

## **Back to the Member States? Cohesion Policy and the national challenges to the European Union**

Riccardo Crescenzi (London School of Economics – [r.crescenzi@lse.ac.uk](mailto:r.crescenzi@lse.ac.uk) ), Ugo Fratesi (Politecnico di Milano - [ugo.fratesi@polimi.it](mailto:ugo.fratesi@polimi.it)), Vassilis Monastiriotis (London School of Economics - [V.Monastiriotis@lse.ac.uk](mailto:V.Monastiriotis@lse.ac.uk) )

### **Abstract**

In a context of rising economic nationalism and euro-scepticism the value added of a supra-national Cohesion Policy of the European Union is constantly under scrutiny. In parallel, a growing body of empirical evidence uncovers a significant heterogeneity of national and regional impacts. This Editorial argues that Member States should take full responsibility and ownership of Cohesion Policy and its impacts, re-gaining a substantive role in-between Brussels and the regions. Strong national leadership and coordination will allow ‘weak’ regions (in terms of institutional quality and governance) to gain momentum, better reconciling ‘unity with (national and regional) diversity’.

**Keywords:** Nationalism, Euroscepticism, European Union, Cohesion Policy, Regional

Development

**JEL classification:** O18, R11, R58

### **The rise of nationalism and the ‘regional’ question**

The process of political fragmentation and the rise of nationalistic movements unleashed by the Eurozone crisis and the Great Recession has called into question the ‘value added’ of the European Union (EU) as an internationalisation project capable to deliver supranational stability and cooperation while at the same time empowering the nation state. Individual EU Member States have become more skeptical about any further progress of the process of economic and political integration. They have demanded more policy autonomy (from the narrative on Brexit to the anti-austerity critique of the Greek rescue packages) and sometimes they have also questioned the core values of the EU (from the critique of liberal democracy in Hungary to the challenge of centrally imposed fiscal constraints in Italy).

A credible response to these challenges calls for two key directions of change for EU policies and priorities. First the EU needs to explore new institutional and policy arrangements in order to offer more flexibility (within clear a priori boundaries and objectives) to ‘national’ policies implemented by individual member states, in particular when they face asymmetric shocks or challenges. Second EU policies need to buy-in ‘national’ policy agendas in a more timely and systematic manner, sharing responsibility for (and ownership of) key policy reforms. This pressure for change has also involved the EU Cohesion Policy – one of the core policy areas

of the EU and one of the largest expenditure items in its (limited) budget. Indeed, Cohesion Policy has been one of the main ‘battlefields’ where the Commission (representing in principle the supranational interests of the Union) and the Member States have confronted more acutely. On the one hand, net contributors to the EU budget demanded more accountability and stricter conditionality for the disbursement of EU funds to ensure policy effectiveness and ‘value for money’ in an increasingly tight fiscal (and financial) environment. On the other hand, the Commission tried to leverage ‘conditionality’ to facilitate fiscal and structural reform in recipient countries. This approach to macroeconomic (fiscal and structural reforms) and political (democracy and rule of law) conditionality has been criticized by some member states as undemocratic and illegitimate (reducing policy autonomy and national sovereignty), further igniting nationalist and populist sentiments. Within this broader debate on conditionality, Cohesion Policy is still deemed to act as a re-distributive mechanism for the European economy at large (equity objective) as well as a tool to leverage private capital in ways consistent with the EU’s key strategy agendas (Europe 2020, RIS3) with the ultimate aim of raising productivity and employment opportunities for all (efficiency objective) and “ensuring Europe’s global competitiveness” (COM, 2018). The complexity of this debate on Cohesion Policy has been exacerbated by Brexit with the EU economy (and market size) shrinking for the first time while also losing out in terms of technological capacity, political weight and military might (Koenig, 2016) with asymmetric regional impacts. The recent European Elections in May 2019 have also made apparent the urgency of balancing in the most effective manner conflicting instances encompassing issues such as the political handling of populist movements and the management of the EU’s external and internal borders that all have strong regional connotations and patterns.

### **The ‘missing middle’ and why it matters for ‘unity’ in the EU**

In this context of tense political confrontation on its objectives and intervention logic as well as highly regionally asymmetric (social, political and demographic) challenges, Cohesion Policy is requested to be impactful and effective. It is asked not only to deliver on the objective of social, economic and territorial cohesion, but also on wider objectives of modernising the European economic space and dealing effectively with new social risks. And it has to do this with less resources (in absolute terms given Brexit) and with challenged legitimacy (rise of populism and economic patriotism). In this context the role, preferences and involvement of individual member states has re-gained a strong momentum. However, if we look at the existing scholarly and policy literature on Cohesion Policy, the debate has largely focused on the two ‘institutional and spatial end-points’ (either the EU ‘centre’ or the ‘regions’) with limited attention to the national level. Limited attention has been placed on the ‘national level’ not only as the intermediate level connecting the two ‘end-points’ but also as the key institutional and economic ‘intermediary’ and the main ‘hot spot’ of political tension.

