

**c.MET05**

National University Centre  
on Applied Economic Studies



***XXXVIII. c.MET05 Policy Research Meeting***

Opening speech

**Riccardo Crescenzi** (*London School of Economics and Political Science*)


Friday 30<sup>th</sup> April 2021



European Research Council  
Established by the European Commission

Trentottesimo incontro serie  
"c.MET05 Policy Research Meeting"  
30<sup>th</sup> April 2021

# Cohesion Policy: what works, when and where?

 @crescenzi\_r

Riccardo Crescenzi  
London School of Economics

## This talk

A decade of 'crises' for Europe

EU Cohesion Policy & the Recovery Fund

- The 'political' rationale
- 'EU value added' and 'impact'

Pathway to impact

- How regions work
- How POLICIES work in practice

What works? Where? When? Under what conditions?

- Identification
- Contextualisation

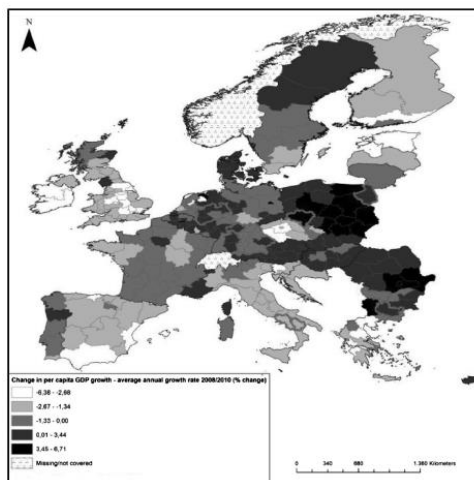
Some general conclusions

## A decade of 'crises' (1)

### 2008/2009 – Great Recession

- Severe contraction of economic activity and employment in virtually all regions
  - Shift of EU Cohesion expenditure in order to:
    - Address new and emerging local 'needs'
    - Compensate for cuts in 'national' public expenditure in key areas
- Asymmetric spatial patterns of recovery
  - New demands for Cohesion Policy in order to facilitate recovery

## Geography of the Crisis (1)



Average Annual Growth Rates of  
Regional GDP pc, 2008-2010 (Eurostat)

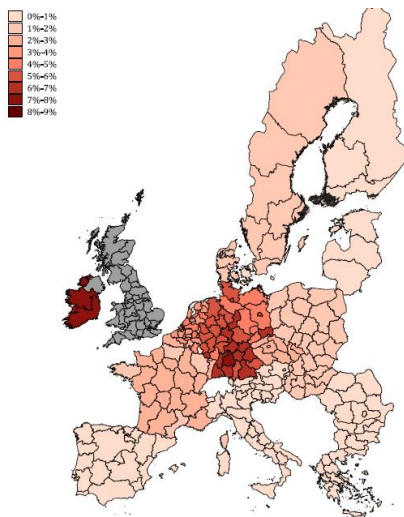
Source: Crescenzi, Luca, Milio 2016

## A decade of 'crises'(2)

### 2016 – Brexit

- Political crisis with financial and economic implications
  - The debate on Brexit called into question the 'value' of the Union
  - The UK played a relevant role in shaping EU policies including the progressive shift of resources from CAP towards Cohesion
  - Pressures on EU Budget following the departure of a net contributor with complex re-distributive effects
- Asymmetric spatial impacts
  - New demands for Cohesion Policy in order to deal with new asymmetric shocks via trade and FDI

## Geography of the impacts of Brexit



Regional shares of **local labour income exposed to Brexit** (excluding the UK)

Source: Chen, W., Los, B., McCann, P., Ortega-Argiles, R., Thissen, M., van Oort, F (2018)

