

Cohesion Policy – from Enthusiasm to Doubts, from Equity to Functionality

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*Recreating and Valuing Territories
Angra de Heroismo, 5 July 2007*

Structural Funds – from Enthusiasm ...

Traditional approach: Structural Funds increase the rate of growth and decrease unemployment.

Synthetic Structural Funds cumulative “multiplier” on GDP

(Cumulative percentage increase in GDP / Cumulative Structural Funds share in GDP)

Years	Greece	Ireland	Portugal	Spain	N.Ireland	E.Germany
1994-1999	0.67	1.44	1.12	1.07	1.24	1.69
1994-2002	0.76	1.88	1.53	1.23	1.33	2.11
1994-2010	1.07	2.83	2.55	1.77	1.48	4.44

Source: John Bradley, Edgar Morgenroth and Gerhard Untiedt,
<http://www.gov.si/umar/conference/2004/papers/Gerhard.pdf>

The HERMIN model

„The HERMIN2 model shows cohesion policy as having a significantly positive effect, with absolute GDP being some 5–10% higher in most of the new Member States than in the absence of intervention. The job content is high, with 2 million net additional jobs predicted by 2015.

Some of these gains are due to short-run demand effects, in the form, for example, of a temporary boost to construction. However, around half of the increase in GDP is attributable to supply-side effects, which are important to sustain higher growth rates over the long-term. These take the form of increases in physical and human capital and R&D, which serve to push up productivity and growth potential.”

Assumptions of this approach

Demand side: obvious and non-disputable.

Supply side: positive effects based on the assumption of positive coefficients between investment in production factors and their efficiency.

Not necessarily true, and disputed by many.

... through doubts ...

Canova, Boldrin, 2001*:

- „*neither convergence nor divergence is taking place within the European Union (...) most regions are growing in a fairly uniform rate irrespective of their initial conditions.*”
- poorer grow faster during expansions and slower during recessions;
- „*(...) increasing **free trade** among EU countries (...) may have been the source of higher growth in poorer regions.*”
- **Three factors** responsible for low regional income: low total factor productivity, low employment rate and high share of agriculture.
- „*Regional and structural policies serve mostly a **redistribution purpose**, motivated by the nature of the political equilibrium (...). They have **little relationship** with fostering economic **growth**”.*

... to more doubts...

Sapir Report, 2003*: a picture of EU in global economy:

- poor growth;
- low employment rate;
- high labour productivity;
- unfavourable business environment;
- low innovation;
- country convergence, region divergence.

Policy suggestions:

- more funds to innovation and growth,
- less to CAP and traditionally-oriented structural policies

*<http://www.euractiv.com/ndbtext/innovation/sapirreport.pdf>

... and still more doubts...

Rodrigues-Pose, Fratesi, 2004*:

- doubtful capacity of Structural Funds do deliver sustainable growth in lagging regions;
- strategies in these regions skewed to infrastructure and business support – negligible effect on growth in Objective 1 regions;
- agricultural intervention – more of social than developmental character, leading even to negative effect on growth;
- only funds directed to education and human capital have a positive medium-term effect on growth;
- in a long-run traditional approach may be harmful to lagging regions through decreasing their competitiveness;
- However, the Structural Funds might have not allowed for further growth of regional differentiation.

* Between Development and Social Policies: The Impact of European Structural Funds in Objective 1 Regions, "*Regional Studies*", Vol. 38, Number 1

... to (conditional) criticism

Ederveen, de Groot and Nahuis 2006*:

- European support as such did not improve the countries' growth performance.
- it enhances growth in countries with the 'right' institutions;
- the European policy to promote regional growth is only conditionally effective;
- the funds are to be allocated toward institution building in the first instance. Once the institutions are of a sufficient quality, the funds may be effective in stimulating (catching-up) growth.

*Fertile Soil for Structural Funds? A Panel Data Analysis of the Conditional Effectiveness of European Cohesion Policy, *Kyklos* Vol. 59 – 2006 – No. 1, 17–42

Structural Funds – criticism cont.

