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FUTURE PERSPECTIVES OF EU COHESION POLICY

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GEFRA Working Paper: Mai 2012 – Nr. 7

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ISSN: 1862-8915 (Print)

1862-8923 (Internet)

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ABSTRACT

Unlike the single European market and the single currency, EU cohesion policy – although the subject of major reforms at the end of the 1980s - has never been exposed to as rigorous investigation and research about its objectives and impact evaluation as the other two policy initiatives. As a result, the cohesion policy cycle consisting of design, implementation, monitoring and impact evaluation shows weaknesses at all of its stages, but especially at the microeconomic and macroeconomic level. In this paper we look at the different issues that influence approaches to EU cohesion policy, critique the way the policy cycle is implemented in practice, and conclude that a more rigorous and systematic approach is necessary and feasible in order to justify the interventions in terms of returns to the investments.

Keywords: European Cohesion Policy, Evaluation, Policy Design

JEL-Classification: R10, H50, D04, E61

COHESION POLICY IN ITS EU CONTEXT

From an economist's perspective there have been three major internal EU policy innovations since the mid-1980's.¹ First, a single European market was designed in the mid-1980s and was launched in 1992. Second, cohesion policy was completely redesigned and greatly expanded after 1989 with the aim of promoting catch-up in national and regional standards of living across the enlarged EU and ensuring the success of the single market initiative. Third, a single currency was adopted by most member states in 1999. The single market and the single currency were systemic changes to EU economic governance whose implementation required detailed preparatory analysis and political will rather than big budgetary allocations. The restructuring of cohesion policy, on the other hand, involved a significant broadening of its originally rather modest scope and required significantly increased financial resources which came mainly from reallocations of funds released by long overdue CAP reforms rather than from any greatly expanded EU budgetary envelope. Indeed, the resources available in the EU budget have declined slightly in recent years when expressed as a share of EU GDP.

In preparation for the single market and single currency, massive, well-funded research projects preceded their launch and were used to explore many aspects of the proposed policy changes.² Recent troubles in the euro zone have highlighted unanticipated institutional deficiencies in the face of an unprecedented global financial crisis, aspects that were downplayed in original preparatory research. Nevertheless, the research commanded wide acceptance and became instrumental in building consensus around the initiatives (see CECCHINI, 1988 and MONTI, 1996 for the single market; EMERSON *et al*, 1988 and EUROPEAN ECONOMY, 1990 for the single currency). However, no similar searching and intensive research initiatives were carried out in the case of cohesion policy. On the contrary, cohesion policy has tended to develop and evolve with unclear objectives and in a somewhat ad hoc

¹ We regard the progressive EC/EU enlargements of 1982, 1986, 1995, 2004 and 2007 as "external" rather than "internal" developments.

² Recent troubles in the euro zone probably have more to do with unanticipated institutional deficiencies in the face of an unprecedented global financial crisis than with any failure of the original economic research.

fashion. Policy scope, guidelines, rules and regulations were formed and reformed as the various EU budgetary programme periods came and went during 1989-93, 1994-99, 2000-06, currently 2007-13, and now in the preparation for 2014-20.

There were both political and economic reasons for the absence of much detailed, rigorous and searching justification for the new and expanded approach to EU cohesion policy. The political reason has been stated in fairly stark terms by TONY JUDT (2005). In his analysis of the preparations for the single market, he concluded that:

“In order to make the Maastricht conditions more palatable, cash bonuses were made available to recalcitrant governments: Jacques Delors, the Commission President, all but bribed the finance ministers of Greece, Spain, Portugal and Ireland, promising large increases in EU structural funds in return for their signatures on the Treaty” (JUDT, 2005, p.715).

