The Growth Effects of EU Cohesion Policy: a Meta-Analysis

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Motivation

- Structural and Cohesion Funds described as best instrument for investment at a time when national resources are limited
- The empirical evidence on growth effects of EU cohesion spending is ambiguous
- Where do we stand? Can they be realistically regarded as a tool for economic growth. And if yes, under what conditions?

Straight answer

- Structural and Cohesion Funds can potentially deliver economic growth but they do not, not always, not as much as they could either because they are badly allocated or badly managed or used for the "wrong" investments or a combination of all three.

Under what conditions?

- Structural and Cohesion Funds contribute to growth convergence in the presence of (i) supportive institutional environment, (ii) some industrial structure and R&D intensity, (iii) soft investment in R&D and human capital accumulation in combination with hard investment

Institution-building

- Structural and Cohesion Funds should be used for institution-building first of all (see budget line “technical assistance”)
- Ex ante institutional conditionality is a potentially effective (negative) incentive; for example the Cohesion Fund shall be disbursed conditional on a country respecting EU laws (plus good record in transposition of EU directives).

Type of investment

- Structural and Cohesion Funds should be used for soft investment also in Convergence regions to lock in benefits from hard investment
- Soft investment should be concentrated in areas with a strategic advantage
- Minimum shares for the ESF (25%) should be accompanied by minimum share in R&D

What do more recent data show?

- Has EU Cohesion Policy delivered on its declared objectives?

Declared objectives

- *“Reduce disparities between the levels of development of the various regions…”*

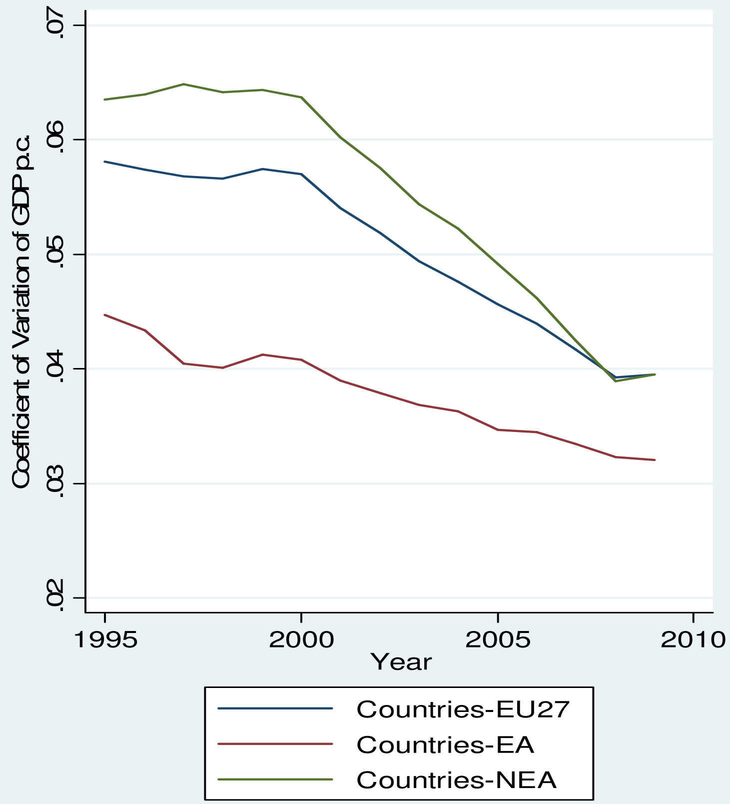
Equivalent to concept of ***sigma-convergence***, which indicates that income has become more equally distributed across regions compared with the past

