the member states, while — before the public — it will continue to share the responsibility for these developments.

Economic policy is faced with a dual challenge. First, the reforms suggested in the framework of the Lisbon agenda, are to a large degree decentralized to the member states. Some countries are in a position to build or maintain world-class R&D facilities, but without EU subsidies the amount of pan-European scientific exchange wanes. Most countries forge links with the United States in an ad hoc fashion. Second, EU cohesion policy is weakened as a by-product of reduced funding and a re-nationalisation of regional policies. The structural funds increasingly resemble the cohesion fund: they given only to lagging countries, rather than regions, and administered at the member state level. As a consequence of the more modest responsibility and funding at the EU level for regional policy, two different policy strategies at the national level are imaginable: a) national policy does not pursue an explicit regional policy; b) national policy to a certain extent conducts an own regional policy.

4.2.5.5 *Implementation of the strategy*

This section will provide a short summary of the various interventions into strategic decisions and sectoral policies that are required to realise the strategy outlined above.

Agriculture: the National Revival strategy feels that the EU has had too much influence in the agricultural sector. In this scenario CAP is reduced significantly, being retained only insofar as it is necessary to prevent gross trade imbalances from emerging. At the member state level, agricultural funding is sometimes retained under pressure of farming interests. This is most pronounced in the more affluent member states with a significant rural constituency.

Competition: the National Revival strategy advocates the abolition of state aid, liberalization of public companies and enforcement anti-monopoly regulations. The intended result is that competition would increase *between* European regions as well as globally, thus providing spin-off benefits in terms of increased GDP production. Member states are expected to follow this strategy, since it is in their long-term self-interest to do so, so few EU-level rules are implemented to enforce this behaviour.

Enlargement: there is little interest in enlarging the EU in the short term, given the reservations of member states only (Bulgaria, Romania and perhaps Croatia — even if with some delay, will join the EU). However, as the reforms of the National Revival strategy are implemented, it becomes increasingly clear that enlargement can proceed with fewer consequences for existing member states. As a consequence, after a long period of relative stability, many new members are invited to join the Union — stretching from North Africa to former Soviet Republics — since the EU nations have already abolished a great deal of the structural funds, agricultural policy and R&D funding that would go to these new members,

and enacted measures (tariff walls, limits on labour migration) to lessen any financial or economic effects.

Environment and nature: the National Revival strategy views the environment as one of the few areas where the EU remains indispensable, since the effects are felt over national borders. However, a more critical view is taken at the specific measures taken: they must all pass the test of subsidiarity, or be decentralised. Nature policy does not fare as well as environmental policy, and the implementation of this policy comes to the discretion of the member states. In some countries, Natura2000 is blamed for blocking projects vital for economic development and competitiveness, and support for these policies wanes.

R&D: widespread criticisms of Framework Programmes that require large-scale European cooperation result in initiatives to renationalise R&D, allowing researchers to intensify their work in their own language. As a result there is a reorientation of research activities along linguistic lines (Spain with Latin America, the German block in Europe, etc.) and ad hoc scientific research network development with Asia and the United States. Obviously, some member states are in a much better position to participate in these networks than others. A nationally based R&D strategy is all but unaffordable for less developed member states, while richer countries that have benefited from cuts in the EU budget can afford extra spending on universities, R&D facilities and interregional transport infrastructure.

Regional policy: the National Revival strategy regards the most effective means to promote growth and prosperity in Europe as allowing member states to compete effectively in a global economy. In order to do this, the burden of EU taxes must be reduced and the least competitive member states given a quick boost to allow them to operate at a (reasonably) equal footing. Specifically, EU regional policy is reduced and targeted to only the poorest member states. The philosophy is that after a few years, they should be able to run their own affairs. This is not to say that strong regional policy will vanish from Europe. Member states may still — at their own discretion — conduct transfers to aid lagging regions, such has been the case in countries like Italy and Germany. Generally, these policies vacillate in intensity as the national political climate shifts between liberals and socialists.

Transportation: the ambition of the EU to adopt a more strategic approach to designating new priority projects for TENs is widely criticized and abandoned. As in the 1990s, new projects are essentially those previously identified by member states and nominated for EU support. Enthusiasm for cross-border and other politically difficult projects wanes as the level of funding at the EU level is reduced.

4.2.5.6 *Developments and events (storyline)*

An important driving force regards the failure of the EU to institutionally deal with the 2004 enlargement. The addition of ten new member states increased the heterogeneity of the European Union substantially, making cooperation between EU member states more difficult and eroding feelings of shared commitment to objectives such as territorial cohesion. At the same time, decisions continue to be made on the basis of consensus or require a large majority, resulting in gridlock in EU decision-making on many key issues. This is seized upon by national politicians sceptical of EU involvement in what they consider their country's internal affairs.