Although this judgement is contentious, if JUDT’s interpretation is even partially correct, then it goes a long way to explain the asymmetry between the systematic and intensive preparations made prior to the single market and the single currency, on the one hand, and the more ad hoc approach to expanding expenditure on EU cohesion policy after 1989, on the other hand. The big debates on the single market and EMU were orchestrated at the centre by the Commission itself with the aim of motivating and galvanising all of the member states into thinking deeply about their justification and likely consequences. Even at the national level, some states carried out deep and searching evaluations of the single currency proposal, leading to rejection in the cases of Sweden (Calmfors, (ed.), 1997) and the United Kingdom (HMT, 1997), but acceptance in the case of Ireland (Baker et al, (eds.), 1996). However, rather than staking out a central role for the European Commission in developing and clarifying cohesion policy, the investigation of many deep questions was either ignored or – in many cases – put out to the market in the form of consultancy and academic studies. The legacy of this initial failure is still with us, particularly in the regular *Cohesion Reports* published by the Commission, where economic rigor and rationale is lacking, national and regional improvements are often uncritically attributed to EU Cohesion Policy while problems and failures are discretely swept under the carpet.

Although we are only five years into the current seven year EU budgetary programming period which started on January 1st, 2007, public discussion is almost com-

plete on the nature of the next budget which is likely to cover the seven-year period 2014-2020. Since about one third of total EU budgetary resources are currently devoted to implementing cohesion policy, it is understandable that some net donor states (i.e., the states that make the largest net contributions to the EU budget) are demanding to be reassured that their money is being spent wisely and used effectively to achieve the stated goal of promoting growth and convergence of standards of living throughout the EU. Moving beyond any altruistic desire to promote cohesion in net beneficiary states (i.e., the lagging states that receive net benefits from the cohesion element of the EU budget), there has been increasing interest in the secondary, spillover benefits to the net donor states, a topic which, curiously, had never been the subject of much attention until recently.³ More generally, there is increasing need to justify the continuation of EU Cohesion Policy funding at a time when all member states have suffered the consequences of global recession and are under severe fiscal pressure, requiring cut-backs in domestic expenditure programmes across the board as well as higher taxes and – in the cases of Greece and Ireland – large scale financial bail-outs by the ECB and the IMF.

³ See BRADLEY, UNTIEDT and ZALESKI, 2009, for an integrated analysis of the direct impacts of Cohesion Policy on the “lagging” states and the consequences of cohesion policy-related trade creating spillovers on the “advanced” states, taking into account the economic costs to the “advanced” states of contributing to the EU budget.

THE PROBLEM

The separate activities of design, implementation, monitoring and evaluation must play important roles in the operation of EU Cohesion Policy. However, there has to be a proper relationship and balance between these four activities. For example, if evaluation (in the sense of impact evaluation) is carried out in isolation from and in ignorance of the other stages, then there is a risk that it may degenerate into ever refined, technical investigations into the impacts of policy initiatives that may be sub-optimal or misdirected when considered at a more strategic design level and perhaps poorly implemented on the ground. Specific questions concerning impact evaluation need to be nested inside a wider strategic consideration of the intended role of Cohesion Policy. Only when the strategic positioning of a nation's Structural Fund programmes is correct is it possible to focus evaluation activities where they are most needed and where they will yield high returns and greater insight. Clarity at the strategic level of policy-making is an essential context for the more tactical level of policy impact evaluation that is carried out on individual policy initiatives or collections of such initiatives.

Where do we stand with respect to these issues as we approach the renewal of EU Cohesion Policy for a fifth budgetary programming period? The design stage is probably the very weakest, since examination of the performance of lagging states and identification of their development needs in terms of (inter alia) necessary public investment and other policy issues has been at best superficial and at worst practically non-existent. Implementation has been difficult for the new EU member states who were undergoing massive structural and institutional changes and who joined the EU at levels of development that were considerably lower than the four original so-called "cohesion" states (Greece, Ireland, Portugal and Spain).⁴ Monitoring has been strong; perhaps even too strong. Compliance costs for the new member states have been very high and administratively onerous, often leading to long delays in implementation. However, problems of gross misuse of funds identified by

⁴ Difficulties at the implementation stage can be observed in the extremely slow take-up of Cohesion funding by the new member states both in the 2004-2006 programme and the current, 2007-2013 programme, suggesting weaknesses in institutional capacity and planning.

searching reports of the Court of Auditors have been relatively infrequent. Evaluation has been weak, unconvincing and often misdirected, an outturn that is closely related to the above mentioned failures at the initial design stage but which is also exacerbated by the complexity of the analytic challenges that take impact modelling to the frontiers of economic research.