## A decade of 'crises'(2)

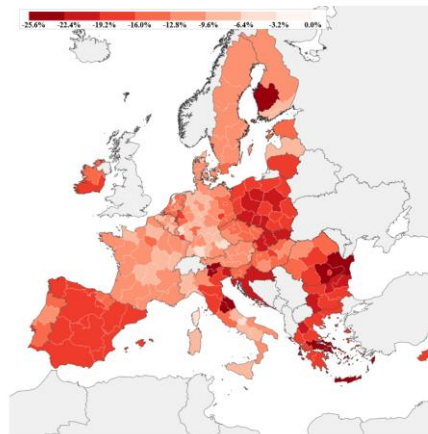
### 2020 – Covid-19

- Acceleration of pre-existing trends: geo-political fragmentation, global re-organisation of value chains and technological change
- New challenges mostly linked with the consequences of social distancing and other public health measures
- Unprecedented impact heterogeneity across sectors, GVC segments and regions within countries:
  - The European Commission is proposing a major recovery plan for Europe to help repair economic damage, support European recovery, and protect and create jobs.
  - Two-fold response: Next Generation EU a new recovery instrument of €750 billion and reinforced long-term budget of the EU for 2021-2027 (€ 1,100 billion)
  - EU Cohesion Policy earmarks €300 billion (over 7 years) as transfers that individual Member States invest for the economic recovery of 'Less Developed Regions'

## Geography of the economic impacts of Covid-19

<https://voxeu.org/article/next-generation-eu-recovery-plan-europe>

Figure 1 GDP impact at regional NUTS 2 level excluding the impact of policy measures

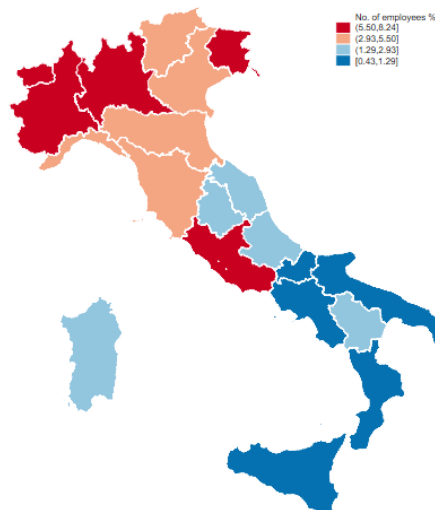


Source: JRC

Note: Shading shows estimated GDP growth in 2020 in %. The analysis is carried out using the RHOMOLO macroeconomic framework, a numerical-spatial general equilibrium model based on regional account data and a set of fully observed bilateral final and intermediate shipments consistent with the national accounts. The economic disturbances implemented in RHOMOLO are consistent with the 2020 Spring Forecast.

## The geography of Work from Home (2)

Share of WORKERS in Work From Home regime



## Cohesion Policy and Recovery (1)

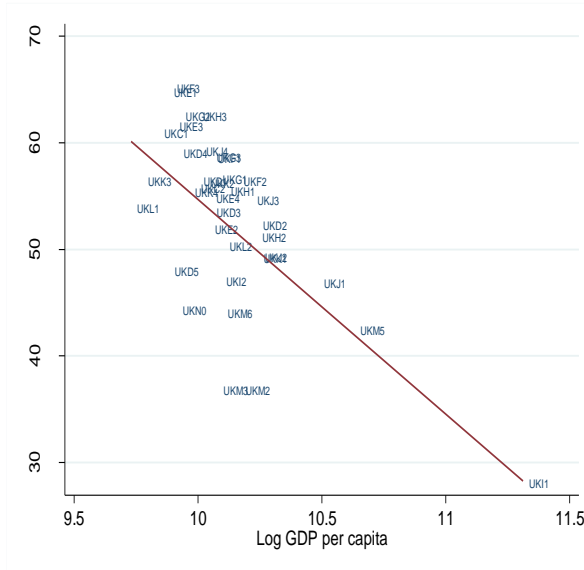
Potential discontinuity in public policies for less developed regions throughout Europe

- Cohesion Policy has often been the only development tool available ('natural experiment' in the UK shows the difficulty faced by 'less developed' regions to attract national resources)

In order to justify new investments in less developed regions not only under the EU Cohesion Policy but also through the Recovery Fund we **cannot** rely on purely **political arguments** such as:

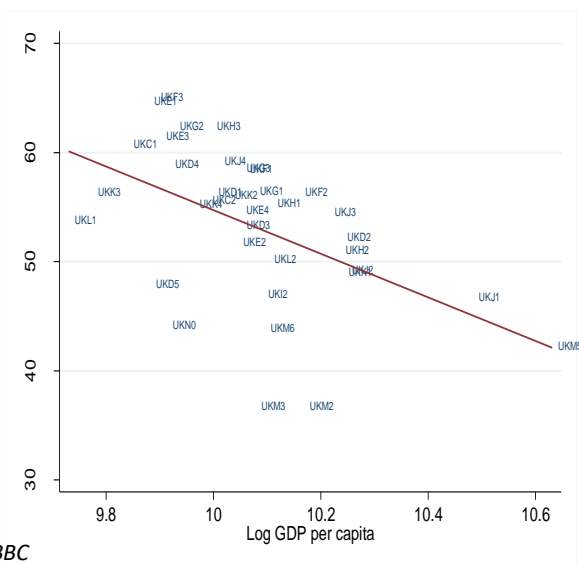
- Investment needed for redistributive purposes
- Less developed regions 'voting against European integration'

