

Assessing the impact of EU cohesion policy

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Event summary by Dana Andreicut and Lucia Granelli

At a time when most of the spotlight is taken by the euro zone crisis, regional policy could fade in the background. Regional development nonetheless is a key issue for growth and a better understanding of cohesion policy can enable Europe to adjust more smoothly.

The first session of the workshop targeted the impact of EU cohesion policy and was chaired by Benedicte Marzinotto, research fellow at Bruegel. Philip McCann (of the University of Groningen and special adviser to Johannes Hahn, European Commissioner for Regional Policy) started the discussion by highlighting how the policy focus has shifted from actions/means towards outcomes. Once a desired policy outcome has been identified, one needs to find indicators which can achieve this outcome. A good starting point for the analysis is the identification of regions according to different growth typologies, ranging from inclusive to sustainable growth.

Veronica Gaffey (from the European Commission, Head of Evaluation, DG Regional Policy) presented the Commission perspective on the issue. She argued that the 2000-2006 evaluation serves as a learning base for future assessment and should help in the next programming period. It is impossible to say if regional policy has been effective overall, as one cannot find overarching measures which consistently capture EU wide developments. While a lot has been achieved, it remains unclear whether the maximum potential has been exploited. The current challenges of evaluation include a lack of common indicators, the vague nature of objectives, the over-reliance on macroeconomic models which only focus on GDP and employment, among others.

Speaking on the part of the Polish Ministry for Regional Development, Piotr Zuber argued that the evaluation of cohesion policy is intellectually interesting but extremely demanding at the same time. The continuous assessment of the impact of EU cohesion policy is necessary. Poland is a good example of successful cohesion policy, having achieved significant results, particularly in the fields of investment and employment. Mr Zuber concluded that EU cohesion policy can be regarded as a real European development policy, which allows for the best use of each individual territorial potential.

Commenting on the debate, Laszlo Csaba was pleased that, unlike much of the literature on cohesion policy, the Bruegel discussion was not self-congratulating, but remained critical. He raised the point that more emphasis should be placed on rent-seeking. Mr Csaba went on to argue that it's time to give up the pretence of knowledge, due to the presence of imperfect information.

Several issues were then raised by the floor, such as how the financial crisis has changed the approach to cohesion policy. The issue of growth and of how cohesion policy and structural funds could be used to re-launch growth was also addressed, as was the role of GDP as an indicator for cohesion policy assessment, and whether its scope was too restrictive.

The second part of the workshop looked at how economic models can be better used to assess cohesion policy. Angel de la Fuente (from Instituto de Análisis Económico, ISIC) proposed a theoretical framework to test the impact of cohesion support in Spanish regions. Most of the existing estimates of the impact of cohesion policies are based on the assumption that assisted projects are "good" by default. In order to investigate this, a falsifiable test was conducted. The latter was a test performed by means of a statistical

model which allowed for cohesion policy to be ineffective. There was no evidence that cohesion policy aids the funding of low-quality projects.

John Bradley (from Economic Modelling and Development Strategies) evaluated how to construct a cohesion policy “counterfactual”. The impact analysis of cohesion policy interventions is complex and the results of published studies are often based on a series of assumptions made by modellers. Indeed the differences in the policy impact between different works illustrate the divergent views on the different areas of the economy (e.g. the spillover impacts of infrastructure, human capital, R&D). By contrast, models tend to agree that the gains from cohesion policy are positive, although the underlying structure of the “recipient” economy remains the most important determinant of long-term growth.

Jan in't Veld (from the European Commission, Directorate General Economic and Financial Affairs, European Commission) assessed the potential impact of the EU cohesion policy based on a structural macroeconomic model, when endogenous growth is taken into account (QUESTIII R&D model). The impact of cohesion policy on GDP varies according to the field of intervention and the time horizon adopted. In the short-term, spending could lead to the crowding out of productive capital investment and could give rise to real appreciations, thus lowering export growth. R&D promoting policies could drive up researcher wages and crowd out skilled employment in other sectors. Few benefits can instead be expected from training or human capital assistance. By contrast, over the medium run, the productivity enhancing effects of infrastructure investments, R&D promoting policies, and human capital investments gradually become stronger.

Stig Hennerberg (from the Danish Ministry of Finance) asked how growth can be stimulated by means of the EU budget. He was particularly interested in the way in which one could integrate the points raised during the Bruegel workshop into the on-going negotiations of the Multi-Annual Financial Framework 2014-2020.

Several issues were then raised by the floor. One of the points mentioned targeted the assessment of spillover effects from different policy instruments. The focus of the discussion then shifted from absorption issues to the more central question of what the outputs that cohesion policy should achieve are, given a certain amount of inputs. Providing an answer to this question could finally lead to an integrated policy making approach.