The official EC celebration of the first twenty years of Cohesion Policy hosted a debate between some of the senior EC officials who had overseen that policy since its transformation after 1988.⁵ The issues were wide ranging, but a clear implication emerged, summarised in a contribution by JÉRÔME VIGNON (p. 31):

“Two [...] elements which justified giving strong influence to the European Commission were the questions of evaluation and of additionality – which should assure the net contributors that the money would be safely used everywhere. I think one of the difficulties is that we have not been able to deliver on those specific innovations. ‘Evaluation and added value’ are large failures in my view and to demonstrate that we have been effective is not much reflected, for example, in the Cohesion Reports. The same is true for ‘additionality’. Some of the bigger Member States have failed to deliver on this, and these facts have weakened our position”.

A more nuanced version of this stark verdict was contained in the most recent *Cohesion Report*, EUROPEAN COMMISSION 2010, p. xv:

“Higher-quality, better-functioning monitoring and evaluation systems are crucial for moving towards a more strategic and results-oriented approach to cohesion policy. A number of changes would support this shift.”

We want to explore the challenge posed in the *Fifth Cohesion Report* both in terms of what it says (the need for better monitoring and evaluation systems) and in terms of what it does not say (the need for better ex ante design of Cohesion Policy). This is a tough agenda since questions of better design and evaluation take one into new and complex areas of economic policy research where much is known but little is settled. We explore these issues in terms of some specific complications posed by

⁵ See “Looking back to 1988: A debate between officials of the European Commission”, in EUROPEAN COMMISSION (2008, pp. 26-36)

Cohesion Policy as it has unfolded over the past twenty two years: the serious challenges posed by policy design issues; the search for criteria that can be used to select investment priorities; how impact evaluation can be strengthened and rescued from its present confused state; and how Cohesion Policy can be linked better to national strategic thinking on economic development. We conclude with some implications that are relevant to what we need from the next Cohesion Policy programme.

POLICY CHALLENGES

As we try to learn from cohesion policy experience since the major reforms of 1988, we face a major complicating factor. Not only have the policy goal-posts been constantly moved during the last twenty two years, but the football stadium has been relocated as well! This is best illustrated in Figures 1 – 4 below, where the changing investment priorities and the shift in geographical location is dramatically evident. This is a challenging policy environment for many reasons. First, the institutional arrangements within the “old” cohesion states were already diverse, but all four states had functioning market economies and broadly appropriate (if not always efficient) institutions when the time came to absorb Structural Funds. Eight of the ten new member states joining in 2004 and the two joining in 2007 had made a painful transition since 1989 from various kinds of non-market central planning and their administrative and economic production structures – even fourteen years after the fall of the Berlin Wall - were still adjusting to the full consequences of free trade and integration into EU and global markets. Second, the levels of GDP per head in the new member states were, with few exceptions, considerably lower than those of the four original cohesion states in the late 1980s. Third, over the years since 1988 the composition of investment supported by Cohesion Policy mutated from a three-way split between physical infrastructure, human resources and direct aid to firms to a much more complex mix of categories that additionally targeted R&D, environmental, social and other issues, in addition to having to take account of a wide range of socio-economic constraints. If knowledge of the likely impacts of the earlier three-way investment mix on cohesion was weak – and it was – then knowledge of the likely impacts of the more complex recent investment mix was almost non-existent.

