

THE COHESION SPIRIT AND EU POLICIES: A SCENARIO ANALYSIS

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- The Committee of the Regions (CoR) recently deliberated on the costs of enhancing cohesion across the European Union (EU) through the various EU policies.
- This Insight presents JRC scientific evidence on the impact and feasibility of enhancing cohesion based on two quantitative scenarios focusing on investments in firms and training.
- The results show that substantial amounts of funding in less developed regions would be needed in order to meet ambitious cohesion targets. This may be mitigated through initial investments to improve institutional quality and developing a culture of entrepreneurship and innovation. Subsequently lower levels of investment may indeed propagate cohesion to get closer to the desired targets.

1. Introduction

The Single European Act and the Lisbon Treaty outline economic, social and territorial cohesion as a way to “reduce disparities between the various regions and the backwardness of the least-favoured regions.” The European Commission’s Cohesion policy is the main tool promoting a balanced and sustainable territorial development. The policy is serviced through five funds comprising the European Structural and Investment Funds (ESIF).

The Committee of the Regions (CoR) is currently assessing the overall value and objective of EU cohesion. This Insight presents quantitative results based on two investment scenarios relayed by the CoR to study the Cohesion spirit in the EU.

The first scenario (“Growth”) envisages ESIF-style investments in firms in low income regions (as identified in European Commission, 2017) so that they achieve a GDP growth rate of four times the EU average (the group includes regions in Bulgaria, Hungary, Poland, and Romania).

The second scenario (“Education”) foresees an increase in education and training spending to four times the EU average in the regions not performing well according to the EU Regional Innovation Scoreboard (RIS*) that is those in the first quartile.

The analysis is conducted using the RHOMOLO model, a numerical-spatial general equilibrium model based on regional account data and bilateral final and

intermediate trade amongst all the EU NUTS 2 regions.

2. Results of the analysis

The funds deployment causes regional economies to face a short-term demand stimulus which increases labour demand and wages leading to higher employment and household consumption. This is followed by long-term supply side effects related to increased productivity and decreased transportation costs.

Figure 1 shows that, in the Growth scenario, the targeted regions achieve the GDP impact objective (+10.2%) eight years after the start of the programming period. However, the amount of funding needed in order for these regions to achieve such an objective appears to be high.

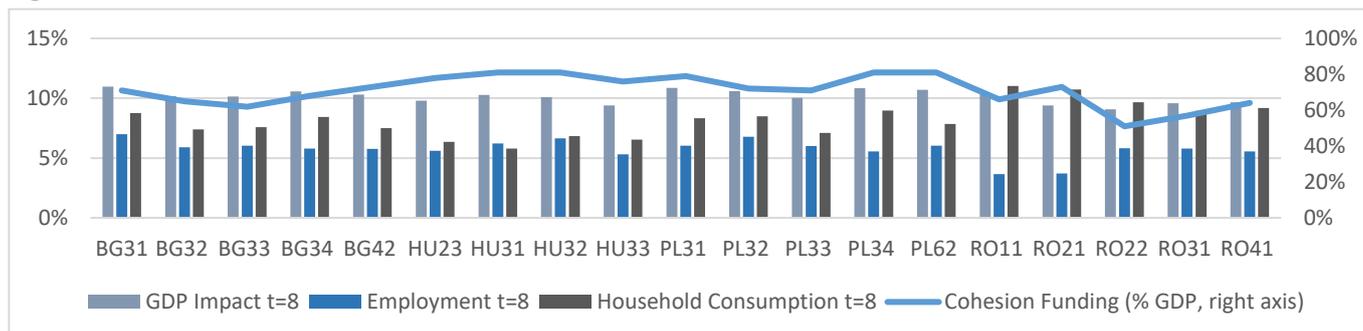
According to the model simulations, the funding should be up to two and in some cases three times the amount of the 2014-2020 ESIF expenditure, that is between 60% and 70% of GDP over ten years (about 6-7% of GDP every year during the implementation period).

The policy impact of this research

The main results of this Policy Insight are included in the CoR publication on the value of Cohesion (Böhme, 2021) entitled “Contribution of key EU policies to promote the cohesion as an overall value and objective of the European Union”.

* https://ec.europa.eu/growth/industry/policy/innovation/regional_en

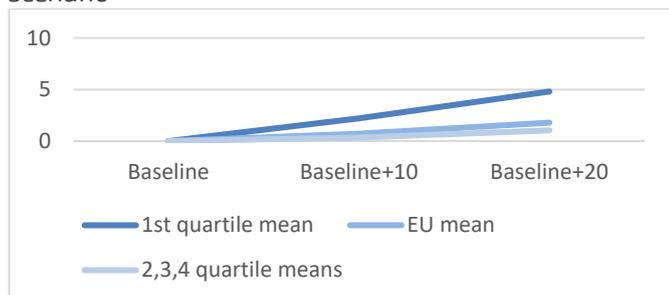
Figure 1: Growth scenario results



Source: RHOMOLO. Regions are identified via NUTS 2 codes.

In the Education scenario, increased funding in training would increase the GDP impact of the policy in the targeted regions by approximately 4% and 10% with respect to the EU average in 10 and 20 years respectively. EU regional disparities would decrease as a result due to the higher growth rates in the low innovation regions (1st quartile) relative to the EU average (see Figure 2).

Figure 2: GDP per capita growth rates, Education scenario



Source: RHOMOLO.

As in the Growth scenario, investment in education in some of the regions would need to be high, up to five times the EU mean education funding to GDP ratio.

3. Conclusions

The model simulations reported here suggest that further enhancing cohesion by concentrating solely on

less developed regions would require very high funding being channelled to those regions. There are limits to how much investments an economy can absorb and efficiently deploy. These limits are normally tighter in less developed economies in which the entrepreneurship level is low and the quality of the infrastructures and institutions is not the same as in more developed regions.

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Böhme, K. (2021). Contribution of key EU policies to promote the cohesion as an overall value and objective of the European Union. DOI: 10.2863/9390

European Commission (2017). Competitiveness in low-income and low-growth regions. The lagging regions report. SWD(2017) 132 final. Brussels, 27.5.2020.

RHOMOLO
Dynamic Spatial CGE Model for EU regions
Territorial Data Analysis and Modelling team (TEDAM)
<https://ec.europa.eu/jrc/en/rhomolo/team>

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