In some cases EU support may decrease the rate of growth (contrary to HERMIN model findings):

Implied semi-elasticities for three specifications for EU-15

SF and institutional quality		SF and corruption		SF and openness	
Greece	-1.58	Greece	-1.56	Italy	-2.90
Spain	-0.31	Italy	-1.43	France	-2.84
Portugal	-0.16	Belgium	-0.33	Germany	-2.55
Italy	0.20	Portugal	-0.31	Spain	-2.25
Ireland	0.24	France	-0.21	United Kingdom	-2.16
France	1.49	Spain	0.08	Finland	-1.90
United Kingdom	1.58	Ireland	0.44	Greece	-1.55
Austria	1.71	Germany	0.56	Sweden	-1.49
Germany	1.87	Austria	1.01	Denmark	-1.04
Sweden	1.96	United Kingdom	1.56	Portugal	-0.45
Finland	1.98	Luxembourg	1.95	Austria	-0.40
Denmark	2.01	The Netherlands	2.14	The Netherlands	0.76
Belgium	2.03	Sweden	2.35	Ireland	0.93
The Netherlands	2.17	Denmark	2.93	Belgium	1.84
Luxembourg	2.30	Finland	3.32	Luxembourg	3.53

The predicted increase in the growth rate (in percentage points) in response to a 1%- point increase in the share of Structural Funds in GDP, taking into account the institutional quality of the country in question.

And the new Member States?

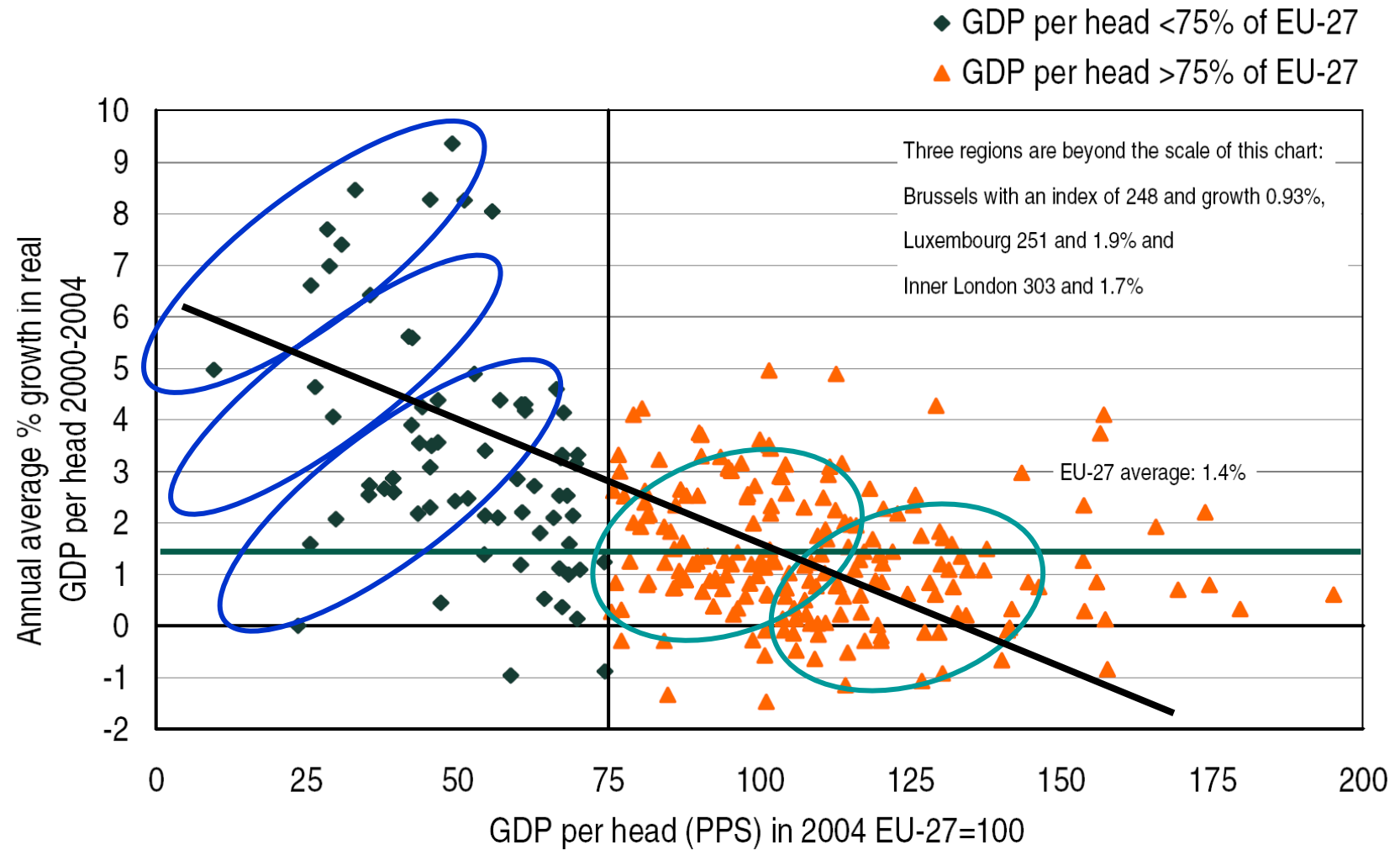
Implied semi-elasticities for accession countries

