

Discussion Paper

Cohesion Policy within the Lisbon Paradigm

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Introduction

The ideas within the paper were arranged around a major argument of which the objectives of the Cohesion Policy and Lisbon Strategy have been structured around to be innovative society. To discuss the approach, the first sub-section considers new paradigm formation and Lisbon Strategy context incorporating formalization components of the Strategy. The section, thus, shows fundamental distinctions of the Strategy. The second part argues that the Cohesion Policy has been most influential and functional Community Policy to have insights for the Lisbon Strategy. Within the context, it is given accounts of the evolutionary, governance, fund and impact premises of the Cohesion Policy. The following section casts in light into current transformation phase of the Cohesion Policy in line with the Lisbon Strategy. The themes have been evaluated in the sense of steps achieved. The last part draws a number of conclusions.

Paradigm Generation and Formalization of Strategy Management

EU is a longitudinal integration of fifty years bringing multitudinous economic and social progress for European societies. The treasure trove of credentials generated along with the ambitious with respect to preserving prosperity make essential for Europe to react effectively to global challenges. The response to globalization became a hub of EU policy agenda with the Lisbon Strategy, which was agreed on the ground of Lisbon European Council held in 2000, which represents a watershed in EU policy making (Presidency Conclusions [PC], 2000). By the emergence of the Strategy the EU has proclaimed that it has been in a stage to introduce a compelling vision of how the EU would reshuffle its economic and social structures while muddling on ensuring solidarity and security for next generations as well as the citizens of present. The phenomenon has been structured upon an ultimate objective to be achieved as well as omnipotent governance architecture formalized on the basis of capabilities of the Member States and the EU. To this end, a scrupulous attention has been devoted in order to have the panoply of purpose, mission and desired outcomes.

The objective of the Lisbon Strategy has been to be an innovation-friendly knowledge-society devising state-of-the-art methodologies rather than paying lip-service to challenges¹. In relation to this, in the Presidency Conclusions of the Lisbon Council, the ‘new strategic objective’ was set as ‘to become the most competitive and dynamic knowledge-based economy in the World’ (PC, 2000). In this point, it is worth elaborating that why innovation was given primacy towards

¹ European Commission [EC], 2005; Määttä; 2006, pp.11-18, European Commission [EC], 2006a; European Commission [EC], 2006b; European Commission [EC], 2006c; European Commission [EC], 2007a.

structuring the Lisbon Strategy. In the global context, an unequivocal testimony is that innovation performance and social & economic outlook of a society have been strictly mingled with each other. In similar vein, innovative societies have best immersed themselves in structural shift required. The vantage point to the subject is that highest value added can be produced by means of major tradable technological and organizational improvements. All these draw a picture of which innovative activities generate productivity increases and spillover-effects in turn employment and economic growth. One seminal point to note is that knowledge-based society is a larger concept than just an enhancing commitment to R&D and it involves every aspects of contemporary economy in which added value appears as an outcome of innovative activities.

Bringing in mind these caveats, the paradigm generation of the Lisbon Strategy has occurred in regulations which involved the formalization of governance and delivery patterns of the Strategy.

In the genesis of the paradigm generation, current conundrum has been identified that the EU must shape the changes resulting from globalization and the challenges of a new knowledge-driven economy in a manner consistent with its values and concepts of European societies. With respect to this, the new strategic goal has been structured and, to achieve the goal, overall strategy has been developed in the sense of preparing the transition to a knowledge-based economy and society; modernizing the European social model; sustaining the healthy economic outlook; favorable growth prospects (Määttä; 2006). The overall strategy reflects an immense agenda of interdependent, self-reinforcing series of reforms, which some of them had already been running in both the Member States and the EU since the 1990s.

Even though a functional implementation approach requires to achieve the strategic goal, it was presupposed that no need a new governance structure and it was enough to improve existing EU processes by mobilizing the necessary means in the EU as well as notable in the Member States' private sector. However, a novel aspect of the framework has been the open method of coordination (OMC) methodology. The OMC has been designed so as to fixing guidelines; establishing qualitative and quantitative indicators and benchmarks; translating these into European guidelines into national and regional policies; conducting periodic monitoring and evaluation. Further, relevant mandates were defined and ensured that they were follow-up in every European Spring Council.