There are many other complicating factors that muddy the waters in our ability to understand cohesion policy in all of its sectoral and regional dimensions. In particular, research on and understanding of the “spatial” elements of investment policy was often lacking, even if great progress had been made since the pioneering work of FUJITA, KRUGMAN, VENABLES (1999) and others in the 1990s.⁶ An important,

⁶ KRUGMAN'S early, and very accessible 1991 book on *Geography and Trade* was the starting point of what is now a vast and complex literature on spatial economic theory.

if poorly understood, implication is that it is still very difficult to define a policy “counterfactual” for the evaluation of the spatial impacts of cohesion policy, i.e., how to examine a situation where cohesion policy was not implemented in order to be able to compare it with a situation where it was. A basic requirement for this to be possible is that we understand the functioning of the economy being studied – national, regional or urban – sufficiently well enough to be able to model its behaviour and to trace through the chains of causation that link policy instruments to policy consequences. Using modern macroeconomic modelling frameworks, it is possible to carry out this kind of analysis in a non-spatial context, although there remains conflicts as to the appropriate choice of modelling paradigm (see BRADLEY AND UNTIEDT, 2008). However, although theoretical advances in spatial modelling hold out prospects for practical, empirical implementation, there have been no convincing and authoritative case studies that could address the spatial aspects of Cohesion Policy impact analysis.

However, this still remains a literature that is long on theory and plausible narrative but surprisingly short on robust policy guidance. BALDWIN, ET AL (2005), *Economic Geography and Public Policy*, contains a lot of geographical economic theory but very little on spatial public policy, other than in a very general sense. The WORLD BANK Development Report (2009) is a welcome major advance in applying spatial economic research to policy design and analysis.

Figure 1: Cohesion Policy 1989-1993

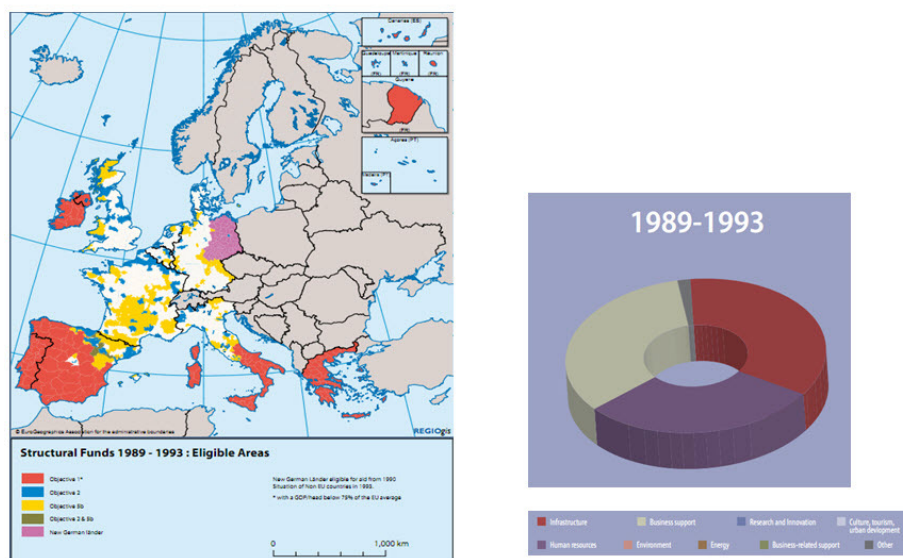
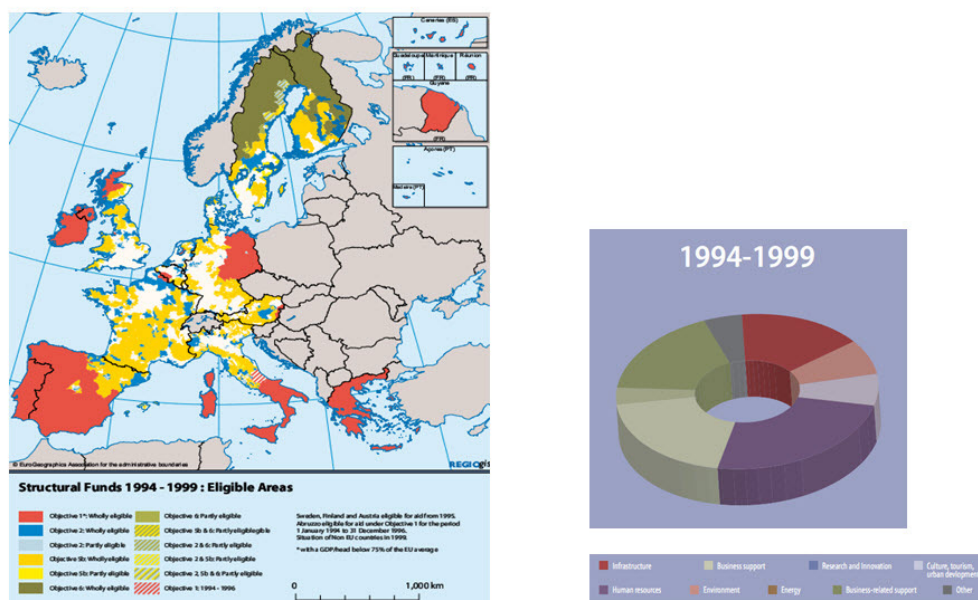