## Brexit: leave votes and regional GDP pc (1)



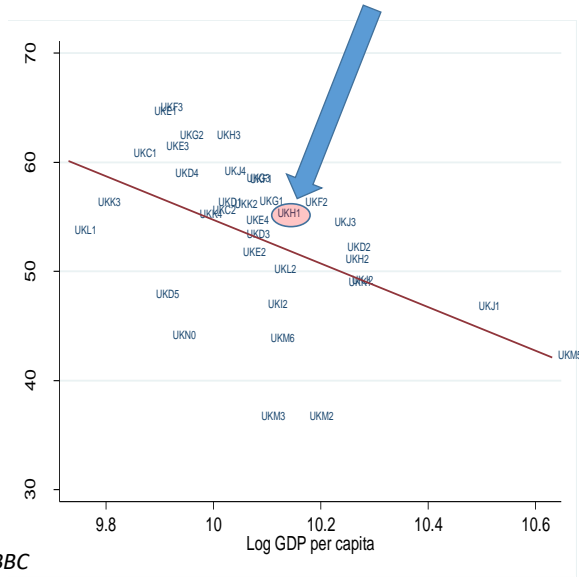
Source: Eurostat, BBC

## Brexit: leave votes and regional GDP pc (2) (Excluding London)



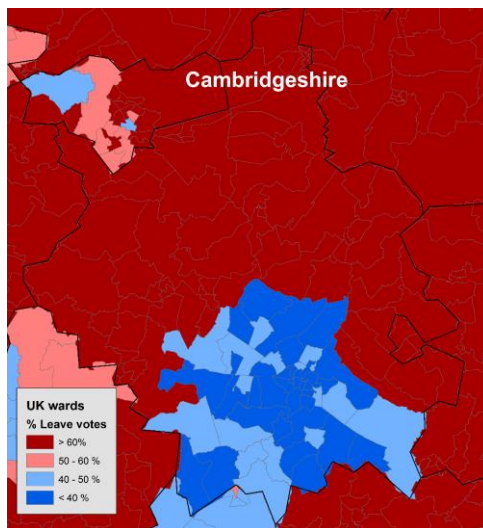
Source: Eurostat, BBC

## Brexit: leave votes and regional GDP pc (2) (Excluding London)



Source: Eurostat, BBC

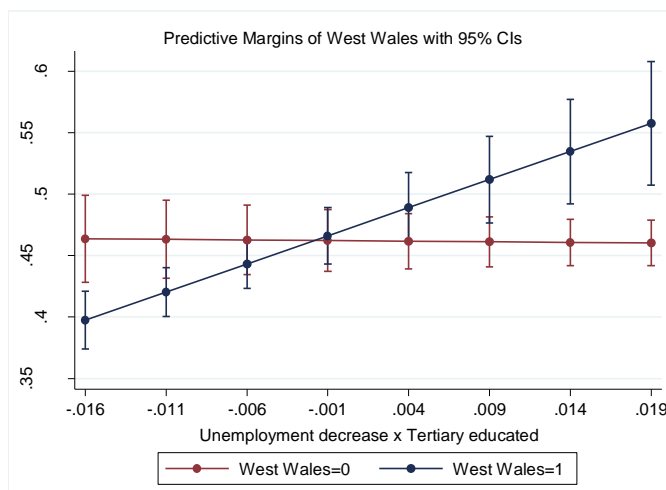
## Cambridgeshire (UKH12) Leave votes by ward



Source: Crescenzi, Di Cataldo and Giua (2020) - elaboration based on BBC data

# IMPACT matters for the future of Europe

Brexit votes suggest that EU development money mattered only where it generated 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)

50km from border, order 3 polynomials, excluding Cardiff

## Cohesion Policy and Recovery (2)

Expenditure in less advanced regions is **economically** justified if it **can show that**:

