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REGIONAL CONVERGENCE: A RELEVANT MEASURE OF POLICY SUCCESS?

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European cohesion policy is governed by Articles 2 and 4, and Title XVII of the Treaty establishing the European Community. In particular, Article 158 determines that the Community “shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas”. Article 160 further adds that the “European Regional Development Fund is intended to help redress the main regional imbalances in the Community through participation in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions”.

The draft Treaty which is currently being ratified by Member States does not fundamentally change these provisions, though by introducing the notion of territorial cohesion it opens up potentially new, important dimensions to the understanding and implementation of European cohesion policy. This is why the European Commission intends to publish in autumn 2008 a Green Paper on territorial cohesion.

An important question is, therefore, how to measure the effectiveness of European cohesion policy in fulfilling the objectives set down in the Treaty. Since the inception of the policy in the late 1980s, convergence of regional GDP has been the key measure to determine its success. A large body of literature has developed since then to assess whether regional convergence has occurred. Although regional disparities have shown a tendency to gradually decrease over the long run, the process of convergence among

European regions has slowed down considerably in recent decades despite the fact that important growth differentials still characterize the European landscape somewhat undermining certain tenets of neoclassical theories.

Certain strands of the economic literature underline the positive effects of European cohesion policy on regional growth and convergence. For example, a recent paper by Puigcerver-Peñalver (2007) estimates a hybrid growth model which allows for endogenous and exogenous factors of growth over the period 1989 to 2000 for 41 Objective 1 regions. Apart from finding convergence, she also finds a significant and positive impact of Structural Funds, which, however, was stronger in the programming period 1989 to 1993 than in the period 1994 to 2000. Successive reports on economic and social cohesion have also attempted to estimate the degree of regional convergence. By comparing the top and bottom quintiles of NUTS2 regions, the report shows that the ratio of the average level in the top regions to that in the bottom regions has declined from 4.1 to 3.4 between 1995 and 2004 (European Commission 2007). Previous work by Leonardi (2006) shows that beta convergence is positive in all the studies which have presented comparative analyses of beta and sigma convergence.

Other studies, however, provide a more mixed picture suggesting that there is not a unique development path. Depending on the characteristics of the regions, the development trajectories differ due to different capacities to catch up and to take up technological opportunities. For example, Cappelen et al. (2002) investigate the long-term effects of Structural Funds on growth at the regional level over the period 1980 to 1997 and found evidence that the effect differs according to different types of regions. While in general EU regional support has a significant and positive impact on the growth performance of EU regions, the effect is much stronger in more developed environments. They highlight that for less-favoured European regions, the unfavourable industrial structure, which is dominated by agriculture and the lack of R&D capabilities,

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may hamper growth. They conclude that in these regions the support needs to be accompanied by policies improving the competence of the receiving environments (for instance by facilitating structural change and increase R&D capabilities in poorer regions). A related investigation is taken up by Dall'Erba (2003) who studies the relationship between the spatial distribution of regional income and of regional development funds over 1989-99 using an exploratory spatial data analysis. Results show global and local spatial autocorrelation in the distribution of regional per capita incomes, reflecting the fact that rich (poor) regions tend to be clustered close to other rich (poor) regions, and in the distribution of regional growth rate and regional funds. The analysis also reveals a negative correlation between growth and initial income, which tends to indicate beta convergence. A positive relationship between regional growth and European cohesion policy is also identified in this work, though it clearly emerges that the funds are not the only variable to control for the various growth rates among European regions. A closer look at the economic structure, the accessibility, the institutional aspects of each region as well as the type of projects that Structural Funds finance in these regions and their neighbouring regions could help explain why these regions display greater/smaller development progress than their neighbours even if they receive similar amounts of structural funds.

Finally, other economists argue that it is unclear whether European cohesion policy by itself accounts for the bulk or only a minor part of the growth produced. For example, Santos (2008) finds a weak link between Structural Funds and growth and maintains that European cohesion policy is pursuing conflicting objectives by allocating resources to regions where returns on capital are less productive.

In conclusion, it may be argued that – while research on regional convergence and on the role of European cohesion policy in explaining it should continue to improve its analytical tool kit – so far the results remain inconclusive.

One may ask, therefore, whether regional convergence is the most relevant measure of success of European cohesion policy. There are few reasons to actually consider that it is not, at least if taken in isolation.

