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Cohesion and Excellence: Two ways to a better Europe

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Workshop on Cohesion and Excellence

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1. **Introduction: Project goals and project structure**
2. **EU RTI policy**
3. **Conflict of interest between member states (Budget, Framework programmes, SF)**
4. **Cohesion and Excellence**
5. **Conflicts between Excellence and Cohesion**

- **Assessment of the conflicts of interest between member countries with regard to European RTI policy.**
- **What are the implications for European RTI policy (especially Framework programmes).**

- **Terminology:**
 - **Excellence: Competitiveness – catch up with US**
- criterion for selection of projects
 - **Cohesion: Convergence within the Union –**
direction of funding

- a. Examination of the role of cohesion and excellence in EU programmes (FP, SF, CIP)
- b. Excellence and Cohesion in RTI policy
- c. Interaction / Conflicts of Excellence and Cohesion
- d. Policy implications

- Is there a conflict between the goals of cohesion and competitiveness (excellence)?
 - Are different policy measures needed for countries lagging behind than for countries close to the technological frontier?
 - Should Cohesion or Excellence carry more weight in EU RTI policy?
 - Is the fact that cohesion goals show up in FP and that competitiveness goals show up in the SF efficient?

- EU budget (2007-13): giving more weight to innovation
 - Framework program 7 (2007-13): Doubling of resources
 - Reform of cohesion policy (2007-13): more weight to countries lagging behind
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- **European RTI policy**
 - Rationales: European & global public goods, internationalization of R&D
 - Standard setting, IPR's, human resources, financing of innovation, RTI infrastructure ...
 - It is sometimes argued that the specific themes selected for FP help set RTI agendas in member states. Therefore, FP are crucial for the European RTI landscape, despite the relatively limited amount of resources.

- Relaunch of the Lisbon Strategy and an attempt to focus more on RTI both as a central factor of competitiveness and for cohesion

- Framework programmes (FP): Doubling of resources
- Competitiveness and Innovation Programme (CIP):
 - new programme that brings together several existing EU activities that support competitiveness and innovation .
- Reform of Cohesion policy - Structural Funds (SF):
 - strong orientation towards 'convergence' (78,5 % of funds)
 - 17.2 % is allocated towards 'regional competitiveness and employment'
 - Innovation plays a more important role in the ERDF fund than before.

	GDP per capita		Unemployment		GERD/GDP	
	at PPP		rate		1995	2001
	1995	2005	1995	2005	1995	2001
DEU	18.19	24.56	8.00	9.70	2.25	2.51
GRC	10.99	19.23	9.20	10.50	0.49	0.64
AUT	19.68	28.00	3.90	4.10	1.56	2.07
FIN	16.11	26.90	15.40	8.40	2.28	3.41
SWE	18.02	27.05	8.80	5.90	3.35	4.27
CZE	10.62	16.46	3.90	8.30	0.95	1.22
HUN	7.56	14.58	10.00	6.30	0.73	0.95
LTU	5.20	11.62	12.70	10.20	0.45	0.68
SVK	6.79	12.86	13.30	17.60	0.93	0.64
<i>E15</i>	<i>16.90</i>	<i>25.11</i>	<i>10.00</i>	<i>8.00</i>	<i>1.88</i>	<i>1.98</i>
<i>E25</i>	<i>15.25</i>	<i>23.13</i>	<i>10.70</i>	<i>9.00</i>	<i>1.84</i>	<i>1.92</i>
EU-15 - COV	0.16	0.15	0.37	0.31	0.45	0.50
EU-25 - COV	0.38	0.31	0.42	0.43	0.61	0.67

	GERD/GDP		BERD/GDP		EPO-Patent applications per mill. population	
	1995	2001	1995	2001	1995	2002
DEU	2.25	2.51	1.35	1.65	169.65	300.95
GRC	0.49	0.64	0.12	0.19	4.09	8.11
AUT	1.56	2.07	0.71	0.86	100.40	174.84
FIN	2.28	3.41	1.36	2.41	175.10	310.92
SWE	3.35	4.27	2.20	3.07	199.70	311.51
CZE	0.95	1.22	0.60	0.64	4.26	10.88
HUN	0.73	0.95	0.28	0.33	9.31	18.27
SVK	0.93	0.64	0.56	0.36	2.42	4.27
<i>E15</i>	<i>1.88</i>	<i>1.98</i>	<i>0.98</i>	<i>1.11</i>	<i>92.09</i>	<i>158.46</i>
<i>E25</i>	<i>1.84</i>	<i>1.92</i>	<i>0.96</i>	<i>1.06</i>	<i>77.25</i>	<i>133.59</i>
EU-15 - COV	0.45	0.50	0.60	0.68	0.69	0.68
EU-25 - COV	0.61	0.67	0.72	0.90	1.16	1.13

- **Clearly visible on the level of European Budget**
 - Rich countries want budget at 1% instead of 1.4 % of GDP
 - Poor countries want larger budget for redistribution
 - Scenarios when budget is cut – conflict over expenditure targets is amplified (see presentation by Sandor Richter)

- Conflicts of interest are also visible in the discussions on 7th framework programmes (e.g. funding of RTD infrastructure, large integrated projects) and on goal of Structural Funds (aims, distribution).