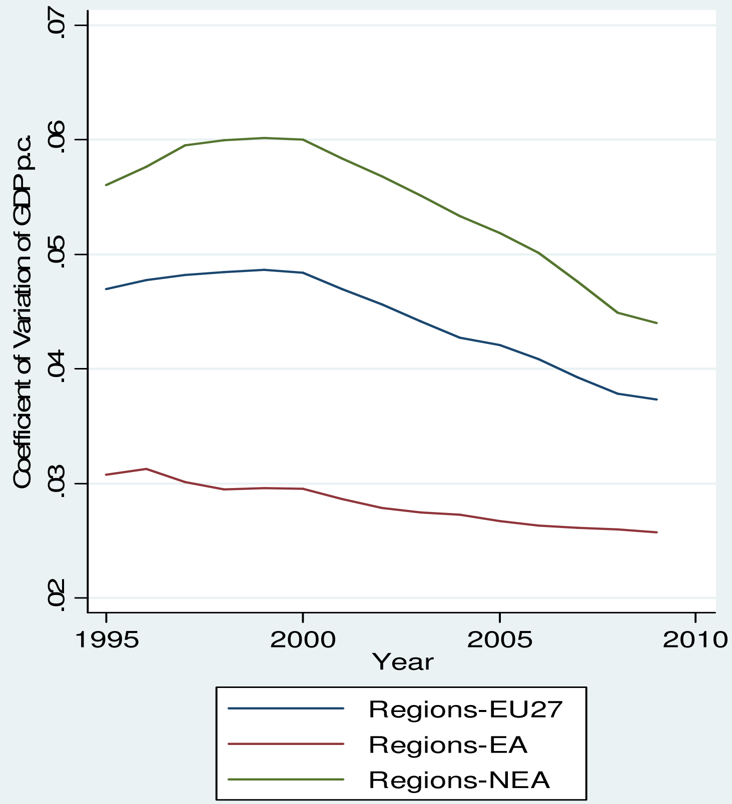
- *“…and the backwardness of the least favoured regions...”*

Equivalent to concept of ***beta-convergence***, which describes catching-up processes, by which low-income regions grow faster than high-income regions

σ-convergence (between countries and regions)