Research on Cohesion Policy that adopts an EU-wide top-down perspective gives for granted the unitary and homogenous nature of the policy across member states, often overlooking the (developmental or political) pre-conditions, preferences and constraints of the individual member states. Other approaches have adopted a ‘regional’ bottom-up perspective, based on the assumption that the bulk of the policy leadership should come from individual regions, also overlooking the role of the ‘national’ level in shaping ‘capacities’ and (external and internal) constraints. The recent experience of Greece, where the fiscally-induced national economic crisis undid 15 years of fast growth for each and every region on the country, should stand as a clear reminder of this.

This creates a significant gap in the analysis of Cohesion Policy and in particular in our understanding of how national conditions and policies shape success and failure of the policy (Crescenzi et al, 2017) in different areas across the EU. This gap becomes particularly significant when assessed in light of the increasing pressures for (at least partial) ‘re-nationalisation’ of Cohesion Policy discussed above, preventing an evidence-based debate on how to (re)balance ‘unity with diversity’ in the future. In order to address this gap this Special Issue contains nine contributions which address – from different stand points and with different methodologies – the heterogeneity of Cohesion Policy impacts across regional contexts and strategies (Berkovitz et al, 2019; Di Cataldo and Monastiriotis, 2019; Varga et al, 2019; Vadrone, 2019) as well as across member states (by looking at the EU in its entirety :Crescenzi and Giua, 2019; Bachtroegler et al, 2019 or through specific one-country cases: Coppola et al, 2019; Psycharis et al, 2019; Faina et al, 2019).

### **New Evidence on the diversity of national and regional impacts of Cohesion Policy**

The challenges for ‘unity’ arising from (national, regional, sectoral and policy design) ‘diversity’ make knowledge gaps apparent. Three fundamental questions emerge from these debates: How do Cohesion Policy impacts vary across Member States? How important are local and national-level characteristics and policy-choices in shaping the benefits produced by the policy and their distribution? How are the impacts of Cohesion Policy affected by regional policies funded nationally by individual Member States?

The papers included in this Special Issue address these three questions from different standpoints and with different methods.

Crescenzi and Giua (2019) show that Cohesion Policy works to deliver higher growth and employment in the EU regions. A spatial regression discontinuity approach makes it possible to develop a suitable counterfactual to assess the impact of the policy ‘net’ of any other confounding factors. However, this same approach highlights the diversity of this ‘average’ regional impact across Member States. German regions account for most of the regional growth benefits generated in Europe by Cohesion Policy, while UK regions have absorbed most impacts in terms of additional jobs. Less developed regions in Italy have benefitted much less from the policy and their gains in terms of employment have not survived the Great Recession. Similar story in Spain where impacts have been weaker and short-lived.

With a different methodological approach, based on propensity score matching, Bachtroegler, Fratesi and Perucca (2019) show a similar heterogeneity of effects when looking at firms beneficiaries of Cohesion Policy funding. The micro-level results are qualitatively in line with the findings of Crescenzi and Giua (2019): impacts at EU level are positive and significant in terms of firm GVA and employment growth and still significant but small in terms of productivity. The analysis within the countries, however, shows heterogeneous effects in terms of magnitude and significance. When zooming into the regional level, firms in regions with different territorial capital endowments are differently impacted by Cohesion Policy support, with this outcome being different in different countries.

The regional heterogeneity of policy impacts is further explored by Di Cataldo and Monastiriotis (2018), who examine the fund-deployment characteristics which make Cohesion Policy interventions most effective. Through a novel approach to the measurement of relative

regional needs, they demonstrate that concentrating resources on regional disadvantage is on the whole more productive than building on existent regional strengths. Their evidence also unveils the importance of features such as area designation and multi-annual programming, both of which are found to contribute autonomously to regional growth above and beyond the (positive and non-exhaustible) effect that the level of spending has on regional growth.

Given the national and regional heterogeneity in impacts highlighted above, Varga, Sebestyen, Szabo and Szerb (2018) explore what are the potential ‘side effects’ of the shift of the policy towards the new ‘smart specialisation’ approach that gives individual regions the responsibility ‘to discover entrepreneurially’ their own policy mix. This policy shift creates new challenges for policy evaluation, since it is necessary to analyse TFP, entrepreneurship and interregional network policies simultaneously. The paper addresses how these challenges are tackled in the literature. Finally, the paper shows empirically that implementing policies based on entrepreneurship and external knowledge has different impacts in different regions, depending on contextual conditions. In particular, in less developed regions local entrepreneurship can only be boosted if entrepreneurship policies are coupled by a careful mix of human capital development and targeted R&D promotion policies.