- Budget allocation in the member countries is not only dependent on the needs of the countries but also to a large extent reflects the distribution of voting power.
- Kauppi and Widgren (2005) estimate that voting power explains 60 % of budget allocation.
- Interests are primarily guided by „optimizing“ the position (accounting) some part of the 'community' effect is discounted (competition policy, regulation of state aid, cohesion & R&D policies).
Badinger (2004) estimates that the 'community effect' is quite substantial for past growth performance.
- Structural funds are attractive as there is a country-specific allocation, while FP has none.

Excellence and Cohesion can be cast into the distinctions of innovation and diffusion or Codified vs. Non-codified knowledge, then:

- Science policy: primarily excellence (if exploration)
- Technology policy: excellence and cohesion (diffusion)
- Innovation policy: excellence and cohesion (diffusion)

- „Research excellence“ is a central criterion in the framework programme.
- Is closely related to competitiveness (relative competitive advantage in order to achieve prosperity, employment and sustainable development).
- Principal policy instrument at the EU level: Framework-programmes (but according to goals set there are also cohesion goals in the FP)

- Cohesion denotes the degree of social and economic convergence that is achieved as integration proceeds.
- The aim of structural policy is to decrease regional disparities within the EU.

A) fostering convergence (new growth theory)

B) redistribution

- e.g. if there are barriers to mobility of workers overall welfare may be increased by redistributive transfers (e.g. Casella 2005)

■ FP:

- projects primarily selected according to scientific merit (excellence), however Marimon report (evaluation of new instruments in FP6) suggests that cohesion also plays a role.
- No country-specific financial allocation

■ SF:

- Projects to help realize national/regional development strategies
- Country-specific financial allocation

■ CIP:

- projects for SME, entrepreneurship, risk capital (primarily excellence)
- Intention complementary to FP (help SME access FP) and cohesion policy (SF similar goals with different instruments)

- Both are concerned with processes of growth and catching-up
 - Competitiveness puts emphasis on Union as a whole
 - Cohesion puts emphasis on the catch up of the poorer countries and region.

- Are the policy instruments to achieve competitiveness and cohesion similar and complimentary to each other?

- „supply-led“ scenario: R&D in frontier countries spills over to countries lagging behind. Requires absorptive capacities on the receiver's side.
- „demand-led“ scenario: Convergence of countries lagging behind fuels growth also in the rich countries.
- Both scenarios are motivated by external effects - the first by spillovers, the second by trade-related effects.

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- **Spillovers between countries and regions are distance based (also trade intensity)**
 - Direct spillovers: trade partners
 - Indirect spillovers: trade partners of trade partners
 - Leguma-Neso (2005) estimate that indirect spillovers are as important as direct spillovers