The inception of the Lisbon Strategy in the year of 2000 has been followed a lackluster performance imperiling the realization of sub-set objectives in the course of 2000-2004. The situation has been attributed to a number of circumstances some of which were overloaded agenda, poor coordination, lack of determined political action and most importantly the absence of clear management premises (Kok, 2004; Määttä, 2006). As a consequence, the first term of the Lisbon Strategy was hardly actionable.

An independent review conducted² by a High Level Group headed by Wim Kok, Kok Report stressed, with a thorough approach, a new focus needed notably for implementation to reap concrete benefits from the process (Kok, 2004). The Report also identified additional steps to be addressed in order to provide coherence and consistence between measures taken. In the revising attempts, it is seen that Kok Reports proposals have been taken into account fully in forthcoming configuration.

On the outset, the Commission proposed a revised Lisbon Strategy to the Luxembourg European Council in March 2005 as an initial task. The following developments taking place in the 2004-2006 period have been coined 'the re-launch of the Lisbon Strategy'. The new focus lucidly placed on growth and employment. In practical terms, the re-launch has improved the understandability of the Strategy by a narrowed focus. However, the seminal point to note is that the overall strategy including preparing the transition towards innovative societies remained the same. Therefore, the re-launching has been concentrated upon effectiveness on the basis of varying readiness of the Member States to achieve this pragmatic agenda.

2005 Spring Council agreed on effective and transparent governance and responsibility sharing between the EU and the Member States on the ground of Lisbon Strategy. A renewed governance architecture has been shaped with a number components as follows:

First, in June 2005, Integrated Policy Guidelines (IPGs) comprising of 'The Broad Economic Policy Guidelines' and 'The Employment Guidelines' was introduced to form a comprehensive vision bringing together macroeconomic, microeconomic and employment dimensions to be a common basis for the EU and national programming and implementation a three-year policy cycle for 2005-2008. once over the first cycle, second cycle of the Lisbon Policy has been commenced covering 2008-2010 period (European Commission [EC], 2007b).

Second, in Autumn 2005, the Community Lisbon Programme (CLP) was presented as the key lever of the Strategy, which provides direction at the EU level. A separate CLP emphasizes the division of tasks and responsibilities between the EU and the Member States. The logic behind the role of the CLP is that community wide interventions are clearly superior to uncoordinated national actions to have community-wide clear-cut benefits. With the CLP the Commission grouped existing activities together under eight measures and identified regulatory acts, financial actions and policy development activities. One more point to note that the CLP measures have been based on EU competence but many of them overlap with national and regional competences and priorities (European Commission [EC], 2006d).

² The Report was presented to the Commission on 3rd November, 2004.

Third, at the end of 2005, National Reform Programmes (NRPs) of the Member States in relation to the first policy cycle appeared as the counterpart to the CLP (European Commission [EC], 2006e). The NRPs are acknowledge main tools of the Strategy and fulfill a number of characteristic functions:

- to be a comprehensive three-year strategy to implement the IPGs to correct the absence of national involvement in the Lisbon Strategy
- to be Member States' responses to the particular challenges of themselves
- to mesh national³ and European policy priorities and bring together macroeconomic, microeconomic and employment reforms to help unsure coherence and consistency between measures taken
- to indicate a nationally-oriented approach involving all stakeholders
- to provide a checklist to monitor national reform processes and a tool of internal coordination

The major requirement of the delivery of the Strategy reflects concurrent actions across the EU, because of the inter-dependency of European economies (European Commission [EC], 2006f). However, the NRPs are different as regards contents, priorities and ways of preparing due to economic and social differences amidst the Member States. In other words, tasks have been undertaking by the Member States in accordance with their developmental level. It is important that 'a promising start' in the implementation of NRPs has been observed (Presidency Conclusions [PC], 2007).

Fourth, National Implementation Reports (NIRs) began to be submitted by the Member States in Oct 2006 on the progress in their NRPs. To strengthen further coordination the Commission proposes that each Member State should submit an action plan as part of its NIR.