This political shift is crucial in producing the National Revival. Already in the first half of the 2000s, the rise of national pride and populist politics was apparent in Europe, replacing virtually a decade of 'Third-Way' dominance. This shift in mentality has significant implications for the way in which the role of the EU in various member states is conceived. Increasingly, the EU is used as a scapegoat for national ills. The populist New Right is

successfully able to blame part of social-cultural tensions, resulting in part from immigration from outside of the EU, on lax border controls and ineffective asylum policies. In some countries, as minorities from one EU country move to others, these politicians increasingly advocate reinstating restrictions to movement within the EU. This is not necessarily confined to old member states; some new member states encounter for the first time an influx of immigrants from developing countries. This fuels an anti-EU sentiment, especially given the reduction in the expected structural funds and CAP aid.

Governments were willing to cooperate only if the countries concerned were sufficiently homogeneous. Soon, a club of rich and powerful countries was born within the European Union. This club intensified cooperation in various policy fields, including taxation and social policy, through 'reinforced cooperation'. This was a legitimate method of the Community, originally intended to create a 'two-speed' Europe, in which countries that lag behind would catch up with the frontrunners after some time. But new member states remained outside the core group because they were either unwilling or unable to join. Consequently, as early as 2010, 'two-speed' Europe ended up clearly in a 'two-tier' Europe where the division acquired a more permanent character.

The main feature of this scenario is that the capacity and willingness of nations to contribute to the Community budget is reduced. The centralised resources of the Union are reduced in second half of the 2010s to less than 1% of the overall GDP of the Community. Opposing interests do not enable a structural reform of EU expenditures and the reform of the decision-making system in the EU will also be delayed. Because of the criticism and refusal of certain vested interest groups and political forces, a diminishing importance and role will be assigned to EU cohesion policy and to public policies in general: little government intervention in terms of direct subsidies, but more in terms of protecting the functioning of the market. Under severely strained budgets, cohesion policies are largely ineffective. With regard to R&D, for example, those research institutes and universities which already belonged in the early 2000s to the top ranked will be able to maintain their favourable position, but – due to the lack of institutional changes – the rest show signs of mediocrity. The absence of EU-policies designated to support inter-regional cooperation in the field of R&D enforces this negative trend. This is also interpreted as the futility of conducting R&D policy at the EU level, rather than eliciting a cry to reinstate EU R&D expenditures.

Many mature European industries became protected from outside competition through trade barriers. Additionally, national elites, disregarding EU competition policies, began to apply semi-legal or illegal support instruments in respect to public procurements, exceptions and preferred treatments. This was true in particular for agriculture, but also for network industries. Trade unions and other vested interest groups in the core countries exercised serious pressure on national and European level as well, in order to minimise wage dispersion. They formed a powerful lobby group in core Europe to hold up reforms in welfare state managements. In the new member countries, first of all, entrepreneurial organisations and Farmer's Unions exercised pressure on governments.

In the 2010-2020 period EU budgets continue to be slashed, and the resulting drop in policy effectiveness is interpreted as proof that these policies are inherently flawed. The bureaucracy in Brussels was seen as unnecessarily interfering, undemocratic and non-transparent. Countries began to play down the power and importance of supranational decision-making, intensifying the National Revival strategy after 2020. As policies are repealed at the Community level, new bilateral treaties are made between European nations to fill the void. These often bind certain areas together: the Benelux intensifies cooperation, for example, more than in the past. At the same time, new members are allowed to join the Union, as membership has lost much of its former meaning. Norway joins the union, now that most of the objectionable EU legislation has been decentralized, but Switzerland remains outside more as a matter of principle. Turkey, Ukraine, Morocco and the Balkan

countries join in the course of the 2020s. This is received with apathy than antipathy by old member states, as migration within the European Union is increasingly restricted. By 2030 the European Union is primarily regarded as an internal market, having disposed of much of its agricultural subsidies and structural investment support. These are now dealt with at the national level. Increasing mobility of capital intensifies policy competition within various cooperating national blocks, even as they attempt to restrict the mobility of labour.

4.2.5.7 **Impacts**

The National Revival strategy is expected to have significant ramifications for not only the spatial distribution of wealth, but also **net economic development** in the EU. According to current president Barroso, the 'costs of non-Europe' have been substantiated through a large volume of academic evidence. One can argue with the figures, of course, such as the contention by the European Commission, that GDP is almost 2% higher and foreign direct investment twice as high as it would have been without the creation of the internal market.²⁴ Nevertheless, it is reasonable to assume that if the workings of the internal market were to be undermined, as in the latter part of this scenario, that this would have perceptible repercussions for economic growth. In addition, given the premise in all scenarios of ongoing globalisation and importance of the knowledge economy, not achieving the Lisbon goals will also have a macroeconomic price tag. Therefore, it is safe to assume that by 2030 economic growth at the macro level will have slowed as a result of the National Revival strategy.