- It is an **EU economic priority** (EU rationale)
  - Equity Argument (asymmetric impacts of EU integration and EU policies)
  - Efficiency Argument (removal of developmental bottlenecks and global challenges)
- It **works** (Impact → not only 'economic impacts' matter but all impacts should be testable against a credible benchmark)
- **Best use of public resources** vs. other alternative options (Effectiveness)

## The diagnosis

Existent scholarly and policy debates have focused on **'how regions work'**

- Very dynamic field of research in Economic Geography, Regional Economics, Urban Planning etc.
- Remarkable attention by policy makers taking on board state-of-the-art academic work (e.g. Barca Report or Smart Specialisation)
- Data quality constantly improving
- Very accurate diagnoses (e.g. Cohesion Report)

## The cure: What works? Where? When? (1)

More limited attention to **'how Regional Policies work and where'** in terms of economic outcomes

- More recent (but rapidly developing) field of research
- Still difficult to draw general conclusions to inform policies
- Significant data barriers (with some best practices, e.g. OpenCoesione in Italy)

## The cure: What works? Where? When? (2)

Sophisticated **diagnoses** not matched by 'well-tested medications':

- Regions have been told (and very rightly so) to 'invest more in **innovation**', 'increase and improve **human capital**', 'reinforce **institutions**' etc.
- If all regions were good at this kind of thing, these problems wouldn't exist today!
- Generic recipes are good cover-ups for rent-seeking by local elites
- How to achieve these goals **in practice** given local conditions? What works? Where?

## The cure: What works? Where? When? (3)

**Theory-driven empirical work** (quantitative, qualitative, mixed method, experimental)

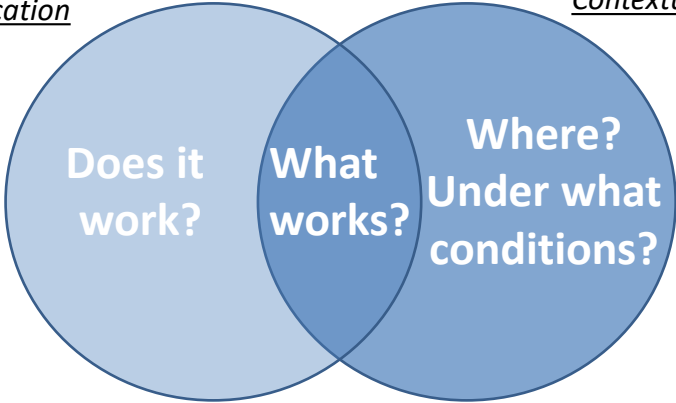
- Leveraging 'real' policy data and information
- Meeting 'quality' requirements in terms of falsifiability and reproducibility

Leverage **complementarities** between different streams of research

Analyses of heterogeneous effects of policies and programmes in different contexts

Identification

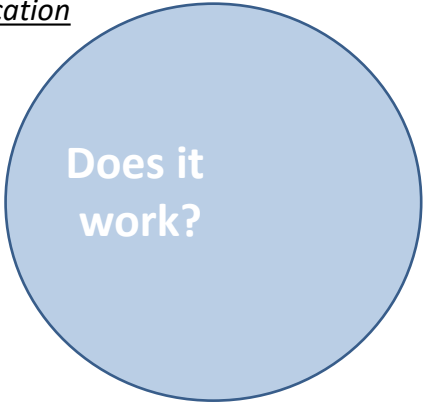
Contextualisation



Analyses of 'net' policy impact by means of counterfactual methods (*identification approaches*)

Analyses of territorial contextual conditions and factors conditioning success and failure (*contextualisation approaches*)

Identification



E.g. Mohl & Hagen, 2010; Becker et al., 2010; Accetturo & De Blasio, 2011; Bondonio & Greenbaum, 2012; Pellegrini et al., 2013.