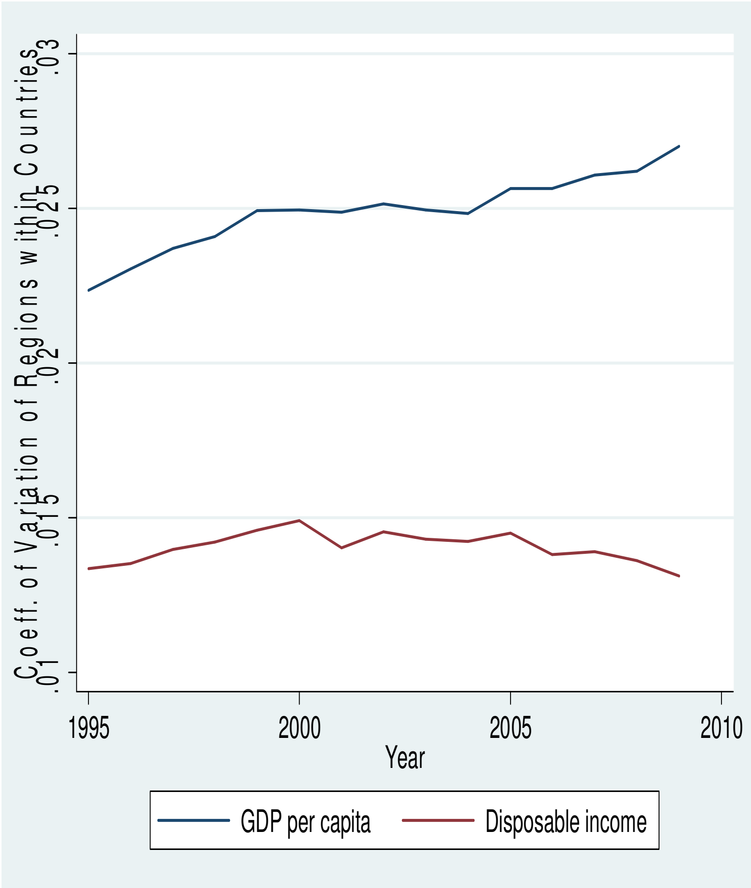
CHART 1: DISPERSION OF GDP ACROSS COUNTRIES (a) AND REGIONS (b), 1995-2009

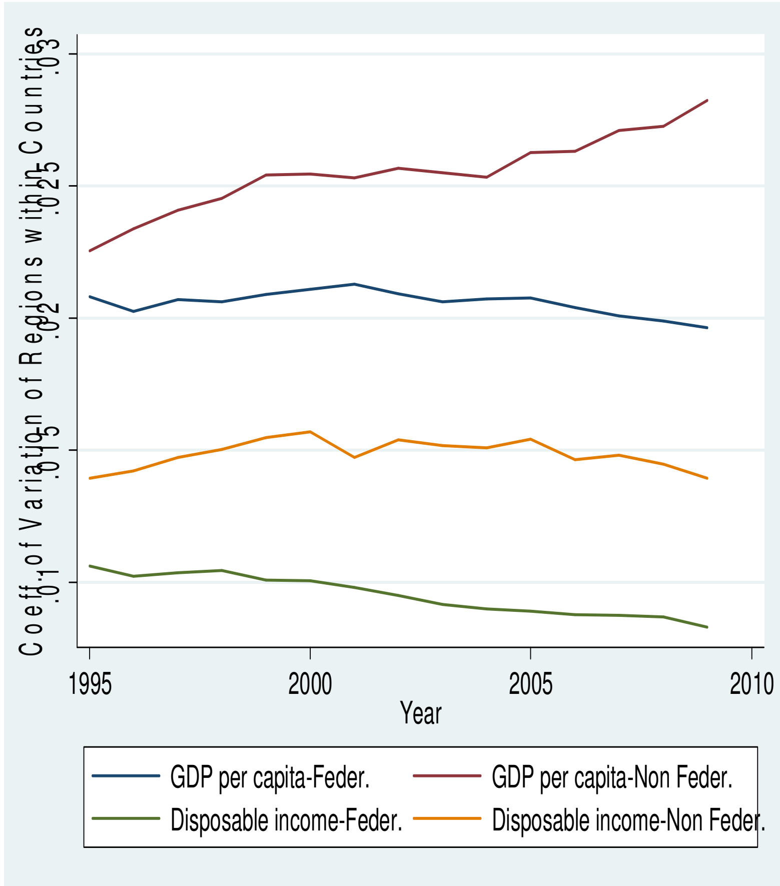




Source: Bruegel based on data from EUROSTAT.

σ-convergence (within countries)





Source: Bruegel based on data from EUROSTAT.