Fifth, single Annual Progress Report (APR), issued in 2006 and 2007 by the Commission on the basis of NIRs. The aims are to make a detailed assessment on progress and conduct a regular monitoring of the actions listed in the CLP. These are undertaken to reveal strengths and weaknesses; call the Member States to make improvements where necessary; priority areas and specific actions to be implemented in short-run; evaluate national actions undertaken.

Within the framework, the role of the Commission falls into two major stages. First of all, acting as a catalyst to ensure that the Member States have full information about each other's progress and policies. The device of the role is the OMC which presents a new mode of governance by emphasizing features such as participation, problem-solving, learning. The OMC mechanism run by non-regulative basis of voluntary participation and it fulfill a robust function in converging national policies, structures and practices. Its modes are divided into information sharing; benchmarking; determining and following-up objectives at EU level; adapting and integrating European objectives into national and sub-

³ In practical terms, the National Reform Programmes are summaries of existing national reform agendas.

national objectives and implementing joint actions. In this regard, one of responsibilities of the Member States lies in co-operating each other and taking into account good practice ideas from other Member States to review their NRPs over policy cycles.

Then, monitoring the achievements of the Member States and publishing the results to structure a stronger policy coordination mechanism and peer pressure. The tool of the task is the Community Specific Recommendations (CSRs). The Member States are required to discuss their specific policy responses to the CSRs and 'points to watch'. Action plans are expected to structure the debate through their contents setting out the measures to be taken to follow-up the recommendations and/or points to watch.

The fact that the starting points of the CSRs are different across countries suggests that each Member State has a major responsibility to find out a relevant reform and implementation configuration in the light of its particular economic, social, institutional and cultural conditions. Therefore, the management of the Lisbon Strategy needs to take into account individual contexts and challenges. In the narrow sense, an innovation agenda became a domestic driver of policy change, which represents a paradigm shift towards a more bottom-up approach in the EU governance system.

A Noteworthy Policy to have insights for Lisbon Strategy: Cohesion Policy

KOK Report emphasized a need for a stronger link between the Cohesion Policy (CP) and the Lisbon Strategy (Kok, 2004, pp. 39-45). Then the 2005 Luxembourg Spring Council March agreed on which CP is a major instrument to achieve targets. At this point, it is instructive to look at the underlying reasons of which the CP should be integrated to the Lisbon Strategy. In above paragraphs, the assets of the CP have been elaborated in a number of dimensions which are evolutionary characteristics; contemporary decentralized governance system; funds at its disposal; implications on the Member States.

The CP is a 20 years old policy field but whose roots date back previous decades with evolutionary credentials⁴. While the existence of socio-economic disparities was the initial rationale for the interventions, the Single European Act (1986) underlined a new concept of "economic and social cohesion" and required Community had a responsibility to develop its actions in line with strengthening cohesion. Cohesion has become Community building force as an upper concept encapsulating a range of Community policies. In the forthcoming process, the CP was reformed, in 1988, which has been characterized as 'a great leap forward'

⁴ Initial implementations have been applied de facto where and when the Member States needed. With the establishment of the ERDF in 1975, in a period of 1975-1988, the policy became a tool as an adjunct to national regional policies (Bilen, 2007). In this period, periodical reform waves (1979 and 1984 reforms) commenced drawing up a comprehensive system of analysis, policy formulation and impact assessment in order to raise the profile of the Policy.

towards a genuine policy to improve the effectiveness of the Community Funds. Then qualitative and quantitative refinements have been accompanied by an augmentation of Community power in the CP making (Bache, 1998; Yuill et al. 1999). At present, the CP is a policy which is widely recognized by the Member States and internationally⁵. It is major instrument for the restructuring of the EU.

Having fathomed out that lack of competitiveness was becoming the marked challenge for the EU, The EU commenced to require sustainable growth and competent regions to cope with global forces. The Agenda 2000 of 1997 is a proclamation of the approach (European Commission [EC], (1997). Then, the CP is seen as a European response to reinforce the position of regional economies in the context of globalization with the strategic goal of the accelerating of sustainable growth. The developments allow us to work out that catching up takes different forms, which might be conceptualized as 'sustainable convergence'. Sustainability needs a broad vision and framework to deal with.

