The growth effects of EU cohesion policy: a meta-analysis

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Benedicta Marzinotto presented her recent Working Paper discussing the impact of EU Structural and Cohesion Funds on growth from a macroeconomic perspective.

Since 2011, EU policy makers have been promoting the idea of stimulating economic growth through Structural and Cohesion Funds described as the best instrument for investment when national resources are limited. The empirical evidence on their impact on growth nevertheless remains ambiguous.

A review of the existing literature suggests that Structural and Cohesion Funds may potentially deliver economic growth, but not always and/or not as much as they could have.

Still some regularities may be found in the literature. It is typically found that EU Funds contribute to successful growth convergence in the presence of:

- A supportive institutional environment
- An existing industrial structure and some R&D expenditures
- A combination of soft and hard investments, namely higher growth can be obtained where soft investments (such as human capital accumulation and R&D investments) are combined with hard investments (infrastructure)

Structural and Cohesions Funds should be used not only to finance investments across countries and regions, but first of all to build up the institutions and to provide technical assistance. Some form of ex ante institutional conditionality is a precondition for securing growth effects of EU Cohesion spending.

As mentioned, Structural and Cohesions Funds used for soft investments in convergence regions allow to lock benefits from hard investments. Soft investments should particularly be concentrated in regions where the country has a strategic advantage. In addition, minimum shares for the European Social Funds (ESF) should be accompanied by minimum shares in R&D.

What is the growth convergence record of the last decade?

While GDP dispersion across European countries and regions decreased over the last decade, within-country regional disparities have instead been on the rise. Governments' geographic redistribution schemes did however reduce these internal discrepancies since per capita disposal income (GDP after taxes and benefits) has not gone through the same rise in intra-country dispersion as GDP. There is a rationale for allocating a larger share of the EU budget to countries than to regions, where this is not already happening.
Moreover, disparities are not necessarily bad. They may come from geography or from an efficient allocation of resources.

In her paper, Benedicta Marzinotto also observed a higher convergence in countries that started from a lower income level. This convergence has been more pronounced in lower and middle income countries but invisible in high-income regions, a phenomenon confirmed in the economic geography and agglomeration literature.

An important question to be asked is: what is the level of agglomeration of economic activities we should accept in Europe? Should an efficient reallocation of resources be encouraged, or should we strive towards regional convergence? Another underlying question is on which growth model to build regional policies. Is growth delivered by the markets, as stressed by the neo-classic point of view, or do they rather deliver divergence and that the EU funds are vital to increase the efficiency of capital and counter agglomeration effects?

The presentation was followed by a discussion where several questions were raised; in particular on the general efficiency of the European Social Funds, on how to best assess aid effectiveness and on the importance of implementing a coherent package of EU policies and national policies.

Event notes by Li Savelin