With respect to territorial cohesion, a few remarks can be made about the spatial distribution of economic growth resulting from the National Revival strategy. First, given that regional policy is decentralised to a large degree, poor regions in poor member states will probably not get the help they need, unlike less poor regions in wealthier member states. The weakest regions in Europe will most likely be 'written off' in this scenario. There will be a widening of disparities between nations, or at the meso level. Within nations, disparities could decrease, depending on the degree to which national-level cohesion policies are implemented (less in the UK, and more in France, for example).

Changes in **rural development** will also be highly dependent on national politics. As a whole, CAP is reduced, but so too are competition policy controls on how much state aid can be disbursed to various industries, including agriculture. Vested interests of farmers and national politicians depending on rural voters will undercut efforts to reform and restructure agricultural policy in many countries. If national governments should want to maintain the level of support to agriculture, then they will be forced to contribute from their own resources. The first steps in this direction have been already taken during the last phase of enlargement, when new member countries were allowed to complement the direct EU support given to their farmers, and amounting to 25% of that of farmers in the old member states, with 30% from their own resources. The development of rural areas will be, therefore, differentiated. Rural areas under favourable natural and economic circumstances or with generous national subsidies will fare rather well, while rural areas and farms in unfavourable circumstances will remain among the lagging and problematic areas of the EU, ridden by unemployment and poverty. In absence of this support, land will be simply abandoned and exposed to different environmental hazards and to deterioration.

This scenario differs markedly from the others in terms of **migration** and demography. One of the fundamental achievements of the European integration was the free movement of labour within the Union. It became subject of some restrictions and withdrawals during the last enlargement. Old member states have applied different derogations for different periods of time in this respect, signalling the first step towards renationalisation of decisions on

²⁴ European Commission (2003) *The Internal Market: ten years without frontiers*, cited in Leonard (2005) p. 81.

movement of people, capital and goods. As the scenario progresses, and political tension mounts with falling economic growth, nations respond by imposing tariffs on goods and restricting movement. Meanwhile, a radical ageing will take place in most EU member countries, and labour — especially highly skilled labour — will become bottleneck of economic growth and development. If politicians will realise this situation late, and — especially — if they will act to facilitate labour movement and migration only with substantial delay, then the only possibility will be to attract migrants from outside the EU. Namely, ageing and natural decrease of population will take place in most new members even more dramatically than in the old member countries.

4.2.5.8 *The territorial image 2030*

After the application of the National Rival strategy, there are some points to be made about how it has affected **economic development**. It is clear that re-nationalisation and national isolationism are most harmful for small, less developed countries. Their market is small; their most important driving force is the assimilation of existing technology and organisational practices of larger countries. Consequently, economic development disparities will increase between countries in this scenario, to the disadvantage of smaller and less developed countries. Simultaneously, disparities within countries might decrease for two reasons. First, leading regions cannot fulfil the breakthrough in the absence of intensive inflow of capital, knowledge and innovation. Secondly, lagging regions and agricultural regions will be more 'protected' from European and worldwide competition through national subsidization and bailout of languid enterprises owned by the state and/or managed by the national elites. But it can also occur that even disparities within countries will increase. It might be the case, if in the course of 're-nationalisation' of structural policies the national governments spend a considerable amount of money for universities, motorways and the like which de facto strengthens the agglomerated spaces whereas the peripheral areas might further fall behind. In sum, overall economic growth is the smallest in this scenario.

In this scenario, **urban development** will not transcend national boundaries, especially in less-developed member states. Cities in border regions continue to be in peripheral and disadvantageous position, since, at present, the trade between regions within the same country is about 80 times more intense than is trade between two regions which are in two different countries, and, in this scenario, this situation will not change substantially in the future (Centraal Planbureau 2003). It would follow that capital cities of the countries would be in an exemplary position: remaining the centres of national power, wealth and control. This applies less to capital cities of smaller and less developed countries, whose functions reach only as far as national borders. They will not be in the position to assume and fulfil European, or even trans-national central functions, let alone becoming fully integrated in the network of European or World metropolises. From a European point of view, they still remain 'provincial' cities.

4.2.5.9 *Summary and conclusions*

By and large, the combination of weak efficiency oriented policies with a weak cohesion policy at the European level coupled with re-nationalization tendencies in terms of structural policies, have ambiguous impacts. A smaller budget for cohesion purposes at the European level will deteriorate the chances of the less developed countries (and their regions) to catch up economically. Against this background, regional disparities between the states in Europe are likely to become greater. Furthermore, the absence of a strong European structural policy which had a broad focus on R&D and training activities until 2013, will weaken not only the innovative capabilities of the disadvantaged regions but the overall innovation performance in Europe.