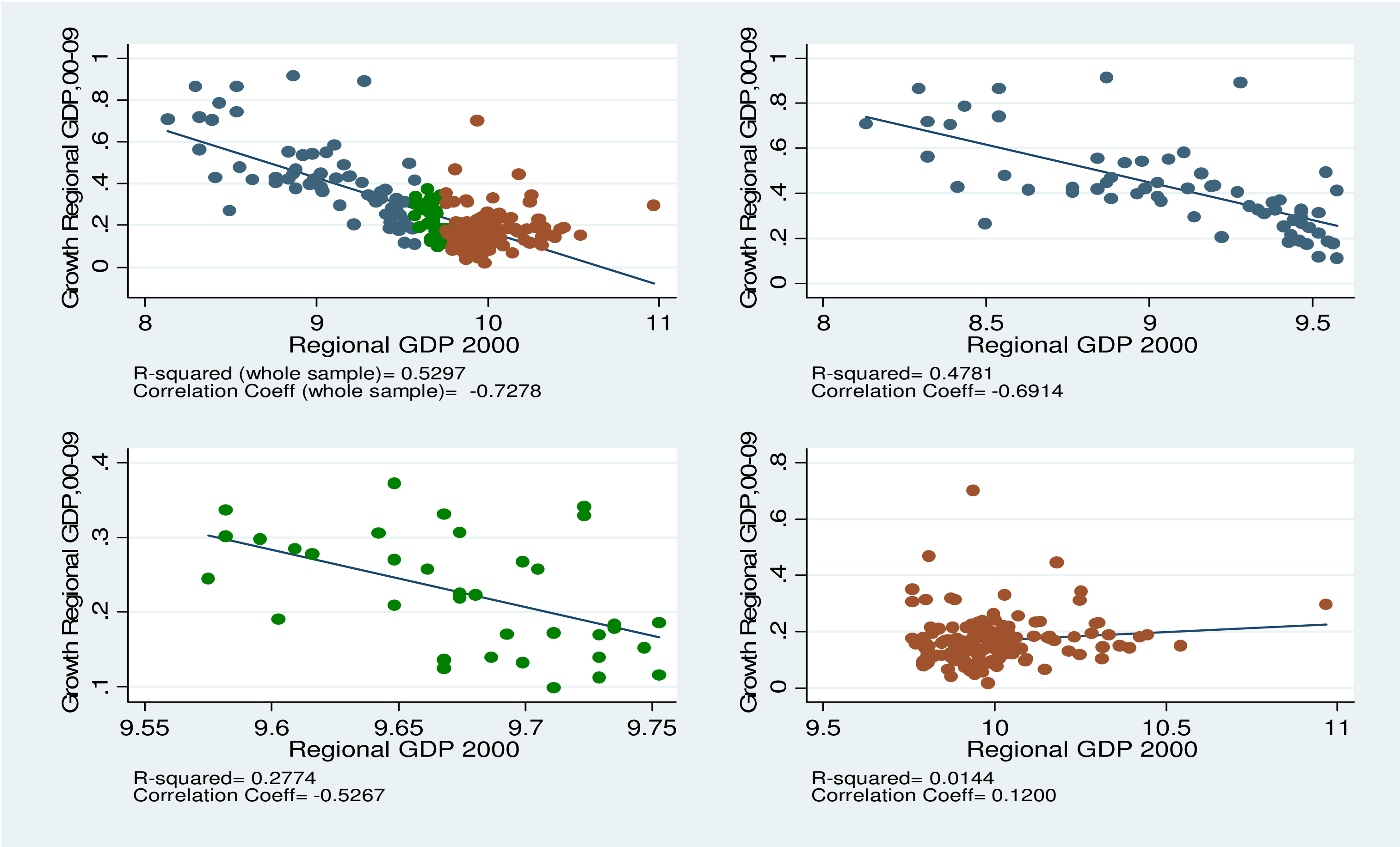
EU Cohesion and national governments

- EU Cohesion Policy should not be concerned with within-country regional disparities (not all, at least)
- First, national governments **do** deliver on the redistribution of income across regions
- Second, not all disparities are bad. Policy-makers should be concerned just with regional disparities that signal a policy failure.

Allocation method

- A larger share of the Cohesion Budget should go to countries instead of regions at **any** state of development
- It may also improve consistency and even synergies between EU funds and regional aid by the State and other industrial policy initiatives

β-convergence (EU regional data)



Source: Bruegel based on data from EUROSTAT.

The limits of income convergence analysis

- Income convergence analysis has but some limitations especially when considering the “secondary-legislation” objectives of Cohesion spending the underlying economic model
- Let’s look at objectives and underlying economic model before and after 1988!