Berkovitz, Monfort and Pienkowski (2019) analyse the current literature on the impact of Cohesion Policy (to which all papers in this Special Issue to a different extent belong to) in order to highlight new ways to increase its relevance for practical policy making. They also analyse the transmission channels linking Cohesion Policy investment to economic growth, both from a theoretical and empirical stand point. Three main types of intervention are identified: research and innovation, support to enterprises and infrastructure. Each of them has direct channels but also a number of indirect channels which can often increase but also decrease the direct effects of the policy. Cohesion Policy, therefore, should be evaluated within a theory-based causality that fully accounts the diversity of channels through which actual impacts emerge.

In addition to the diversity of impact channels further heterogeneity in Cohesion Policy comes from the different institutional mechanisms for the allocation of funds within the same policy objective. Védrine (2018) explores these mechanisms by developing a political agency model in which yardstick competition takes place, so that the outcomes in a region are compared by local voters to what happens in neighboring regions. This provides theoretical support for the existence of spatial effects in the distribution of funds. Moreover, different governance regimes exist in terms of decentralization of Cohesion Policy and the paper shows that spatial political interactions are stronger when the implementation of the policy is decentralized. This offers theoretical support for the risks – highlighted in many papers of this Special Issue on more empirical grounds - of a fully bottom-up decentralized management of Cohesion Policy that underestimates the importance of the ‘national’ level as essential coordination unit.

If Member States play a key coordination role in the interactions between regional jurisdictions they also influence the implementation and impacts of Cohesion policy through their nationally funded policies. In order to explore this link, a final set of three papers analyses the interactions between Cohesion Policy and nationally funded policies in three Southern European economies where the EU Structural funds have special economic importance.

Coppola, De Stefanis, Marinuzzi and Tortorella (2018) have developed an innovative database of nationally funded regional policies for the Italian case, covering two decades of expenditure. This allows them to analyse the effects of EU funded policies in comparison with those funded

by national resources. The regression analysis shows that the impact of the EU Structural Funds on GDP is significant and resistant to a number of robustness tests, while for various types of nationally funded policies the impact is generally not significant, with the exception of current account subsidies to firms. Further investigation of the determinants of these patterns shows that regional quality of government has no impact on structural funds but a significant one on the effectiveness of national funds.

Psycharis, Tselios and Pantazis (2018) address similar issue in the case of Greece. The analysis is based on a novel dataset for the period 2000-2014 and compares the impact of nationally funded and co-financed national investment projects on regional GDP per capita growth, before and after the crisis. The results show that – in the case of Greece - nationally funded projects had a significant impact only before the crisis, while EU co-financed ones did not have a statistically significant impact on growth. Since the latter account for large part of total funding for regional development, this calls for better coordination of nationally-funded and Cohesion Policy initiatives.

Faina, Lopez-Rodriguez and Montes-Solla (2018) analyse the case of Spain. Since the country experienced a decreasing trend in Total Factor Productivity (TFP), they use this variable in their analysis in order to detect whether investment in infrastructure through ERDF, Cohesion Fund and national co-financing played any role in smoothing the TFP slump. The results suggest that these investments had a positive impact, although the role of R&D expenditure remains significantly larger. Moreover, the empirical analysis highlights significant positive interaction effects between these public funds and private R&D. Investment in innovation makes infrastructure investment more productive. This makes apparent the need to solve a coordination failure, which might exacerbate the persistence of Spain in a low-skills-low-R&D equilibrium.

### **How to achieve ‘unity with diversity’?**

Member States (and their politicians) have often blamed Brussels for their own failures in terms of implementation and impact of public policies for less developed regions. The 2019 European Election Campaign has offered plenty of examples of this ‘blame Brussels’ strategy. Conversely, ‘behind the scene’ Member States have de-commissioned and de-funded their own national regional development policies, relying on Cohesion Policy for a multiplicity of essential areas of intervention (from infrastructure to life-long-education programmes) in less developed regions and beyond.

An effective and politically sustainable Cohesion Policy needs Member States to take (again) full responsibility and ownership and re-gain a substantive role in-between Brussels and the regions in order to ensure the necessary coordination and facilitate regional cooperation. Cohesion Policy can only deliver as a three-layered system (EU-Member States-Regions). If Member States are punching below their weight the entire architecture is weaker and less politically sustainable.

How to achieve unity (of Cohesion Policy) within diversity (of Member States and regions)? In order to answer this question we should acknowledge that Member States have heterogeneous preferences in terms of regional policy objectives and assessment of need. Not all Member States see internal regional disparities as a priority when compared to their ‘aggregate’ economic performance: they may favour efficiency over spatial equity, given their

level of development as a whole country. For example New Member States in CEE have concentrated their efforts (and resources) on Capital cities and their regions. Conversely, other member states like Italy, have decided to give priority to investments in highly dense metropolitan areas in convergence regions (Subway in Naples for example). Different countries might have different understanding and operationalisations of the concept of territorial cohesion and may want to shape their own priorities according to their own model of intervention. National priorities and models of intervention should be made explicit by each Member State so that the compatibility with higher level EU-wide Cohesion objectives can be assessed explicitly. Based on a shared understanding of Cohesion both EU and national resources can be used in a convergent and coordinated fashion.

