Regional convergence and the EU Cohesion Policy

Riccardo Crescenzi
London School of Economics

Crisis led to regional divergence and ... ... recovery to weak regional convergence

Figure 1.1 Coefficient of variation of GDP per head, employment rate (20–64) and unemployment rate in EU-28 NUTS 2 regions, 2000–2016 (indices, 2000=100)

The coefficient of the variation is weighted by the population of each region
Source: Eurostat, DG REGIO calculations

Source: European Commission (2018), Seventh Cohesion Report
Highly uneven recovery patterns

Regions in eastern Member States have converged to the EU average, but Greek and Italian regions diverged substantially

Source: European Commission (2018), Seventh Cohesion Report

Has EU Cohesion Policy helped? (1)

Key questions

Does Cohesion Policy boost regional growth and employment?

Do regions in ALL Member States benefit from Cohesion Policy?

Crescenzi & Giua (2018):

Spatial Regression Discontinuity Design (RDD) estimates distinct but fully comparable regional impacts for each individual Member State before the Crisis and during Recovery

Eligible and non-eligible areas are compared by means of a spatial forcing variable
Has Cohesion Policy helped? (2)

Treated NUTS-3 regions (belonging to Objective 1 regions according to the 2000-2006 EU Cohesion Policy eligibility criteria) in red. Counterfactual NUTS-3 regions in green.

Source: Crescenzi and Giua (2018)

Table 4. Effects of EU Cohesion Policy on economic growth and employment (2000-2010)

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>Germany</th>
<th>Italy</th>
<th>Spain</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Panel A - Y: economic growth</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Objective 1</td>
<td>0.0036**</td>
<td>0.0354**</td>
<td>0.0295</td>
<td>0.5078</td>
<td>0.0074</td>
</tr>
<tr>
<td>(0.0011)</td>
<td>(0.0118)</td>
<td>(0.0411)</td>
<td>(0.5907)</td>
<td>(0.0451)</td>
<td></td>
</tr>
<tr>
<td>R squared</td>
<td>0.183</td>
<td>0.094</td>
<td>0.195</td>
<td>0.360</td>
<td>0.138</td>
</tr>
<tr>
<td>Polynomial degree</td>
<td>3-2</td>
<td>3-1</td>
<td>2-1</td>
<td>2-1</td>
<td>1-1</td>
</tr>
<tr>
<td>Observations</td>
<td>779</td>
<td>428</td>
<td>87</td>
<td>44</td>
<td>125</td>
</tr>
</tbody>
</table>

| **Panel B - Y: employment** |        |         |       |       |         |
| Objective 1    | 0.0045* | 9.7737  | 40.8626** | -78.82296 | 50.3325** |
| (0.0017)       | (4.9094) | (12.8633) | (43.9912) | (16.6211) |         |
| R squared      | 0.300  | 0.154   | 0.218 | 0.510 | 0.177   |
| Polynomial degree | 3-1    | 3-3     | 2-3  | 3-3  | 3-2     |
| Observations   | 770    | 421     | 87   | 42   | 125     |

Source: Crescenzi and Giua (2018)
Has Cohesion Policy helped? (3)

Positive EU-wide impact on both regional economic growth and employment

The positive impact on regional employment has survived the Crisis and supported less developed regions in the recovery period

Positive effects are unevenly distributed across member states:

• ‘Regional growth bonus’ concentrated in Germany
• Impacts on regional employment are largely confined to UK regions
• In Italy beneficiary regions experienced better employment performance but this effect ended with the Crisis
• In Spain beneficiary regions have benefited in terms of better growth during Recovery with no impacts on employment

Selective convergence and conditionality

Multiple shocks (Recovery from Great Recession & Brexit) with asymmetric territorial impacts

Highly selective regional convergence during recovery

Asymmetric impacts of Cohesion Policy: ‘picking the winners’ with limited impact on structural transformation in less developed regions (especially in Southern Europe)

Two possible approaches:

• Reward best performing regions with stringent performance-based conditionalities and put the remaining regions ‘on social benefits’ (e.g. approach of the current Italian government with income guarantee for the unemployed and poor)
• Use conditionality together with capacity building and governance to improve both absorption rates (e.g. revision of n+3 rule) and impacts (what works?) in all regions
Conditionality and convergence

Linking conditionality and rewards to structural reforms is a ‘risky’ decision that might reinforce existing ‘divergence’ patterns

Better keep conditionality linked to improvements in the governance of regional development policies and evidence-based actions

Incentives for evidence-based policy learning based on:

- Ex-ante, in-itinere and ex-post evaluation of policies, programmes and projects beyond formal requirements
- (Open) Data availability at the firm/individual beneficiary level in ALL Member States
- Coordination between policies
- Small-scale experimentation with continuous feedback mechanisms

In countries where territorial imbalances have reinforced populistic, anti-EU and/or anti-system movements this might seriously backfire

Does this matter to the future of Europe?

Brexit votes suggest that EU money matters only where it generates local impacts

Red: control wards
Blue: treatment wards

Areas in West Wales where: unemployment decreased more + human capital is higher voted Remain more (than control wards)

Source: Crescenzi, Di Cataldo and Giua (2019)
Key references


Crescenzi R., De Blasio G. and Giua M. “Cohesion Policy Incentives for Collaborative Industrial Research. The Evaluation of a Smart Specialisation Forerunner Programme” LSE SERC/CEP (Centre for Economic Performance) Urban and Spatial Programme Discussion Paper No' SERCDP0231, 02-2018

→ VoxEU Column: https://voxeu.org/article/smart-specialisation-strategies-italy-s-mezzogiorno

Riccardo Crescenzi
London School of Economics
r.crescenzi@lse.ac.uk

Linkedin: linkedin.com/in/riccardocreszenzi
@creszenzi_r