NOTE

Abstract
This note discusses the European Commission’s proposal to introduce wide-scale macro-economic conditionalities in cohesion policy. In essence, this would make cohesion funding dependent on respecting the European economic governance rules. The note finds that such conditionality would be advantageous for economic governance, but it is likely to have a negative impact on cohesion policy. More importantly, it is doubtful that the European Commission’s proposal would contribute to achieving the overarching goal of both policies: balanced economic growth in Europe.
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EXECUTIVE SUMMARY

This note discusses the European Commission’s proposal to expand significantly macro-economic conditionalities in the 2014-2020 programming period. Such macro-economic conditionalities would make European cohesion policy funding in a Member State dependent on the country’s compliance with the economic governance procedures.

European Economic Governance

The EU’s Economic Union has been put in place to deal with ever-closer European integration, notably the Monetary Union. It lies down a set of objectives that are to be achieved by the Member States. The objectives are translated in binding norms, as well as softer policy targets, and cover the Member States’ fiscal and economic policies. To achieve these objectives, a set of European economic governance procedures have been put in place.

A preventive economic governance procedure focuses on surveillance and coordination of the Member States’ fiscal and economic policies. As part of this procedure, the EU can issue non-binding warnings and recommendations to the Member States. If the preventive procedure proves insufficient to ensure compliance with the binding norms, two corrective procedures can be enacted. These two procedures are a) the Excessive Deficit Procedure, which deals with fiscal imbalances and b) the Excessive Imbalance Procedure, which deals with macro-economic imbalances. The corrective procedures are stricter for eurozone members, who face financial sanctions when failing to comply. Providing conditional financial assistance to a Member State in severe financial difficulties serves as an option of last resort in the economic governance procedure. In such cases, the EU does not only define the goals that are to be achieved by the Member State, but also negotiates the national policies to achieve those goals.

Macro-Economic Conditionalities

The EU’s Economic Union has so far been unable to prevent major crises in public finances amongst the Member States. Therefore, a key element in strengthening Economic Union could be the introduction of wide-scale macro-economic conditionality. The European Commission envisages extending the existing partial macro-economic conditionality to all cohesion policy funds, as well as the agriculture and fishery funds. Macro-economic conditionality would furthermore cover all of the economic governance procedures and apply to both fiscal and macro-economic issues.

If a Member State does not comply with European economic governance recommendations, the European Commission could request a change in national cohesion policy strategic documents. The European Commission would subsequently be able to suspend cohesion policy payments if a Member State does not sufficiently modify its national cohesion policy strategic documents. Such optional suspension would come at the end of a procedure that could take up to five months. The long duration of this optional suspension procedure would be difficult to integrate with the economic governance procedures and its sanctions.

The European Commission’s proposal also foresees the mandatory suspension of cohesion policy funding in case the European economic governance’s corrective or financial assistance procedures move beyond their early stages. Mandatory suspension can take the form of either the suspension of cohesion policy commitments or the suspension of...
cohesion policy payments. The latter is likely to have a bigger impact on individual projects, as the suspension of commitments would still allow for payments based on earlier commitments.

Besides macro-economic conditionality’s use as a punitive measure, conditionality may also result in easier national access to cohesion policy funding. This would, however, only be possible when a country is subject to a financial assistance procedure. By limiting the use of macro-economic conditionality as an incentive, the European Commission missed the opportunity to propose a more balanced ‘carrot-and-stick’ approach.

The Consequences of Macro-economic Conditionalities

In terms of economic governance, macro-economic conditionality would have mostly positive effects. It would enlarge the existing sanction ‘toolbox’ and increase the bottom-up drive for sound fiscal and economic policies, as local governments would have much more to lose in the economic governance process. The macro-economic conditionality would offer a more automatic, somewhat innovative sanction that applies to the entire set of economic governance procedures. This would alter the non-binding nature of the preventive governance procedure. Macro-economic conditionalities would furthermore apply to all Member States, thus introducing the possibility of sanctions for non-eurozone countries.

With regard to cohesion policy, macro-economic conditionality can have some beneficial consequences. It could in particular reduce unproductive spending of cohesion policy funding. Despite this positive element, the proposed macro-economic conditionality would have a rather negative impact on cohesion policy. Negatives consequences on cohesion policy include:

- Cohesion policy becoming less fair: Regions would be hit by macro-economic conditionality sanctions, even though they are for the most part not responsible for upholding the economic governance rules. Furthermore, the suspension of cohesion policy funding could have a disproportionally negative consequence for the poorer regions and Member States, as they are more dependent on such funding.

- Cohesion policy funding becoming less reliable: Even if sanctions were never applied, macro-economic conditionality would result in uncertainty with regard to the funding available for future projects. The application of macro-economic conditionality sanctions could furthermore result in the non-execution of ongoing projects.

Beyond the effects for economic governance and cohesion policy separately, the overarching consequences of macro-economic conditionality need to be considered. Macro-economic sanctioning risks having counterproductive consequences in terms of achieving sustainable and balanced growth, a goal common to both economic governance and cohesion policy. Yet without the possibility of sanctions, macro-economic conditionality would remain toothless, and thus ineffective.

There are some available options that would reduce macro-economic conditionality’s negative effects while at the same time safeguarding its positive potential. One option implies using macro-economic conditionality as a ‘carrot-and-stick’ instrument. Secondly, macro-economic conditionality sanctions could be better aligned with the economic governance process. Finally, sanctioning could primarily involve the suspension of commitment, with the suspension of payments used only as a last-resort. Even when taking into account these potential improvements, it could prove problematic to turn macro-economic conditionality from an attractive idea into a useful practice.