## Does it work? The impact of Cohesion Policy (1)

Emerging literature on counterfactual assessment of Cohesion Policy impacts

Separation between **EU-wide studies** (Becker et al., 2010 and 2013; Pellegrini et al., 2013; Percoco, 2017) vs. **one-country studies** (e.g. Di Cataldo, 2017 for the UK or Giua, 2017 for Italy)

## Does it work? The impact of Cohesion Policy (2)

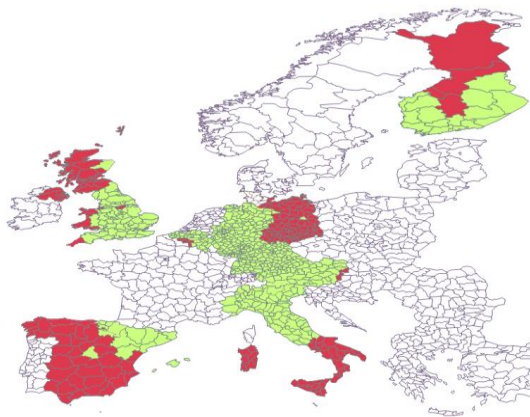
### Key questions

- 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

## Does it work? The impact of Cohesion Policy (3)



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)**

	Europe	Germany	Italy	Spain	UK
<b>Panel A - Y: economic growth</b>					
Objective 1	0.0036** (0.0011)	0.0354** (0.0118)	0.0295 (0.0411)	0.5078 (0.5907)	0.0074 (0.0451)
R squared	0.183	0.094	0.195	0.360	0.138
Polynomial degree	3-2	3-1	2-1	2-1	1-1
Observations	779	428	87	44	125
<b>Panel B- Y: employment</b>					
Objective 1	0.0045* (0.0017)	9.7737 (4.9094)	40.8626** (12.8633)	-78.82296 (43.9912)	50.3325** (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

## Does it work? The impact of Cohesion Policy (4)

- **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
  - Italian beneficiary regions experienced better employment performance but this effect ended with the Crisis
  - Spanish beneficiary regions have benefited in terms of better growth during Recovery with no impacts on employment

### Contextualisation

Where?  
When?  
Under what  
conditions?

E.g. Cappellen et al., 2003;  
Rodríguez-Pose & Fratesi,  
2004; Ederveen et al., 2006;  
Dall’Erba et al., 2007; Esposti  
& Bussoletti, 2008;  
Bondonio & Greenbaum,  
2012.

## Covid-19: Recovery Plan for Europe

The **European Commission** is proposing a major recovery plan for Europe to help repair the economic damage, support European recovery, and protect and create jobs.

The Commission is putting forward a **two-fold response**: **Next Generation EU** a new recovery instrument of €750 billion and **A reinforced long-term budget of the EU** for 2021-2027 (€ 1,100 billion)

**Instruments to support Member State** efforts to recover, measures to **boost private investment** and **support ailing companies**, the reinforcement of **key EU programmes**

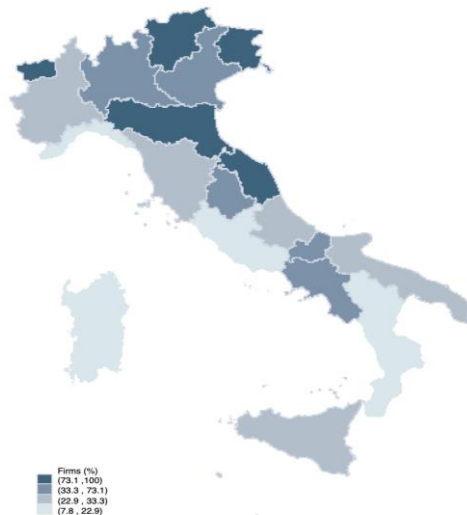
**Early lessons from existing EU policies (evidence):**

- **EU Cohesion Policy** earmarks €300 billion (over 7 years) as transfers that individual Member States invest for the economic recovery of 'Less Developed Regions'
- Exactly the same objectives outlined in the new Covid-19-response programme *Next Generation EU*.
- *Cohesion Policy* as a laboratory to detect and anticipate possible weaknesses of the (soon-to-be) *Next Generation EU*.
- With **Mara Giua (Roma Tre & LSE)** and **Giulia Sonzogni (GSSI)** we looked at individual projects from Italian database OpenCoesione using specific keywords to identify 'NextGeneration-style' Projects

## 'Next Generation EU'-type of projects: What works NOW?

	Health	School	Public Administration	Firms	Total 'pro-recovery'	Other Cohesion Policy
	%	%	%	%	%	%
<b>Project status</b>						
<b>Completed</b>	8.1	57.0	10.6	<b>29.0</b>	<b>35.8</b>	<b>73.2</b>
<b>In progress</b>	80.1	0.0	0.1	<b>53.7</b>	<b>50.5</b>	<b>14.5</b>

