

# SELECTED REFLECTIONS ON EXTERNAL SUPPORT AND ENDOGENIZATION OF GROWTH IN THE LIGHT OF COHESION POLICY – WITH SPECIAL CONSIDERATION FOR THE EUROPEAN UNION

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**Abstract.** *The paper starts with a brief discussion of two aspects of convergence hypothesis. The first one (theoretical) refers to standard growth theory, the second is of normative character and pertains to axiological aspects of socio-economic policy, also including the EU cohesion policy. Not aiming to provide any comprehensive evaluation of that policy from the viewpoint of its actual effect on elimination of differences in social and economic development among the European regions, the paper provides selected reflections concentrated on:*

- *an attempt of formulating a viable interpretation of cohesion policy (CP) as a form of 'regulated capitalism'; the attempt in question refers to the normative approach towards public regulation in a market economy but defines the general rationality and fundamental objective of cohesion policy in terms of setting activities directed towards provision of the public goods that stimulate and facilitate exchange of goods and services among regions, thus contributing to the dynamization and endogenization of growth in poor or less developed regions;*
- *the need of growth endogenization as the main objective (and main condition) of effective implementation of cohesion policy, provided that the definition of such endogenization is broader than that employed in the new growth theory. In particular, not rejecting the new growth theory definition of endogenous growth, the author pays special attention to the necessity of maximizing the regional value added through raising the level of processing broadly understood region-specific economic, social and others factors and resources;*
- *correlations between the effects of distribution and growth within the scope of cohesion policy. It is analyzed from the perspective of three important questions: (1) Are the aims of social cohesion and growth competitive, or mutually complementary and reinforcing? (2) Why the hypothesis of regional convergence fails to explain the EU perspective, despite two decades of ongoing efforts of implementing active cohesion policy and regional policy? (3) Whether, and to what degree, the elimination of differences in the level of regional development is a legitimate strategy in the light of the controversy 'equality vs. effectiveness'.*

**Key words:** *the European Union, cohesion policy, convergence hypothesis, public regulation, market failures, public goods, endogenous growth, new growth theory, regional development*

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## I. Preliminary observations

Compensation of differences in the level of socio-economic development, both on international and regional scale, has been a central element of development theory and practice for many years now. In the case of the European Union and its regional policy, discussion over this problem reaches another dimension as a result of the EU aspirations to provide regional convergence within the European Community, based on elimination of differences in social and economic development across regions<sup>1</sup>. In general, discussion on the matter at hand can be perceived from two distinct perspectives. The first, positive (theoretical), refers to the widely defined theory of socio-economic growth and the hypothesis of convergence, a logical continuation of standard (neo-classical) theory of growth. The hypothesis has been the subject of numerous studies and research programs, as well as of several attempts at empirical verification of its assumptions, both on international (differences in development across countries) and regional scale<sup>2</sup>. The second aspect, referred to herein as normative, can be associated with the regional and social policy closely related to axiological discussion on the categories of development, as well as controversies over the postulated models of social development. In a sense, both of these aspects can overlap to some extent. This overlap is mainly a result of one important question whether, and to what extent, the differences in socio-economic development or prosperity across regions have a negative impact on the overall pace of economic development. Another important problem is whether, and to what extent, the cost of social and/or cohesion policy may be found counterproductive from the viewpoint of economic growth dynamization. The above questions may certainly be referred to the EU regional and cohesion policy and, in particular, to local policies in that respect, based on the EU support from structural funds and the Cohesion Fund.

This paper does not attempt to formulate any extensive answers to the fundamental issues implied by the above questions, nor does it aim to provide any comprehensive evaluation of the EU cohesion policy from the viewpoint of its actual effect on the elimination of differences in social, economic or territorial cohesion across the EU community. It is only meant to provide selected reflections concentrated on:

- an attempt at formulating a viable interpretation of cohesion policy (CP) as a form of ‘regulated capitalism’. The attempt is closely related to the theory of public regulation in market economy and, as such, may be analyzed within the limits of what was referred to above as the ‘positive aspect’ of cohesion/convergence discussion;

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<sup>1</sup> See more on this: Molle W. (2007). *European Cohesion Policy. Regions and Cities*. Routledge, Regional Studies Association, London, 2007.