Figure 2: Cohesion Policy 1994-1999



Source: EUROPEAN COMMISSION (2008)

Figure 3: Cohesion Policy 2000-2006

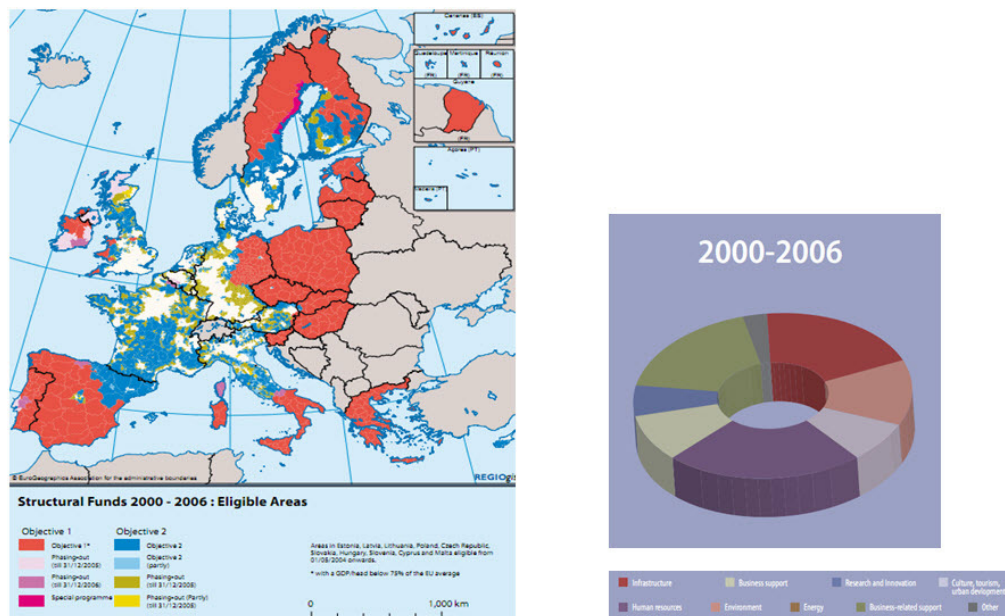
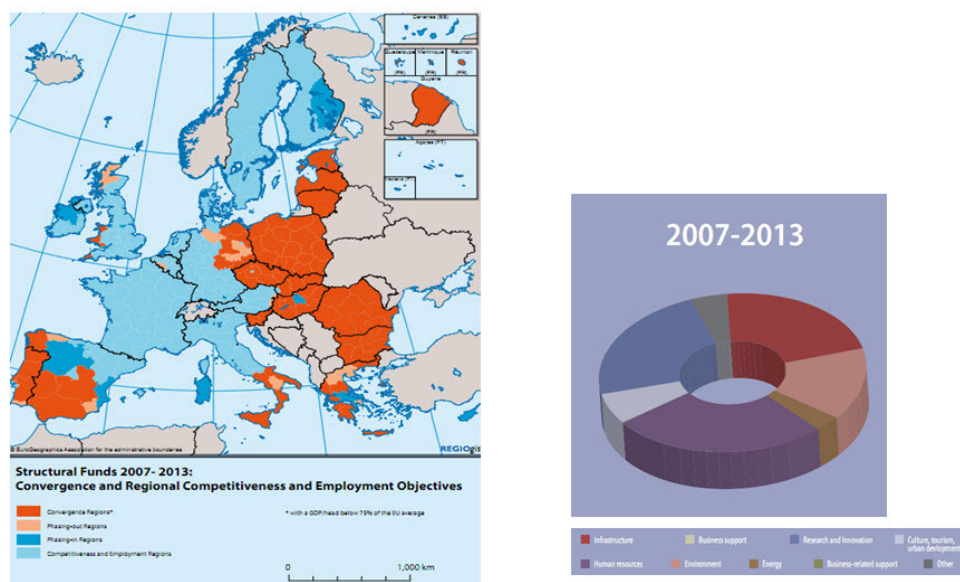