## 'Next Generation EU'-type of projects: **WHERE?**

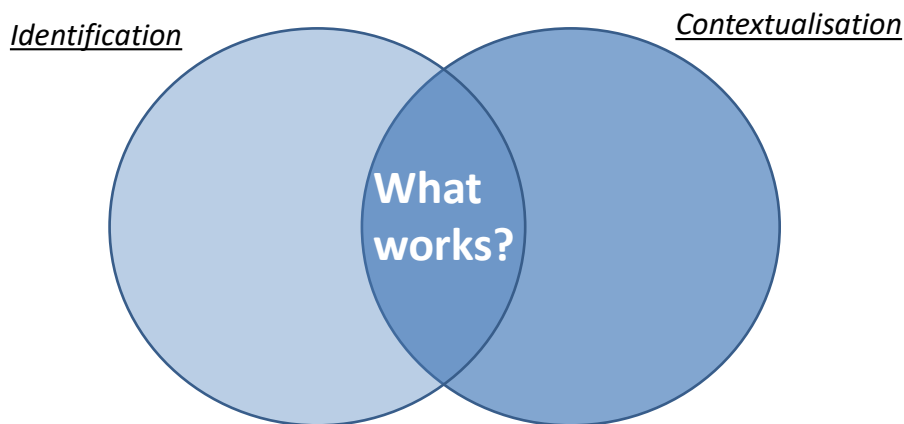


Share of 'recovery' funding for 'firms' – 2014-2020 Cohesion Policy - Italy

## What works for impact in NextGeneration EU?

In order to **minimize the probability of implementation delays** NGEU projects should:

- be developed by the central governments of each MS in close cooperation with the EU and with the direct non-intermediated involvement of stakeholders and citizens active on the ground.
- be led by citizens with precise objectives and responsibilities
- avoid multiple beneficiaries as well as the involvement of multiple territorial areas in their implementation.



## What Works? (1)

### A Smart Specialisation Forerunner Programme

**Too early for rigorous evaluation** of actual 2014-2020 Smart Specialisation Programmes

**But** we can analyse '**S-3 forerunner programmes**' from the past and learn from them

Crescenzi, De Blasio & Giua (2018) **evaluate the impact of a scheme** (Collaborative Industrial Research - CIR) supporting **innovative activities of firms located in less developed regions** in Italy (1 billion euros)

Co-financed by the EU Cohesion Policy in 2007-2013 and it **anticipates some key features of Smart Specialisation** Strategy Programmes

## What Works? (2)

### A Smart Specialisation Forerunner Programme

Makes it possible to draw insights on the potential impacts of S-3:

- **What features of S-3 Programmes work best** in the most disadvantaged areas of the EU?
- **What is the impact and 'value added'** of some of the **new features** introduced into regional innovation strategies by S-3?

## What Works? (3)

### A Smart Specialisation Forerunner Programme

Unique collection of **detailed programme-level and firm-level data**

Information on **applicants, selection scores and beneficiaries** with actual payments and firm characteristics and performance (5 different datasets)

RDD approach using the evaluation score of the applications as the forcing variable (some projects are eligible but not funded due to limited resources)

Focus **on project-level heterogeneity** (i.e. anticipation of some S-3 features)

### Heterogeneous Impact (H-ATE ) Results

		Investments	Value Added	Employment
Z1: Public research (presence of a University in the project partnership)	Treatment*Z1	-1.1480 (0.8926)	0.4142 (0.7503)	1.0767* (0.4205)
Z2: Collaboration (project partnership involving large number of firms)	Treatment*Z2	-0.5514 (0.5438)	-1.9874*** (0.5263)	-1.9942*** (0.4992)
Z3: Advanced Activities (activity of the project classified as advanced)	Treatment*Z3	-0.4083 (0.4439)	-0.2672 (0.4907)	-1.4622* (0.5910)
Z4: Low tech (firms operating in low tech sectors)	Treatment*Z4	1.2951** (0.4333)	0.1203 (0.4162)	1.3514** (0.4749)
Z5: Patenting (firms with a high capacity of patenting)	Treatment*Z5	-0.1697*** (0.0477)	0.2223*** (0.0596)	0.1248 (0.0876)
Z6: Internationalisation (multinational corporations)	Treatment*Z6	-0.7148 (0.6535)	-0.9529* (0.3698)	-1.7699* (0.7928)