<sup>2</sup> There is an extensive literature on this subject. See, e.g. a survey made by Rassekh F. (1998). The convergence hypothesis: History, theory and evidence. *Open Economies Review*, No. 9. In the Polish economic literature, a vast discussion on convergence hypothesis has been conducted by Nowak W. (2007). *Konwergencja w świetle teorii endogenicznego wzrostu gospodarczego*, Wydawnictwo Uniwersytetu Wrocławskiego, Wrocław.

- the need for growth endogenization as the main objective (and main condition) of an effective implementation of cohesion policy, provided that the definition of such endogenization is broader than that employed in the new growth theory;
- correlations between the effects of distribution and growth within the scope of cohesion policy.

The considerations on possible correlations among cohesion, distribution effects and growth will serve here as a conclusion of the paper.

## **II. Cohesion policy as a form of ‘regulated capitalism’**

In an attempt to define cohesion policy as a form of ‘regulated capitalism’ or, more precisely, – as a broadly understood method of public regulation in market economy, it may be useful to clarify the author’s view on the nature of public regulation and its relations to the concept of state interventionism. Professional literature does not provide a clearcut and widely accepted definition of public regulation<sup>3</sup>. Without going into discussion on the reasons for this, for the purpose of this paper allows us adopting a general premise that the starting point of such definition should be based on acceptance of the thesis that market economy is characterized by a variety of market failures (errors, imperfections) or, in other words, by the general inability of the market mechanism to reach the ideal state of a perfectly competitive market as described by the following fundamental theorems:

- allocation effectiveness,
- effective equilibrium,
- maximization of viable economic surplus, or social welfare (Pareto optimum).

Public regulation serves to eliminate or limit the extent of market failures, or minimize the negative social and economic effects of market failures. As such, public regulation does not imply substitution of market mechanisms, but serves to improve the overall efficiency of the market allocation mechanism.

However, the above definition of public regulation through its fundamental objective, i.e. the reason that underlies its application, is not sufficient. It must be supplemented by an adequate description of the nature of public regulation, particularly the principal differences that distinguish this particular form of state economic activities from other forms of such activities. As already mentioned, professional literature provides many definitions of public regulation, some of them being narrow and some very broad in their scope<sup>4</sup>. For the purpose of this paper, let us adopt the following definition:

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<sup>3</sup> For a broader discussion on the subject, see: Borkowska B. (2009). Regulacja monopolu naturalnego w teorii i praktyce, Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu (chapters 1 and 2 in particular). Compare also: Armstrong M., Sappington D.E.M. (2006). Regulation, competition and liberalization. *Journal of Economic Literature*, Vol. 44, No. 2, and the seminal book of Kahn A.E. (1989). *The Economics of Regulation. Principles and Institutions*. The MIT Press, Cambridge, Mass.

<sup>4</sup> A detailed overview can be found in Fiedor B. (2006). *Normatywne a pozytywne ujęcie regulacji publicznej*

*Public regulation of economic activities entails the general principles and specific actions of governmental bodies and other bodies of public administration that directly affect the market allocation mechanism through influencing the decisions taken by producers and consumers in regard to demand and supply*<sup>5</sup>.

In particular, the above definition of public regulation allows to draw a distinct demarcation line between public regulation and state interventionism, taken here as a sum of state activities directed towards promoting economic growth or stimulating/cooling down the economic situation within the limits of fundamental macroeconomic policies – monetary, fiscal and trade. Without such demarcation, public regulation would be incorrectly equated to other forms of state intervention, resulting in the lack of distinction between the activities that directly (public regulation in the sense defined herein) and indirectly (such as monetary or fiscal policy) influence the operating conditions of economic entities. Similarly, public regulation in market economy should not be associated with activities undertaken within the bounds of so-called sectoral policies (industrial, agricultural, etc.), especially if they are followed in a selective manner<sup>6</sup>.

With the postulated definition of public regulation in market economy, one can proceed to formulating the definition of cohesion policy understood here as a set of activities and instruments aimed at correcting the market mechanisms of regulation and allocation, or – in other words – as a policy intended at elimination (limitation of the scope) of market failures, as well as at minimization of the negative social and economic effects of market imperfections in relation to the spatial and/or regional dimension of the market mechanism of allocation and regulation (in accordance with the *normative* approach to public regulation in market economy).