SF and institutional quality		SF and corruption		SF and openness	
Malta	-3.85	Romania	-4.62	Turkey	-4.08
Turkey	-3.35	Latvia	-3.95	Poland	-2.76
Cyprus	-2.49	Turkey	-3.72	Romania	-2.32
		Slovak Republic	-3.61	Hungary	-1.28
		Bulgaria	-3.38	Bulgaria	0.09
		Czech Republic	-3.38	Lithuania	0.76
		Poland	-3.16	Czech Republic	0.86
		Lithuania	-2.37	Cyprus	0.91
		Slovenia	-1.91	Latvia	1.05
		Hungary	-1.80	Slovak Republic	1.27
		Estonia	-1.46	Slovenia	1.87
				Estonia	2.41
				Malta	3.72

Most of them have negative semi-elasticities!

Cohesion?

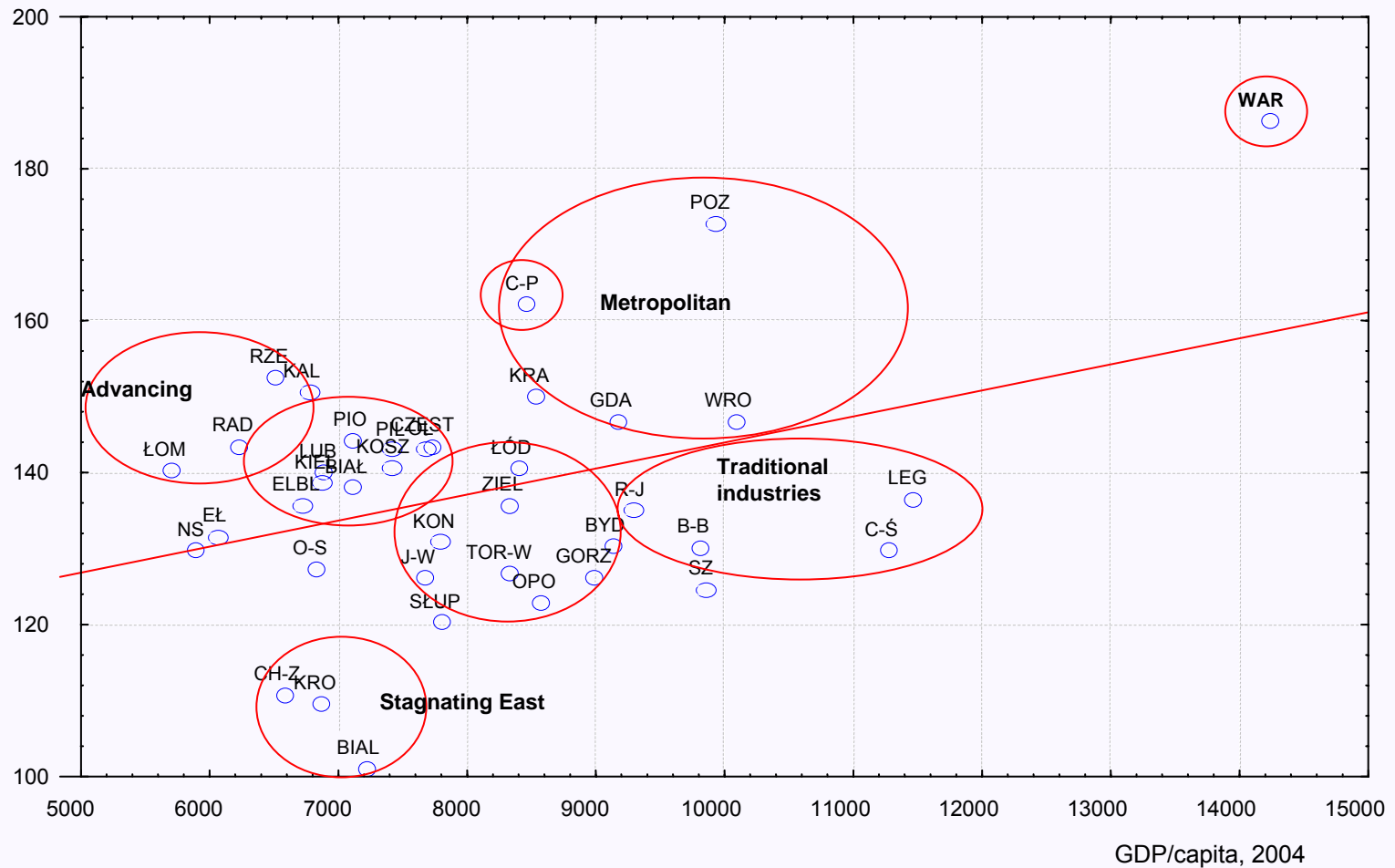
1.6 Growth of GDP per head 2000-2004 and GDP per head 2004