First of all, there are problems of a technical nature which are linked to issues of relevance, responsibility

and measurability. One of the lessons which can be drawn from the literature is that it is very difficult, if not altogether impossible, to isolate the effects of European cohesion policy from other factors that interfere with the operation of the policy: administrative capacities; macro-economic framework; functioning of labour and financial markets; and “institutional thickness”. Moreover, one of the most overlooked dimensions of the debate on the effectiveness of European cohesion policy is its interaction and coordination with other public investment policies at national and regional levels. For example, it has been shown (European Commission 2007) that compared to the initial distribution proposed by the European Commission, Member States operate significant adjustments in the allocation of financial resources between sectoral and regional programmes, and among regional programmes. While this is a result of the multi-level governance system of European cohesion policy, it obviously has effects on the development perspectives of regions. And this without considering national investment decisions other than those linked to European cohesion policy. For the period 2007 to 2013, there is only one country – Italy – that has presented to the European Commission a national strategic reference framework which consolidated in one single, coherent document the entirety of the investment in support of regional development.

In any case, even if it were possible to isolate the effects of European cohesion policy, it would remain extremely difficult to establish a causal link between the policy instrument and changes in macro-economic variables. This is why, for example, during the negotiations of the legislative framework for European cohesion policy for the period 2007 to 2013, the large majority of Member States refused to accept the performance mechanism proposed by the European Commission (the so-called performance reserve) linked to the improvement of GDP growth. This reflects a typical problem of responsibility, where the achievement of a given objective depends on several agents (public and private) and policies, making it impossible to bind agents to the target.

Finally, the recent literature on the empirics of growth focuses on the variables which are important determinants of growth in a variety of different models. A first difficulty is linked to the fact that, given the open-ended nature of growth theories which are not mutually exclusive or even com-

patible to each other, choosing a particular model implies a rather strong imposition of prior information. And these priors are often very different depending on whether they are linked to research or to policy-making. A second difficulty which explains some of the scepticism and mistrust to growth regressions is related to the potential collinearities of regressors which might affect the results, to potential parameter heterogeneity which might seriously affect the results of growth regressions, and to the potential endogeneity of the variables included in a regression and the difficulty in finding proper instruments to tackle this problem. Several studies using different statistical techniques showed, for example, that the assumption of parameter homogeneity is incorrect in most cases (see Durlauf and Johnson 1995; Desdoigts 1999; Pritchett 2000).

There is, however, a second group of reasons of more of a policy nature which argue for re-thinking the way in which policy impact and effectiveness is measured. Measuring the effect of European cohesion policy by exclusively looking at regional GDP convergence means in fact looking at one dimension – albeit important – of the rationale of the policy.

European cohesion policy has historically addressed, in a more or less explicit way, three main objectives:

- Promoting European *legitimacy*, by enhancing rights and opportunities throughout the Union,
- Improving *competitiveness*, by reducing in all territories the underutilization of resources, and
- Increasing *equity*, by improving citizens' capabilities according to the features of their territorial context.

The policy has done so, by using three separate “modes” of operation:

- *Compelling* Member States to implement “regional policies”, or, more generally, public capital spending, according to common EU principles;
- *Setting conditionality rules* coherent with turning regional policy into a “new paradigm” as developed by the discussion within the OECD on territorial policies (roughly defined as a policy which has evolved from subsidies compensating disadvantage to investment supporting regional opportunities; from sectoral approaches to multi-

toral place-based approaches; from a dominant role of certain levels of government to a multi-level governance approach involving coordination of national, regional and local governments and other stakeholders); and

- *Redistributing resources* across Member States to be put at the disposal of “regional policy” or, more generally, capital public spending.

By concentrating on growth of regional GDP, the debate has de facto limited the analysis of European cohesion policy to its equity objective and its redistributive instruments. Excessive reliance on macro-analysis where causation cannot be proved and where counterfactuals are not developed have prevented the debate on European cohesion policy both from learning about its results, from discriminating between good and bad actions, and from identifying the elements of the policy which need genuine improvement.

Subsequent evaluations have shown that European cohesion policy has contributed to improve the standard of living and economic opportunities in regions, by supporting institutional convergence and administrative modernisation; by improving accessibility to and from the regions; by establishing linkages between research institutions, universities and the business community; by improving skills and employability; by providing advanced services to small and medium-sized businesses. In other words, European cohesion policy has adhered to the mandate set in primary EU law to redress territorial imbalances and improve regional development perspectives rather than compensating for disadvantage.

This pleads for a serious re-consideration of the instruments needed to correctly assess the impact of European cohesion policy with a view to complement and enrich the still much needed analysis of macro-trends. Meso- and micro-level indicators need to be developed and tested that are verifiable, measurable and directly linked to the interventions co-financed by European cohesion policy, while recognising that success is context dependent.

Advancing on this front would also open up interesting possibilities to address one of the most difficult criticisms addressed at the policy and well captured by the recent report of the OECD on the European Union (OECD 2007): how to make the policy more performance-based? As long as the

effectiveness of European cohesion policy is only assessed on the basis of regional GDP performance, it will be extremely difficult to introduce conditionality and incentive mechanisms which would make all the actors involved responsible and accountable for its success.

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