In this context, it seems noteworthy to pose the question on the nature of market failures. Generally, the theory of public regulation discerns two (not quite mutually exclusive) groups of market failures: those related to violation of individual property rights (e.g., resulting from the notion of public property and direct external effects) and those related to distortions of perfect competitiveness conditions (e.g., resulting from natural monopoly). Can the existing national/regional inequalities on social and economic levels be regarded as a case of market failure or – on the contrary – as an evidence of an effective mechanism of regulation and allocation operating under local discrepancies in

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w gospodarce rynkowej – z uwagi dotyczącym sektora elektroenergetycznego. In: Dokonania współczesnej myśli ekonomicznej. Ekonomia instytucjonalna – teoria i praktyka. U. Zagóra-Jonszta (red.). Wydawnictwo Akademii Ekonomicznej w Katowicach, Katowice, 2006, pp. 217–236.

<sup>5</sup> This definition was first formulated in Fiedor B. Normatywne a pozytywne ujęcie regulacji publicznej w gospodarce rynkowej, op.cit., and is a general reference to the postulate of Spulber D. (1989). In: Regulation and Markets, Massachusetts Institute of Technology, Cambridge, MA.

<sup>6</sup> Detailed overview of different levels of economic activities of the state can be found in Fiedor B. (2009). Państwo jako podmiot gospodarzący: ujęcie neoklasyczne. Istota, krytyka i rozwinięcie w kierunku eklektycznym In: Co ekonomiści myślą o przyszłości. K. Kleer, E. Mączyńska, A. Wierzbicki, (red.), Polska Akademia Nauk, Komitet Prognoz „Polska 2000 Plus” – Polskie Towarzystwo Ekonomiczne, pp. 27–48.

the level endowment and access to traditional and modern factors of economic growth? This problem has already been emphasized by A. Marshall in his concept of natural (as put by the author) tendency to form ‘industrial districts’ and a spatial concentration of particular forms of industrial production that offer economies of scale resulting from intrasectoral specialization, cost of transport, distribution and so on<sup>7</sup>. What about the widespread spatial concentration of clusters, industrial parks, research centres, science and technology conglomerates, so popular nowadays and playing an increasingly important role, especially in regard to R&D and innovation? Can those be considered an example of market failure?

In this context, it may be viable to formulate a thesis that general rationality and the fundamental objective of cohesion policy should not be perceived in the categories of market failure minimization, but mainly (although not exclusively) as a set of activities (international, national) directed towards provision of the public goods that stimulate and facilitate the broadly defined exchange of goods and services across regions (or local communities within the bounds of a region), thus contributing to growth dynamization and endogenization in poor or less-developed (as well as rich and well-developed) regions<sup>8</sup>.

Should the above definition be accepted, it must naturally be supplemented by a precise description of the categories (groups) of public goods that fall under the objectives of cohesion policy. These categories include the following areas of national socio-economic activities:

- transport infrastructure and energy distribution networks (broadly defined)
- telecommunication infrastructure, including backbone information technology infrastructure
- education system
- research and development.

Let us note that the definition of cohesion policy postulated above does to some extent relate to the classical concept of public regulation (as formulated above). This parallel results from the notion that activities falling under state responsibility for public goods provision meant to stimulate the interregional exchange (or that between local communities within a region) can be perceived as areas particularly susceptible to market failures. For example, in the case of network/infrastructure subsets, there is a great propensity for

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<sup>7</sup> For more on this, see: Malecki J.E. (2007). Networks, Knowledge and Capital: The Role of Hard and Soft Networks in Regional Development. In: Europe – Reflections on Social Capital, Innovation and Regional Development. Landabaso M., Kukliński A., Roman C., (red), REUPUS, Wyższa Szkoła Biznesu – National Louis University, Nowy Sącz, pp. 142–152. See also: Kujath H.J., Zillmer S. (2007). Knowledge economy and regional development. In: The Future of European Regions. Jakubowska P., Kukliński A., Żuber P. (eds.), REDEFO, Ministry of Regional Development, Warsaw, pp. 316–326. A classical work on the subject is. Porter M.E. Clusters and competition: new agendas for companies, governments and institutions. In: Porter E.M. Competition. (1998). Boston, Harvard Business School Press, pp. 197–287

<sup>8</sup> Compare: Mariate E. The Reform of Cohesion Policy: Old and New Challenges, Europe – Reflections on Social Capital, Innovation and Regional Development, op. cit., pp. 38–44.

natural monopoly<sup>9</sup>, while the spheres of education and R&D are susceptible to a wide range of external effects and public goods.