Another force in the progress of the CP is highly critical remarks and analyses made⁶. Within the overall redistributive framework of the CP, the objections have notably been articulated on the insufficient Community added value generated from the overwhelming range of Structural Funds going to the NUTS II regions. It is discussed that the occurring convergences over time, in part fairly exponential, hardly add competitiveness power to European territories. The insight drawn from inefficiency concerns is that more strategically-managed and tailor-made interventions are needed under the circumstance of which majority of Structural Funds have been allocated to disadvantaged regions in the on-going programming period as usual.

The term of 'innovative performance gap among regions' has increasingly become an empowered concept instead of 'interregional socio-economic disparities' within the on-going era (Kok, 2004; pp. 19-23; European Commission, [EC], 2007c). The recent findings streamline the concept by revealing the fact that there are myriad regional disparities in modern infrastructure and innovation capacity⁷. To the subject, the disadvantaged regions have lowest Lisbon scores (RIP index) and they face with low productivity and employment. All suggests that disadvantaged regions demand extra effort to improve their innovation performance to cope with challenges emerged. Regional innovation scoreboard confirms the situation as well. As a consequence, the rationale of European solidarity has markedly shifted towards establishing as well as enhancing endogenous competitiveness potentials in contemporary genre since notably disadvantaged regions cannot struggle with this by their own endowments.

⁵ India, China and Brazil pay particular attention to have insights from the Cohesion Policy and cooperate with the Commission on this purpose (Inforegio, 2007:23).

⁶ Tarschys, 2003, pp.3-4; Sapir, 2004a; Sapir et al. 2004b; Murray, 2004, p.7; European Commission [EC], 2003, pp.5-6; (European Commission [EC], 2004.

⁷ EC (2007e); EC (2007d); EC (2007c); EC (2006a); EC (2003).

Remarkable theoretical and empirical developments have been made to conceptualize the shift. In this regard, the Neoclassical Growth Theory predicts that technological change accounts for an overwhelming proportion of growth and those regions which have potentials to create innovative processes are able to transform themselves within global context to be well-off. The models of the theory are highly relevant in discerning the capability indicated above depends on physical and human capital to structure a knowledge-rich basis for growth (Solow, 1957; Rauch, 1993; Fagerberg, 1996). The extended Neoclassical Growth Theory recognizes the importance of human capital which determines the capacity of absorption of new technologies. In the side of the Endogenous Growth Theory, 'endogenous growth' refers to factors leading to sustainable long-term. Within the endogenous models, technology has been endogenized and taken as both a cause and effect of growth (Romer, 1986; Romer, 1990; Aghion and Howitt, 1992; Baldwin and Martin, 2003; Keller, 2003). The reason that economic activities emerge through technologic innovation to increase activities, in turn growth, knowledge adjusted workforce is needed for carrying out R&D. Technology-endowed workforce has also been an outcome of improved and functional education and training infrastructure within the relevant assertions to the point.

Theoretical and practical refinements suggest that competitiveness is local phenomenon rather than national and innovation effectively addressed at regional level if provided an appropriate environment. With this respect, burgeoning emphasis has placed on the concepts such as 'productive regional economy', 'learning regions', 'regional innovation system' within the CP making. The operational programmes of the CP have already began to be designed in conjunction with knowledge-promoting growth strategies and efficiency-enhancing factors to be generated, mainly around supply-oriented measures and related activities depending the developmental level of countries and regions (Bilen, 2007). Thus, in actual terms, the CP functions in supporting regions to identify their strengths and weakness against global challenges and opportunities and find out their place in the globe.

The multi-level governance system of the CP based on strategic development, programming, partnership, monitoring and evaluation has taken a key template for the Lisbon Strategy management. Within the system, the Member States are responsible with implementation of the CP. Having delivered on the basis of shared management between the EU and the Member States and their regions over decades, the CP involves 'vertical partners' of Community, national and regional authorities and 'horizontal stakeholders' of business representatives, trade unions, NGOs, etcetera. Therefore, as identified in Bachtler et al. (2006) the CP presents particular and decentralized institutional and administrative capacities at both national and regional levels, which can be deemed more effective and efficient for investments with high impact as well as enhanced responsibility and ownership.