Figure 4: Cohesion Policy 2007-2013



Source: EUROPEAN COMMISSION (2008)

Another very serious complicating factor is that there are conflicting schools of thought on the appropriate spatial focus of Cohesion Policy in order to activate best the drivers and characteristics of national and regional economic growth.⁷ At the core of what is a complex debate is the question of whether responsibility and resources for development policy should be devolved to, and focus on regions (usually referred to as “place-based” policies) or should they be used instead to promote national development and better economic integration of lagging with leading regions (usually referred to as “people-centred” policies).⁸ As with many such academic debates, polarised positions tend to be adopted by the protagonists and the pragmatic conclusion that policy needs to understand and embrace elements of both approaches tends to get lost in the heat and noise. We take up this issue next.

⁷ For example, see the recent debate between INDERMIT GILL (an advocate of “people-centred”, spatially blind regional policy) and FABRIZIO BARCA and PHILIP MCCANN (advocates of “place-based”, regionally directed policy) in www.voxeu.org.

⁸ The “place-based” approach to reforming EU Cohesion Policy was espoused by the Barca-led team for the European Commission (BARCA, 2009), and now appears to exercise exclusive influence on European Commission and DG Regional Policy thinking on the future of Cohesion Policy.

BACK TO BASICS IN POLICY DESIGN AND CRITERIA

In its idealised form, the design stage of cohesion policy takes place within each state in receipt of Structural Funds (henceforth, “recipient” state) and national policy makers are supposed to examine the performance of their economy, identify development bottle-necks and propose policy actions that are likely to relieve these barriers. EU financial assistance will then be used to finance the required investments. This process is overseen by the Commission, which tends to have its own preferences concerning investment priorities, and a programme for implementing Cohesion Policy eventually emerges from a process of negotiation and compromise.

However, in practice the reality can be very different. In the case of the so-called “Convergence” states, where the entire economy is classified as “lagging” on the basis of GDP per head, policy makers must understand both national and internal regional development issues in order to identify barriers and obstacles to growth.⁹ At the national level, the analysis of economic performance has often been carried out in a superficial and perfunctory way and serves merely as a lead-in chapter to the national development plan that will set out the manner in which Structural Funds will be spent. Ex-ante analysis almost never focuses on the production or supply-side of the national economy. Rather, it focuses on income and expenditure and is mainly about spending rather than about producing. It examines how national expenditure is divided between (say) public and private consumption, investment and exports, rather than on the production branches where the GDP is actually produced. In other words, it is usually an analysis that is completely inappropriate as a preparatory stage for design of cohesion policy that is aimed primarily at the supply-side of the economy.