Secondly, the interpretation of cohesion policy, as postulated herein, appears to be in part related to the industrial policy in the horizontal sense of the term. This results from the fact that enhancing the competitiveness of individual regions and the elimination of differences in development across regions are regarded as one of the fundamental objectives of the horizontal approach to industrial policy, right next to such objectives as support for innovation processes and sustained and ecologically friendly growth (sustainable development). It is worth noting that this process should be implemented not by a direct designation of ‘winners’ and ‘losers’ (*catching up winners and losers policy*) as is the case of selective-type policy, but through stimulation of market development, based on elimination/limitation of entry/exit barriers, development of the modern technological infrastructure necessary for market growth, as well as dynamization of human capital growth in individual regions. Let us note that this approach corresponds closely with the areas of public goods provisions, as defined above under objectives of cohesion policy.

To sum up the above considerations on cohesion policy as a kind of the broadly defined form of ‘regulated capitalism’, let us define cohesion policy in a synthetic formula as a policy directed towards:

1. supporting the development of poorer and/or less-developed regions through building a *sustainable* and, inasmuch as possible, *endogenous* potential for growth,
2. support for building (increasing the resource) of *human and social capital* on regional scale (or on the scale of local communities).

The considerations thus far on cohesion policy in the context of public regulation theory were implicitly related to the so-called normative approach to this regulation. This approach is based on a premise that ineffectiveness of market balance (or suboptimal level, in Pareto sense of the term) resulting from market failures will lead to a certain decline in the level of social welfare (as compared to the potential level that may be reached at a given level of production factors available). Hence, the basic theorem of the normative theory of regulation presents as follows:

*If the ineffectiveness (mentioned above) is relatively large, thus implying considerable social costs and losses far above the cost of potential regulation, then the state should regulate the market in such a way as to maximize social welfare or, in other words, limit the loss of social welfare level, as compared with the pre-regulation period.*

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<sup>9</sup> Going beyond the scope of this paper, it may be worth noting that, in the case of the European Union as a whole, the so-called trans-European networks of energy, telecommunication and transportation are often perceived as the material ‘missing link of the integration process’ or, in other words, as a factor that poses practical limitations to the principle of ‘four economic freedoms’ (free movement of goods, capital, services and persons) within the bounds of the internal EU market. In respect to the market of energy, this problem is analyzed in detail in: Dobroczyńska A., Juchniewicz L. (2010). Transeuropejskie sieci energetyczne elementem infrastruktury spójności europejskiej. In: Jaka polityka spójności. Klamut M., Szostak E., (red.) Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu, Wrocław, pp. 185–194.

Setting aside the details of the postulated approach to cohesion policy as a form of regulated capitalism, it may be observed that an equally viable approach to regulation may be based on the so-called economic theory of regulation, particularly characteristic of the New Political Economy. Describing the concept in its most simplified form<sup>10</sup>, the economic approach to public regulation emphasizes the notion that regulation in market economy may be regarded as a form of goods (commodity). Hence, its recipients and methods of implementation may be described in terms of preferences (objective functions) of all stakeholders, both those associated with supply of regulation (politicians as regulators involved in preparation of the legal and institutional framework of regulations, as well as ‘regulators’ in the narrow sense of the term, i.e. representatives of local offices and institutions responsible for implementation of such framework) and demand on regulation (economic entities subject to regulation, local administration, households). It would be needless to prove that, in the practice of the EU cohesion policy, both on the EU community scale and inter- or intraregional scale of individual member states, such economic approach to cohesion policy (still regarded as a form of regulated capitalism) is fairly common.

### **III. Growth Endogenization as the objective and condition of effective cohesion policy implementation**

This section elaborated on the above conclusion that the aim of cohesion policy is (or should be) to support the development of poorer and/or less-developed regions (or, by analogy, to support local communities within a region) through increasing their endogenous growth potential. Endogenization of growth in a regional dimension should, at the same time, be perceived in terms of activities contributing to the durability and sustainability of development.