In financing respect, the CP reflects both the largest financial instrument at the EU's disposal and 'provides a joint financing framework for delivery' (Bachtler et al. 2006). The overall resources available to the CP for 2007-2013 are EUR 308041 billion (by 2004 prices), corresponds 34.64 percent of the EU budget, which accounts for EUR 864.3 billion. The significant increase of cohesion funds suggests that the CP has a power to define its policy objectives to concentrate Community funds by virtue of using the objectives defined over programming periods.

The Cohesion Policy is an influential supranational policy, which enables its objectives by means of its funds, principles and governance system. The common result of the studies suggests that the CP interventions have impressive results in terms of economic growth and convergence, as well as macroeconomic stability⁸. The longer term qualitative outcomes of the CP have been captured by externality mechanisms (European Commission [EC], 2004, European Commission [EC], 2007e) resulting beneficial and value-added implications. Increasing synergies, thus, over time have been acting as catalysts for change in national regional policymaking. Therefore, the CP has a powerful upgrading effect on the profile of national and regional policies with more strategic and coherent view to interventions. Tommel (1998) argues that programming periods in conjunction with the EU funds provide stable ground to facilitate learning, emerge innovative dynamics with the ideas coming from broad range of stakeholders, intensive interactions and flows of information.

What has been done to adopt Cohesion Policy into the new paradigm?

The outcome of five-year debate and two-year negotiation process placed in the first half of the 2000s is a restructured Cohesion Policy in line with the Lisbon Strategy. In the course of process, two major shifts are important; first, funds have significantly reallocated within and between Member States, substantial funding for the poorer parts of the EU; second, the objectives and priorities have been modified in accordance with the Lisbon Strategy (European Commission [EC], 2006g; Bachtler, et al. 2006; Yuill et al, 2007). The process has been a 'Lisbonisation of the Cohesion Policy' and increased the emphasis placed on the growth and competitiveness. Corollary, the CP has taken a more strategic shape against criticisms. In the meantime, the traditional principles and governance structure continued almost the same. The reformed Cohesion Policy reflects a number of new characteristics and components.

The overall objectives of the CP, to generate sustainable convergence and improve competitiveness conditions across the EU, in general terms, had already

⁸ A rigorous system of appraisal, monitoring and evaluation has been initiated to conduct the macroeconomic evaluation of CP policies since the 1988 Reform, when these came to the fore as underpinning principles of Structural Funds management. The evaluation findings and the macroeconomic models (HERMIN, EcoMod, QUEST) indicate that investment in physical and human capital drives significant growth (EC, 2007e).

been aligned with the Lisbon Strategy in the previous programming period for 2000-2006. With respect to this, a succinct definition of the CP priority is to reduce innovation gap among European regions (European Commission [EC], 2007d; EC, 2007e). For this purpose:

- in convergence regions, growth-enhancing factors and conditions for an innovation-friendly environment have been promoting
- in regional competitiveness and employment (RCE) regions⁹, economic shift and adaptation of workforce through investing in human capital resources have been promoting and anticipating.

The recent reform course of the CP reflected concurrent developments with the re-launching Lisbon Strategy (European Commission [EC], 2007f). The reform proposal of the Commission was presented in 2004 and endorsed by the Parliament and the Member States in 2006. The transformation has introduced some new elements which are elucidated as follows:

In 6 Oct 2006, the Community Strategic Guidelines (CSGs) was aligned with the IPGs of the Lisbon Strategy by taking its priorities as its first three thematic objectives:

- making Europe and its regions more attractive places to invest and work
- encouraging innovation and entrepreneurship and the growth of the knowledge economy
- creating more and better jobs

An approach adopted and placed in the CSGs, which presents a new strategic direction with an explicit and transparent focus to the CP. It also created a framework for the interventions of the CP to support the drawing up of the National Strategic Reference Frameworks and to form the basis for drafting the new generation operational programmes. The framework contains three sets of thematic guidelines, reflecting priorities above, and a crosscutting territorial dimension guideline, involving 30 priority themes¹⁰ under these four guidelines as an attempt to concentration. The choice among priority themes varies between the Member States and regions according to their relative economic strengths, since different levels of development involve in the CP and the Lisbon Strategy.