Source: Crescenzi, De Blasio & Giua (2020)

## What Works? (4)

### A Smart Specialisation Forerunner Programme

Z1- **Collaboration** with public research centres or Universities does not increase impact

Z2 - **Large partnerships** have a negative impact on value added and employment

Z3 - **Most innovative activities** (e.g. ICT or Health and bio-technologies) do not show any additional benefits vs. **more 'traditional' activities** (e.g. Agro-industrial system, Cultural heritage)

Z4 - Firms operating in **low tech economic sectors** benefit the most

Z5 - Firms with more **consolidated innovative capabilities** reduce investments (crowding-out) and focus on value added

Z6 - No benefit for large **internationalised firms**

## Conclusions (1)

EU Regions are facing a **new challenges and opportunities**

- Multiple shocks (Covid-19 & Brexit) with asymmetric territorial impacts
- Shifting budget constraints for development policies

**'EU value added'** and **'Impact'** are key to success in a changing Europe

Good understanding of **how regions work** (Diagnosis)

More work is needed on **how regional policies work in practice** (Well-tested medications)

- **What works?**
- **Under what conditions? When? Where?**

## Conclusions (2)

Exciting field of research combining identification **and** contextualisation

Gradual transparent **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
- Combination of qualitative, quantitative and mixed methods (including Machine Learning)
- Stringent requirements in terms of valid methods, external validity and transferability of results
- Eclectic evidence-based selection of policy tools
- Top-down and bottom-up integrated approach
- Coordination between policies
- Small-scale experimentation with continuous feedback mechanisms

Essential for Recovery Fund expenditure to be translated into impactful policy actions

<http://blogs.lse.ac.uk/gild/>

**LSE** THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Global Investments & Local Development

Home About Latest Publications and Writings Events Subscribe by email

**Foreign Direct Investment and the world regions. Where? Why? And for Whom?**

Number of patents by region (2012)

40,000
20,000
10,000
5,000
2,500
1,250
625

Click on the image above to visualise global economic flows and their impacts on regions (opens a new tab).

**Recent Posts**

- Recent trends in the internationalisation of Business R&D**
- What do we know about FDI?** September 25th, 2017
- Connect or Perish! FDI and the resilience of EU regions** September 23rd, 2017

Supported by **erc** European Research Council

Subscribe to the blog by email

Email address:

Latest tweets from @LSE\_GILD

New article! With the #globalisation of #innovation, which countries are receiving R&D activities? [blogs.lse.ac.uk/gild/2017/10/09/](http://blogs.lse.ac.uk/gild/2017/10/09/)

Recent trends in the inter...  
By Bernhard Dachs (AIT, le...  
[blogs.lse.ac.uk](http://blogs.lse.ac.uk)



THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE



European Research Council  
Established by the European Commission

**Riccardo Crescenzi**  
London School of Economics  
[r.crescenzi@lse.ac.uk](mailto:r.crescenzi@lse.ac.uk)

**LinkedIn** [linkedin.com/in/riccardocrescenzi](https://www.linkedin.com/in/riccardocrescenzi)  
**Twitter** @crescenzi\_r

## 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](#)", *Regional Studies*, 54:10, 1341-1353, 2020 [OPEN ACCESS]

- Read also our VoxEu column : [What works \(and what doesn't\) for smart specialisation strategies in Italy's Mezzogiorno](#)

Crescenzi R. and Giua M. "[One or many Cohesion Policies of the European Union? On the differential economic impacts of Cohesion Policy across Member States](#)", *Regional Studies*, 254:1, 10-20, 2020

Crescenzi R., Di Cataldo M. and Giua M. "[It's not about the money. EU funds, local opportunities, and Euroscepticism](#)" *Regional Science and Urban Economics*, 84, 103556, 2020

- Read also our LSE Brexit Blog column : <https://blogs.lse.ac.uk/brexit/2019/11/12/money-cant-buy-love-for-europe-but-success-certainly-can/>

Crescenzi R., Giua M. and Sonzogno G. "[Mind the Covid-19 crisis. An evidence-based implementation of Next Generation EU](#)", *Journal of Policy Modeling*, 43(2), 278-297, 2021

- Read also our EUROPP column : <https://blogs.lse.ac.uk/europpblog/2021/02/15/next-generation-eu-how-the-eus-covid-19-recovery-fund-should-be-implemented/>