The endogenous growth of a region is, first of all, based on the mechanisms and factors defined in the new growth theory (theory of endogenous growth): increase of human capital and productivity of traditional growth factors through education, R&D, innovation and diffusion thereof, as well as positive *spillovers* related to the transfer of technologies and capital<sup>11</sup>. Secondly, it is the type of development that draws from increased

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<sup>10</sup> For more on the economic theory of public regulation or – broadly defined – alternative theories of regulation (as opposed to the normative theory), see Fiedor B. Normatywne a pozytywne ujęcie regulacji publicznej w gospodarce rynkowej – z uwagi dotyczącym sektora elektroenergetycznego, op. cit. See also: Borkowska B. Regulacja monopolu naturalnego w teorii i praktyce, op. cit., Chapter 3.

<sup>11</sup> Even a brief discussion of endogenous growth theory, commonly called also new growth theory (NGT), goes far beyond the scope and limited volume of this paper. See more on that some seminal works of mainly (but not exclusively) survey character: Aghion P., Howitt P. (1998). *Endogenous Growth Theory*. MIT Press, Cambridge Mass. Barro R.J., Sala-i-Martin X.X. (1998). *Economic Growth*. McGraw-Hill, New York; Bleaney M., Nishiyama A. (2002) Explaining Growth: A Contest Between Models. *Journal of Economic Growth*, No. 7, pp. 43–56; Dinopoulos E., Thompson P. (200) Endogenous growth in a cross-section of countries. *Journal of International Economics*, Vol. 51, pp. 325–362; Jones L.E., Manuelli R.E. (1997). *Endogenous Growth Theory: An Introduction*, *Journal of*

intellectual and social capital of a region through active support for business-related institutions involved in enhancing entrepreneurship and innovation, as well as formation of the networks that integrate the sector of production with education system and R&D. One of such mechanisms is the system of financial institutions, such as guarantee funds, both private and public, involved in commercialization of research results – for example, within the framework of spin-out and spin-off enterprises – with the aim of increasing the innovative potential of the regional economy. Public support, such as tax preferences, may and should be directed also to venture capital and private equity funds as instruments of particular importance in financing research and innovation technologies in the strategic areas of a modern economy that offer a competitive advantage to regional economies: information technology, telecommunication, bio- and nanotechnology, environment protection and renewable energy.

Being fully aware of the importance of the factors that influence the development of regional economies in the light of new growth theory, we postulate that the endogenous growth of regional economy should be defined in a much wider context than that postulated by NGT. Thus, without rejecting the NGT interpretation of endogenous growth, let us supplement it with the further aspects directly related to the regional dimension of development, such as:

1. growth defined as *increased production of value added in the region* through increasing the level of processing in the region, based on local labor and human capital, local natural resources and physical capital;
2. growth characterized by *'closing up' the circulation of value added*, particularly through increased processing of agricultural products and natural resources of the region, as well as development of a widely defined sector of services, including education and R&D, that favour the increase of processing within the region;
3. growth based on the fundamentals of ***internal (intraregional) transfer of revenues and value added***, as opposed to external sources of capital/financing and social transfers based on redistribution policy using both national (state budget) and foreign (such as EU structural funds and the Cohesion Fund) financial means;
4. growth defined by an active pursuance of competitive advantage through ***region-specific attributes***, both in the aspect of traditional economic resources and of other factors such as culture, history, etc.

Let us emphasize once again: the interpretation of endogenization of growth postulated herein is not meant to repudiate the significance of growth factors and sources emphasized in new growth theory as a basis for the development of regional economy and knowledge-based society, as well as key factors of regional competitiveness. Endogenization, however, should be expressed in a wider context to cover (additionally) both

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Economic Dynamics and Control, Vol. 21, pp. 1–22; Pack H. (1994) Endogenous Growth Theory: Intellectual Appeal and Empirical Shortcomings, Journal of Economic Perspectives, No. 8(1), pp. 55–72; Romer P.M. (1994). The origins of endogenous growth. Journal of Economic Perspectives, No. 8(1), pp. 3–22.



traditional and region-specific economic factors and resources. The key component here is the level of processing and exploiting regional resources, or, in effect, maximization of the *regional added value*. Secondly, the postulate of thus defined endogenization is synonymous with activities aimed at securing a long-term effectiveness of regional growth (the aspect of sustainability). Thirdly, the need for tightening up the circulation of added value within the region should not be interpreted as an attempt at autarchization of development, but only as a strive for a maximized utilization of the potential for competitive advantage, resulting from access to traditional and modern growth factors (science, education, technology, social capital), thus increasing the interregional (international) circulation of goods and services.