The National Strategic Reference Frameworks (NSRFs) appeared as a new strategic layer of planning for involving the adoption of the CSGs. The elements of NSRFs are an outline the national strategy; its justification; indicative allocation of funding. A number of NSRFs also provide a description of how the cooperation with NRPs has been organizing.

Operational Programmes (OPs) are delivery tools of the Lisbon Strategy. They are, in current period, put particular emphasis on the four priority actions:

⁹ For the 2007-2013, the Objective two regions have not confined spatially but, instead, covered all the country not designed under the convergence objective.

¹⁰ A particular attention has been paid to improved governance and to the involvement of the private sector.

- investing more in knowledge and innovation
- unlocking the business potential, particularly of SMEs
- improving employability through flexicurity
- improving management of energy resources and the move towards efficiency and integrated EU energy policy

New generation OPs reflect win-win situations by realizing synergies between the priority actions of NRPs and new economic activities, infrastructure, inclusive labour market and effective public administration and by providing coherence between the implementation of NRPs and the use of the CP and rural development funds.

A breakthrough concentration tool of earmarking has been come into agenda. To enhance innovative outcomes, the new generation OPs are required to earmark at least 60 percent of Convergence funding and 75 percent of RCE funding allocated to the expenditure categories in relation with the Lisbon Strategy¹¹. According to the OPs, the targets largely reached with 61.2 percent under the Convergence Objective and 76.7 percent under the RCE Objective. Overall, around EUR 200 billion has been allocated to Lisbon activities (EC, 2007e).

With the earmarking mechanism, national actions are required to incorporate 'the priorities of the Community' by targeting the promotion of the Lisbon Strategy. It helps focus the attention of the Member States on R&D and innovation and concentration on innovative economy, long-term growth and job creation. Davies et al. (2007) give an account for the range of categories included under Lisbon earmarking is very broad, ranging from support for R&D and innovation to transport and energy infrastructure.

Parallel reporting mechanisms between the CP and the Lisbon Strategy along with particular sections describing the role of the Cohesion Policy in the NIRs have further strengthened the coordination between two fields. As a consequence, the reformed CP of 2007-2013 programming period is thematic reflecting the Lisbon Strategy rather than geographical in approach.

Conclusions

EU and the Member States have already commended their reform processes against globalization and internal challenges in the 1990s. Under these circumstances, the re-launch of the Lisbon Strategy reflects a more regulated and coordinated common policy at the top of the pyramid. A new motivation was given to the Lisbon Strategy in 2005, but overall strategy and its requirements remained the same with the reason that providing sustainable processes requires a full range of regulation and intervention.

¹¹ Earmarking has not been compulsory for the EU12 Member States.

2006 Regulations of Cohesion Policy might be considered a second great step-forward following the 1988 Reform in terms of efficiency and relevancy to the developmental conundrums and challenges of the Member States. The fact that EU began to revise its economic and social policy instruments in the 1990s and in particular the 2000-2006 programming period was a rehearsal for the forthcoming Lisbon Agenda in strategy design and implementation terms.

The CP has been essentially amalgamated under the Lisbon Strategy since both two aims sustainable growth and anticipating implications such as employment and added value increases. This common objective requires a broad vision and framework relating all aspects of the economies.

In on-going new programming era, decentralized governance structure of the CP has been retained the same. The reason behind that is that effectiveness and efficiency considerations with regard to competitiveness and innovative activities are best enabled at local level. Therefore, the governance and coordination architecture of the Lisbon Agenda have invaluable insights from the credentials of the CP. Notably the OMC mechanism, a new mode of governance, is developing on the background of voluntary Cohesion Policy practices between and among the Member States under supervision of the Commission. A common implication across the EU is a gradual convergence of national policies, structures and practices. Within the framework, Member States' role lies in co-operating other Member States along with delivering a state-of-the-art reform agenda.

There is still a need for more fundamental reform on the CP field. It is for this reason, a wide-ranging policy review is underway in 2008 and 2009 on the concern of what the options for the future of CP are. To assess its effects on the Lisbon Strategy objectives, further evaluation results will be sources because of the adaptation of the Member States has been occurring in slow pace and the delivery of the Strategy has just begin at the second haft of the 2000s.

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