Source: Eurostat

Regional dynamics of Poland 1995-2004

GDP growth,
1995-2004



Scatter diagram, GDP/inhabitant in 1995 and GDP growth, NUTS3 (constant prices) 1995-2004,
Source: Bank Danych Regionalnych.

Poland typical for all new-membr states

Why this change?

- Shift from resource-based to innovation-driven economy, from quantitative to qualitative factors of development. „*Innovate or die!*”
- Shift from „economy of places” to „economy of flows”.
- „Low” and „high” segments of global economy – only innovative may attain long-term competitive advantage (and be well-off).
- Old approaches and instruments do not match new realities.
- However- strong attachment to old doctrines!!!

From equalizing to functional meaning of Cohesion

Economic Cohesion: creating conditions for efficient co-operation between economic agents within the EU and openness to the outside world; decrease of transactional costs; supportive business environment.

Social Cohesion: enhancing horizontal and vertical social mobility through facilitating opportunities for education, training and professional advancement.

In our field of interest...

Territorial cohesion: such a spatial arrangement of European territory that enables and supports achieving social and economic cohesion:

- removing transportation barriers (construct highways not everywhere, but where are needed);
- connecting major nodes of European space – metropolitan centres between themselves and these nodes with their regional hinterlands;
- developing networks of educational and research institutions and between R&D and businesses.

AND – implement in reality – not only on paper – main messages of the Community Strategic Guidelines of July 5, 2005 and October 2006

Key issues for the 2007-13 period

(John Bachtler, EPRC)

- Making a success of Cohesion policy:
 - appropriate strategies
 - supportive regulatory and policy frameworks
- Ensuring that the added value of Cohesion policy is visible

Open issues

- Re-nationalisation of Cohesion Policy? (funds only for the poorest, the richer can cope with their regional/spatial issues by themselves).
- „Europeisation of the Cohesion Policy? (EU funds only the programmes of European importance, national ones solved by the member states themselves).
- Structural Funds assume the rules of the Cohesion Fund? (funds for the entire country, territorially distributed by the national governments).

Conclusions

- The last such a generous budget.
- Countries and regions should start to prepare themselves for less funds, but maybe for more freedom in spending them.
- Growth- and innovation-oriented approaches will be even more favoured.
- Unconditional funding replaced by supporting those who have proved to be able to grow.

From a
sower.....



...unconditional spreading funds on the
EU territory

...to a gardener



...carefully planting seeds in previously prepared places.

Thank you for your attention!

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