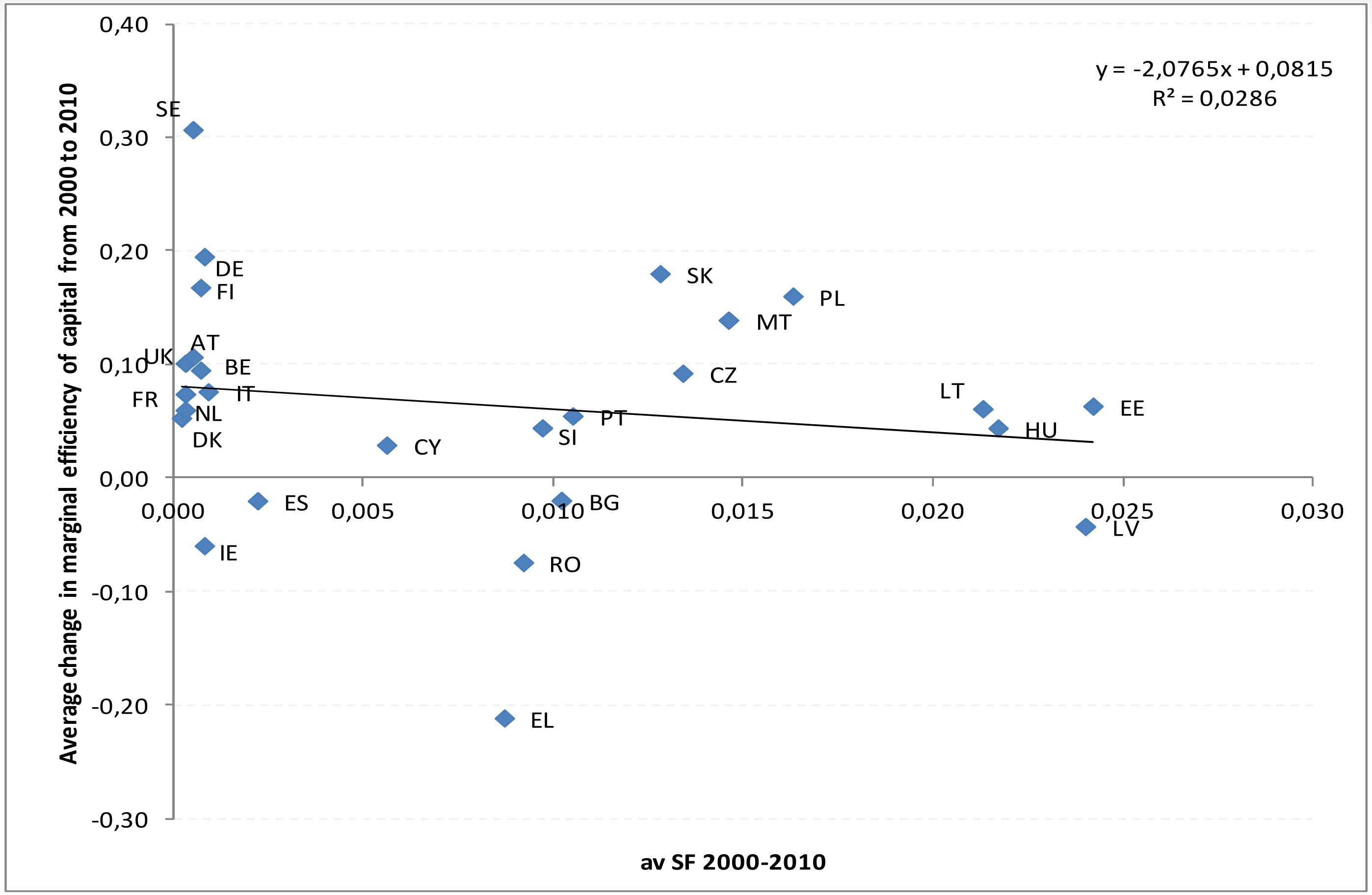
Major shift in the doctrine

- Pre-1988 Regional Policy builds on neo-classical growth model (markets deliver growth) and EU funds help supporting the transition when integration is incomplete
- Post-1988 Cohesion Policy builds on endogenous growth model and NEG (markets deliver divergence) and EU funds are made to increase efficiency of capital in the periphery countering excessive agglomeration effects

Assessment pre-1988

- But the (academic) assessment of the effectiveness of EU Cohesion Policy remained bound to the neo-classical pre-1988 model.

Do SF deliver on capital efficiency?



Source: Bruegel based on data from EUROSTAT.

Rich regions?

- If one believes in the endogenous growth model, then the most growth-enhancing use of EU grants in the technologically advanced regions is where the marginal efficiency of capital is highest.
- Funds to regions falling under the Regional Competitiveness Objective should be allocated based on the marginal efficiency of capital or on a pure competitive basis.