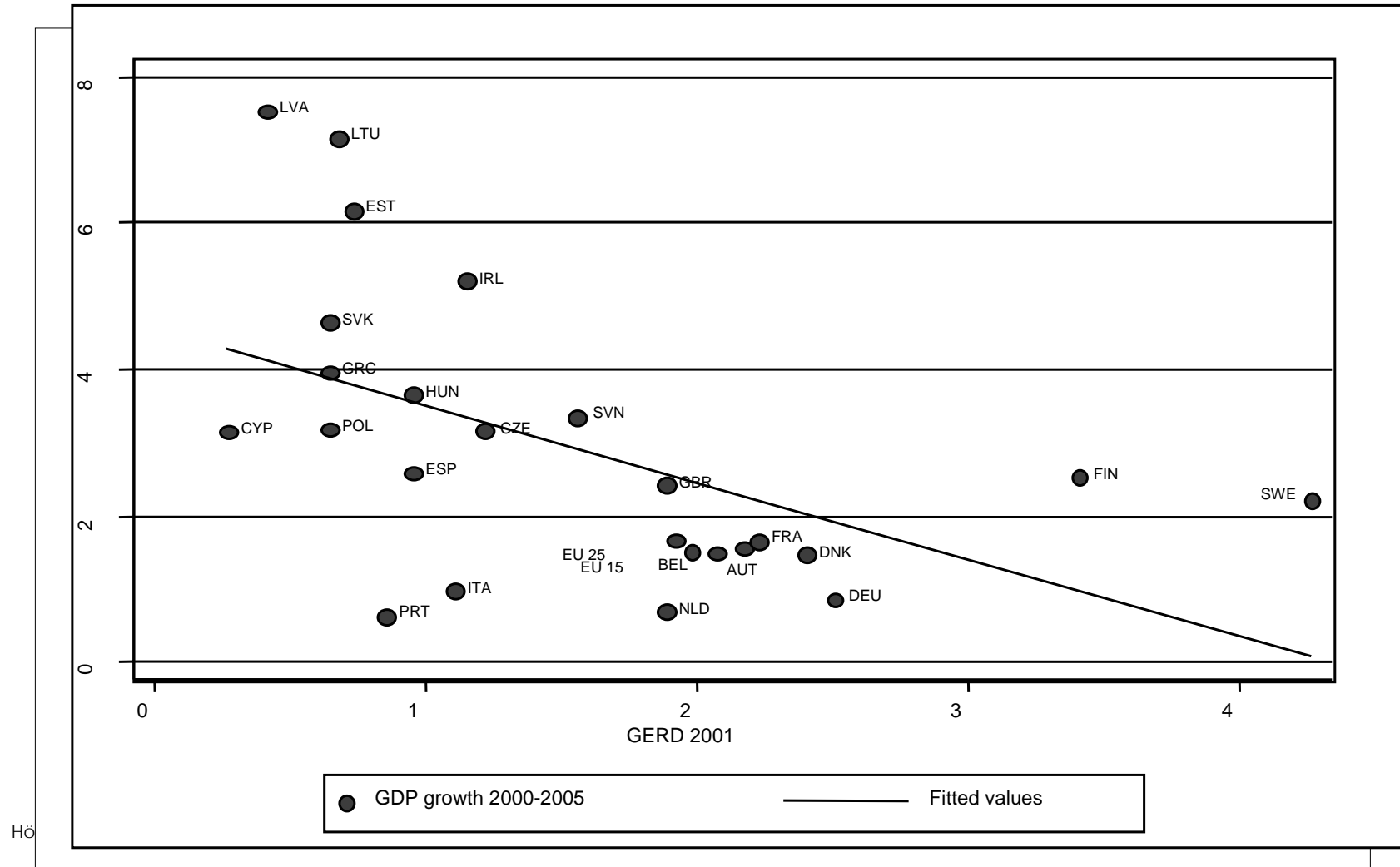
 - **Absorptive capacities**
 - Breuss et al. (2004) estimate that the activity of structural funds leads to a redistribution of FDI by 7-10 percent towards EU-10 countries .

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- Building up of absorptive capacity is needed in order to absorb the spillovers (infrastructure). That is the function of Structural Funds with regard to RTI.
 - Community effect: the removal of trade barriers leads to higher potential direct and indirect spillovers
 - SF leads likely to increased FDI, which may in turn lead to higher spillovers.
 - Collaborative research (as in most FP-projects) increases spillovers.
 - Cohesion goals in FP or should SF concentrate on absorptive capacities?

WIFO ■ 5.4 Some fundamental questions I

- **Appropriate institutions for catch-up and forging ahead (Gerschenkron)**
 - **Aghion, Acemoglu & Zilibotti (2002):**
Investment and imitation based institutions (policies) for Catch-up, innovation based institutions (policies) for countries on the frontier.
 - **Vandenbussche et al. (2003):**
Distance from the frontier matters for the optimal choice of educational system (mix between primary, secondary and higher education) for enhancing growth. Higher education more important for innovation.

Fig. 1: GDP growth and GERD



WIFO ■ 5.5 Some fundamental questions II

- Midelfart-Knarvik and Overman (2002) observe that
 - The changes in endowments do not feed through to changes in the production structure (specialization patterns).

- They argue that:
 - Concentration of EU structural policies on R&D intensive industries may be misplaced.
 - Structural policies should be more focused on the comparative advantages of locations than on attracting high-tech clusters of industries to poorer regions and countries
 - Interaction of national policies with European programs is of central importance (Ireland vs. Some regions in Spain)

- The focus of the project is on FP7 and Community RTI policy (SF esp. ERDF, CIP).
- EU commission suggests that policy for cohesion and competitiveness may be quite similar and complementary.

- Different policies according to distance to the technological frontier?
- FP as tool for innovation-based growth?
- Structural funds as tool for investment-based growth?

- To answer the question whether FP should be dominated by the notion of excellence alone or whether cohesion goals should play a role.
 - Determining the importance of the pair excellence/cohesion in SF/FP/CIP.
 - Assessment of the effect of spillovers.
 - Assessment of the question whether different policy measures and instruments are needed for cohesion and excellence and whether they are already implemented in the Commission proposals.
 - Interaction between national and EU RDI & catch-up policy.