#### **IV. Conclusions: the distribution and growth effects of cohesion policy (equity vs. efficiency)**

To conclude the deliberations of this paper, let us preface this section with three important questions:

1. Are the aims of social cohesion and growth competitive, or mutually complementary and reinforcing?
2. Why, similarly to the international perspective (or even more so), the theory of convergence fails to explain the actual mechanisms and paths of development on a regional level (as attested, e.g., by the Sapir Report for EU, 2004<sup>12</sup>)? Why the hypothesis of regional convergence fails to explain the EU perspective, despite two decades of ongoing efforts of implementing active cohesion policy and regional policy?
3. Whether, and to what degree, the elimination of differences in the level of regional development is a legitimate strategy in the light of the controversy ‘equality vs. effectiveness’.

These three questions are the center of the ongoing discussion, both strictly theoretical and that implied by the practice of the EU cohesion and regional policy<sup>13</sup>. Overviewing this discussion goes far beyond the confines of this paper. The attempts at providing answers to these questions, presented below, are only preliminary and should be viewed

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<sup>12</sup> Sapir Report, An Agenda for a Growing Europe, Oxford, Oxford University Press, 2004.

<sup>13</sup> See, e.g.: Braddley R. (2002). Evaluating the impact of European Union. Cohesion policy in less developed countries and regions, *Regional Studies*, vol. 40, No. 2; Polityka spójności a efektywność społeczno-ekonomiczna In: Polityka gospodarcza w Polsce i Unii Europejskiej na początku XX wieku, Karteczek A., Lorek A., Rączaszek A., (red.). Wydawnictwo Uniwersytetu Ekonomicznego w Katowicach, Katowice 2009; Kudelko J. (2010). Rola europejskiej polityki spójności w krajowej i regionalnej polityce rozwoju In: Jaka polityka spójności po roku 2013, op. cit.; Mariate A.. (2007). The Reform of cohesion policy: old and new challenges In: Europe – Reflections on Social Capital, Innovation and Regional Development, op. cit., pp. 38–45; Klamut M. (2010) Postrzeżenie rozwoju regionu przez politykę spójności Unii Europejskiej. In: Jaka polityka spójności po roku 2013, op. cit., pp.13–30; Wzrost czy równość. Ministerstwo Rozwoju Regionalnego, Warszawa, 2008.

more as hypotheses in reference to the fervent disputes over this particular subject, both in professional literature and in economic policy deliberations.

1. Similarly to the global scale, i.e. the so-called Triad<sup>14</sup>, one can observe the formation of **regional convergence clubs**, within which the positive **spillovers** resulting from transfer and diffusion of knowledge and technology serve to compensate for the decrease of capital profitability brought about by capital concentration in individual regions. In other words, the positive external effects described above become a compensating factor for the decreasing return on capital. This process seems to be of particular importance in explaining the tendency to form industrial clusters based on telecommunication and other areas of advanced technologies (nano- and biotechnology, mechatronics, etc.). Another manifestation of the regional convergence club tendency can be found in groups formed at university (academic) centres and based on knowledge and innovation, especially those that conduct fundamental research. Part of those groups are spin-out and spin-off enterprises, with the purpose of commercializing research results, to be later developed into large business organizations or subject to acquisition from large corporate bodies of the-high tech industries (spectacular examples of this process can be observed in Oxford, Barcelona and Munich).
2. If the thesis on **regional convergence clubs** holds true, then – regardless of any previous arguments on the need of widening the scope of growth endogenization – it seems reasonable to strive for concentrating external support (within the framework of cohesion and regional policies) on the process of increasing human capital and on supporting the transfer of knowledge, technologies and innovation to less-developed regions. In this context, both present and anticipated (after 2013) directions of evolution in respect to cohesion policy and regional policy of the European Union must be viewed in positive terms, especially the heralded strategy for the EU development up to 2020 – *A Strategy for Smart, Sustainable and Inclusive Growth*<sup>15</sup> – with the postulated significant increase of funds directed to science, education and innovation under cohesion policy. However, taking into account the phenomenon of path dependence in the development of individual regions, as well as a significant spatial concentration of the New Economy potential (i.e. economy based on education, knowledge and high technologies) observed in some European regions, one should not concentrate on a rapid and excessive leveling of differences in this respect through path creation policy. There seems to be a large and yet mostly unexplored and underrated (from the viewpoint of regional and cohesion poli-

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<sup>14</sup> Highly developed countries of Europe, USA and Canada, Japan and other developed countries of the Asia-Pacific region.