In order to achieve ‘unity with diversity’ in Cohesion Policy we call for a process of ‘policy discovery’ to be initiated and directed at the national level in order to lead a reflection on the spatial development model of each Member State (and its regions) within the framework of a strong EU-wide Cohesion Policy. A strong national leadership will also allow ‘weak’ regions (in terms of institutional quality and governance) to gain momentum and avoid the current imitation of best practices with limited understanding of their own specificities, strengths and weaknesses in a broader national and supra-national strategic framework. After the ‘place-based’ turn in Cohesion Policy, changing political equilibria and a growing body of evidence are calling for a revival in leadership and responsibility of the Member States. More policy debates and scholarly research (both quantitative and qualitative) are needed in order to better understand how (national and local) strategic and reflective capacities on Cohesion Policy can be built and nurtured across the EU.

## **Acknowledgements**

This Special Issue includes a selection of papers presented in various Special Sessions on Cohesion Policy promoted and organised by the Guest Editors at the 2016 (Wien), 2017 (Groningen) and 2018 (Cork) Congresses of the European Regional Science Association (ERSA), at the 2017 (Dublin) Conference of the Regional Studies Association (RSA) and the RSA Winter Conference 2018 (London). Ideas discussed in this Editorial benefitted from discussions and feedback at the Interactive University Session “Thirty years of EU Cohesion Policy: What works? Where? for Whom?” organized by the Guest Editors in collaboration with ERSA at the European Commission’s European Week of Cities and Regions 2018 as well as at 1st ERSA- DG REGIO Academic Lecture 2018 given by Riccardo Crescenzi at European Commission - DG REGIO in Brussels. The Guest Editors are grateful to all contributors for their patient work on their papers, to all referees involved in the review process of so many papers as well as to the Editors of Regional Studies for their support and hospitality in the Journal. All errors remain our own.

## **References**

Bachtroegler J., Fratesi U. and Perucca G. (2019), The influence of the local context on the implementation and impact of EU Cohesion Policy, *Regional Studies*, DOI: 10.1080/00343404.2018.1551615.

Berkowitz P., Monfort P. and Pieńkowski J. (2019), Unpacking the growth impacts of European Union Cohesion Policy: transmission channels from Cohesion Policy into economic growth, *Regional Studies*, DOI: 10.1080/00343404.2019.1570491.

COM (2018), A renewed European Agenda for Research and Innovation, Communication from the European Commission (COM(2018) 306 final), Brussels 15.5.2018.

Coppola G., Destefanis S., Marinuzzi G. and Tortorella W. (2018), European Union and nationally based cohesion policies in the Italian regions, *Regional Studies*, DOI: 10.1080/00343404.2018.1447099.

Crescenzi R. and Giua M. (2019), How does the net impact of the EU Cohesion Policy differ across countries? Evidence from a Spatial RDD, *Regional Studies*, *this issue*.

Crescenzi R., Fratesi U. and Monastiriotis V. (2017), The EU Cohesion Policy and the factors conditioning success and failure: Evidence from 15 regions, *Regions Magazine* 305 (1), pp.4-7.

Di Cataldo M. and Monastiriotis V. (2018), Regional needs, regional targeting and regional growth: an assessment of EU Cohesion Policy in UK regions, *Regional Studies*, DOI: 10.1080/00343404.2018.1498073.

Faina A., Lopez-Rodriguez J. and Montes-Solla P. (2018), European Union regional policy and development in Spain: capital widening and productivity stagnation over 1989–2010, *Regional Studies*, DOI: 10.1080/00343404.2018.1542127.

Koenig N. (2016), EU External Action and Brexit: relaunch and reconnect, Policy Paper No178, Jaques Delors Institut, Berlin.

Psycharis Y., Tselios V. and Pantazis P. (2018), The contribution of Cohesion Funds and nationally funded public investment to regional growth: evidence from Greece, *Regional Studies*, DOI: 10.1080/00343404.2018.1525696.

Varga A., Sebestyén T., Szabó N. and Szerb L. (2018), Estimating the economic impacts of knowledge network and entrepreneurship development in smart specialization policy, *Regional Studies*, DOI: 10.1080/00343404.2018.1527026.

Védrine (2018), Allocation of European Structural Funds, decentralization and strategic spatial interactions, *Regional Studies*, DOI: 10.1080/00343404.2018.1455000.