

Chapter 6. Addressing global megatrends through EU Cohesion Policy

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The European Commission has proposed five main objectives for Cohesion Policy after 2020: 1) a smarter, 2) greener and low-carbon, 3) more connected, 4) more social Europe; and 5) a Europe that is closer to its citizens. Thanks to Cohesion Policy, regions and cities in the EU can invest in innovation, energy efficiency, digital, energy and transport networks. They can ensure that education and training gives people the new skills needed in their local labour market. And, above all, Cohesion Policy gives regional and local authorities the power to identify their own projects and priorities in an integrated and participatory way. They can find the best solutions for their community to address and take advantage of these megatrends.

Technological change has always raised both fears and hopes. The Luddites destroyed machinery in early 19th century England because they feared for their jobs in the textile industry. In 1930, John Maynard Keynes expected that by 2030 people would only work 15 hours a week. These two extremes can help frame the debate on the future impact of technological change. They capture the fear that there will not be enough jobs in the future, and the hope that the distribution of innovation benefits will allow everyone to lead a better life.

Today, with a shrinking share of gross domestic product (GDP) paid out as wages and a growing concentration of wealth in the hands of a few, it should not come as a surprise that many are worried about how technological change will affect their future. This worry is not only about who will benefit, but also about which places will benefit. Will the livelihood of my region or city decline?

Until 2008, regional economic disparities were shrinking in the EU. Since then, these disparities in GDP per capita have stopped converging. This is partly due to the crisis, but maybe it is also because productivity growth no longer spills over to neighbouring regions. Many EU member states have a single, highly productive region, typically the capital, and a large (and growing) productivity gap with other regions.

What has halted the EU convergence machine? A growing concentration of innovation in a few firms can make it harder for firms in other regions to catch up. Some have argued that this concentration is due to the nature of the digital economy because it costs so little to serve additional customers. Differences in the regional innovation systems may be too large, making it difficult for innovations to thrive outside the most productive region. The network of public and private actors, including research laboratories and venture capitalists, may not be strong enough to attract innovative firms or allow local innovative firms to scale up. This would explain why some regions seem stuck in a middle-income trap.

Cohesion Policy is helping regions to respond to globalisation by encouraging them to identify new, but related, economic activities in partnership with the private sector and the research community. By investing in training, Cohesion Policy can help firms find the skills they need and help people find a (better) job. This will become even more crucial as more and more jobs can be performed by machines. While automation so far has mainly replaced low-skill jobs, in the future medium-skill jobs will also be replaced. The faster these jobs disappear, the more difficult the adjustment process will be. Therefore, regions need to invest in skills, promote entrepreneurship and improve their business environment. In this way, people who lose their job will be able to quickly find a new job or even create a new firm.

These jobs, however, are not evenly distributed across the EU. The most innovative and productive regions will have a much smaller share of jobs at risk of automation than less productive regions. Already today, some regions are more exposed to global competition.

That is why the Globalisation Adjustment Fund helps regions which have been hit hard by redundancies and firm closures due to changing trade patterns. The megatrends identified in this report may lead to growing territorial disparities, with the more productive regions becoming even more competitive, while the less productive regions are facing increasing pressure through a combination of growing automation and global competition. To avoid these trends from increasing the gaps between the winners and the losers, Cohesion Policy helps in particular the less productive regions to become more innovative and upgrade their skills.

Cohesion Policy has significantly increased its investment, improving the capacity of public administration. An efficient and modern administration is necessary to foster an attractive and dynamic business environment. E-government, for example, can reduce costs and delays, while increasing transparency and trust for both firms and residents.

Although innovation tends to concentrate in metropolitan areas, rural areas benefit in multiple ways from new technology. Broadband and the even faster next generation networks have opened up a wide range of services that were simply unavailable in rural areas. Cohesion Policy has helped to ensure that all urban and rural areas have broadband access today. In addition, it will ensure that everyone has even faster access by 2020, which has many benefits. For example, such networks can provide access to education, training and healthcare in new ways that improve quality, expand choice and reduce costs. It will also allow firms in rural areas to become more active in the digital single market.

To limit climate change, the EU is transitioning to a low-carbon economy, but regions and cities will still need to adapt to ongoing climate change, which will present both risks and rewards. Floods, storms, heatwaves, droughts and forest fires have already increased in frequency and intensity in the EU. Cities and rural areas will need to invest more in risk prevention to protect their residents. The transition, however, also offers opportunities. Increasing renewable energy and augmenting energy efficiency will create new jobs in both cities and rural areas. Reducing energy consumption will generate substantial savings. New ways to reduce greenhouse gas emissions can be marketed globally, as can new strategies to reduce disaster risks.

Ageing in Europe will continue through a combination of increasing life expectancy and a low birth rate. Although migration from outside the EU tends to slow down ageing, it will not reverse it. Active ageing can help the elderly stay healthy, but this requires an environment that is more attuned to the elderly, and healthcare investments will still need to grow.

Migrants from outside the EU tend to concentrate in metropolitan regions mostly in the pre-2004 enlargement EU member states (EU-15). While some are quick to pick up the local language and find a job, others struggle. That is why Cohesion Policy invests in the integration of migrants to help them learn the language, get a degree, find a job or start a new business.

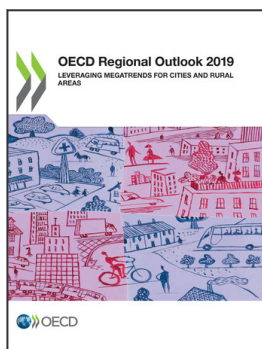
In the EU-15, the population over 65 is already overrepresented in rural regions. Their share is higher in rural areas because many young people move out to gain a tertiary education and start their career, while retirees move in to avoid the high costs, congestion and pollution of living in a city. In the EU-15, most rural areas can offer good access to services and a high quality of life. As a result, these rural regions have seen a significant inflow of people over the last decade.

In the eastern EU member states, the population over 65 is still quite evenly distributed between urban and rural regions, but the population in rural regions is shrinking faster than in the urban regions. The key question for the future is whether the EU-13 (the member states that have joined the EU since 2004) will become more like the EU-15 or vice versa – or will each continue on its separate path?

In terms of population decline, the EU-15 will become more like the EU-13. The EU's natural population growth became negative in 2015 and will become even more so in the future. As a result, more and more areas, both urban and rural, will have to learn how to manage population decline: adjusting public services to demand; downscaling neighbourhoods; and refocusing population in selected villages, towns or cities. This will be particularly challenging in areas where the decline is rapid, which can lead to the collapse of the local housing market, making it very difficult for people to move out.

This report is of great value as it highlights a number of critical trends. Although much is still uncertain about how they will affect different regions and cities in the EU, they will have a major impact on our future. Together with our regions and cities, Cohesion Policy can help shape that future.

A future where hope triumphs over fear.



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