<sup>15</sup> European Commission, Communiqué of the Commission: Europe 2020, Brussels 3.3.2010 COM(2010) 2020 final.

cies) potential for leveling such differences in economic development and social prosperity. This potential lies in the postulated expansion of the concept of regional growth endogenization. In particular, it involves accelerating the economic growth and decreasing the differences in social welfare level through an intensive exploitation of the competitive advantages and development opportunities that result from access to natural resources, conditions of natural environment and biodiversity, historic heritage and cultural identity.

3. In the context of the question on trade-off between growth and cohesion, a potentially important argument in favour of external support for less-developed regions can be sought in the postulates of *New Political Economy*<sup>16</sup>. In particular, empirical research of this school shows that one of the positive effects of fiscal redistribution and resulting transfers to less-developed communities or regions is the stability of the socio-political climate. This, in turn, may lead to a greater propensity for saving and investing, thus increasing the endogenous economic growth of the areas that profit from such transfer. The result is a positive feedback effect: the increase of welfare, effected by accelerated growth in the region, will in turn accelerate the endogenous (intraregional) mechanism of savings and investments, boosting the sustainability of growth in the long-term scale.
4. From the perspective of New Political Economy, one may also observe a certain paradox of growth related to the implementation of cohesion policy. The paradox may be stated as follows: the policy of growth, by and in itself, may become sometimes a barrier to increasing the level of cohesion on a regional or a territorial scale. The explanation is straightforward: the pressure exerted on politicians to strive for (maintain) a high tempo of growth results in a natural tendency to concentrate public investment and public support for the private sector, especially of foreign origin, in the existing centres of growth or, as referred to above, regional convergence clubs. This trend enhances the effect of path dependence in regional growth, thus failing to provide for an increased level of social and economic cohesion. Naturally, one may also envisage a situation when the decision-makers (politicians) act upon the criterion of maximization of political support (regional votes) and, consequently, choose the path creation approach (formation of new growth centres), while disregarding the short- and medium-term decrease of economic effectiveness of regional support resources received within the framework of cohesion policy.

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<sup>16</sup> New Political Economy, alternatively called Theory of Public Choice, is one of the most rapidly developing streams (schools) in modern economics. Of crucial significance for its origins and progress are the works of Buchanan J.M. and Tullock G. (*The Calculus of Consent. Legal Foundations of Constitution and Democracy*, The University of Chicago Press, Ann Harbor, 1997; firstly published in 1962) and Olson M. (*The Logic of Collective Action. Public Goods and the Theory of Groups*, Harvard University Press, Harvard, 1975, and *The Rise and Decline of Nations*, Yale University Press, New Haven – London, 1982). See also: Udehn L. (1996). *The Limit of Public Choice*, Routledge, London. A vast discussion in the Polish literature can be found In: *Teoria wyboru publicznego*, Wilkin J. (red.), Wydawnictwo Naukowe Scholar, Warszawa, 2005.

5. Regardless of any potential and actual effects of path dependence versus path creation options, cohesion policy should also provide a clear distinction between the criteria of effectiveness and equality (social justice). The approach to cohesion policy, postulated in this article, explicitly implies that – based in particular on limited access to financial resources on cohesion – the priority should be put on the criterion of effectiveness in resource distribution. Cohesion resources should be concentrated on the activities that warrant the competitive advantage and long-term sustainability of development through a widely defined support for the endogenous growth potential. Referencing once more the arguments of New Political Economy, one must be aware of the fact that such approach requires a considerable maturity of political spheres. It is tempting to win political support in short and medium term by reaching for the argument of equality in the distribution of cohesion resources on national or regional scale. The classical illustration of this trend is the case of support for agriculture and rural development based on the EU funds<sup>17</sup>. The criterion of effectiveness implies the need for concentrating resources on infrastructure and human capital investment, whereas the argument of equality results in direct regional support, such as the so-called structural pensions for farmers.

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<sup>17</sup> For a broader discussion, see: Zawalińska K. (2009). *Instrumenty i efekty wsparcia Unii Europejskiej dla regionalnego rozwoju obszarów wiejskich w Polsce*. Instytut Rozwoju Wsi i Rolnictwa Polskiej Akademii Nauk, Warszawa.

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