When the “Convergence” states turn to the analysis of the performance of their regions as a preamble to designing regional Operational Programmes (i.e., investment programmes that are region-specific), they face even more complex challenges. In

⁹ Under the “Competitiveness” criterion, certain regions of the advanced member states are designated specifically for regional aid. The issues that arise here are often similar to the regional challenges faced by “Convergence” states, but where domestic resources are much greater than in the less advanced states.

many of the new member states, regional accounts are incomplete and often unreliable.¹⁰ The regions defined by administrative boundaries do not always coincide with regions that have distinctive and coherent economic characteristics. It is even more difficult to understand the supply-side structure and performance of a region than it is to understand the supply-side of the national economy. Regional administrations often have very limited policy instruments at their disposal, and their power is always overshadowed by the much greater power and scope of policy instruments set at the national level. This is not to say that policy makers in regions of large states (or, indeed, policy makers in small states like Ireland or Lithuania) are completely powerless to influence their destinies, but it does imply that they have to formulate policy in the context of a spatially competitive market where the main terms are set at a national level for internal regions, and at an international level for small states, and that neither entity has much autonomous power. These are only some of the practical realities within which the conflict between “place-based” and “people-centred” approaches to policy-making must be worked out.

The failure to come to grips with spatial issues on the supply side of the economy has additional explanations. The process of spatial allocation of investment resources is fraught with political difficulties, where equity almost always dominates efficiency.¹¹ A bridge in region A has to be compensated for by a road in region B and urban renewal in region C. Neighbouring regional administrations sometimes refuse to co-operate on policies that require pooling resources, co-ordinated planning and joint implementation. Consequently, identification of Cohesion Policy priority actions has tended to become an ad-hoc “shopping list” of investment projects lacking robust, rational integration with other national public policies, regional strategy or with other overarching national and EU enterprise strategies.

A Cohesion Policy programme, however well designed, needs to be a part of a much wider network of policy actions that are likely to influence economic development and catch-up in a lagging state. In some states the network of policies is brought together in a strategy that tries to link many diverse actions and objectives and to eliminate potential policy conflicts. Such strategic frameworks are no longer narrowly directed at “picking winners”, since the state is known to have an abysmal

¹⁰ For example, in a project to model the 16 Polish voivodships, it was necessary to generate and approximate many missing elements in the regional accounts (see BRADLEY, TOMASZEWSKI and ZALESKI (2005), for details).

¹¹ For example, the Irish *National Spatial Strategy* was only published in 2002, half way through the third Cohesion Policy programme, and played a rather minor role in economic development planning.

record in doing so. Rather it is about using all the available policy instruments to bring about what might be called a “winning environment” in which businesses develop and prosper and households increase their standard of living.¹² Other than in a superficial way, we have never seen any national or regional cohesion programme where such policy links were clearly identified and in which the narrow set of Cohesion Policy actions were embedded in the wider set of encompassing national policy actions.¹³

The progressive “Lisbonisation” of Cohesion Policy risks adding yet more layers of misunderstanding in a context where a national development strategy is weak or entirely missing. The Lisbon Strategy had its origins in the late 1990s in the fear that even the advanced EU states were slipping behind the USA and Japan in their ability to innovate and transform as new waves of technology and globalisation became important. However, there was an inadequate understanding of the differing needs of the more advanced “donor” states (i.e., the EU member states making large net contributions to the EU budget) and the less advanced recipient states. The investment requirements of the lagging states were more basic and grounded in the need to upgrade physical infrastructure, increase effective human capital and foster a dynamic business environment, all at a time when their administrative institutions were undergoing dramatic change. It could also be asserted that “Lisbon”, however admirable in principle, has undoubtedly deflected attention away from the need to upgrade and improve the performance of “traditional” enterprise sectors towards excessive focus on emerging high technology enterprise sectors. In addition, it has downplayed the vital role of product design, organisational and process innovation in traditional sectors as a way of building competitive strength relative to low-wage Asian economies, see BEST, 2001.

A final missing element in the design stage of Cohesion Policy relates to the need to justify the policy intervention in terms of cost. This was put succinctly by HONOHAN, 1997, in his path-breaking microeconomic evaluation of the second Irish cohesion policy programme:

¹² The kinds of enterprise-based frameworks that we have in mind are those of MICHAEL PORTER (1990) and MICHAEL BEST (2001).

¹³ Perhaps the closest any country has come to embedding Cohesion Policy within a wider national development strategy is the case of Ireland, where decisions taken during the two programme periods 1989-1993 and 1994-1999 were very closely integrated with a strategy of export-led growth based on foreign direct investment. The fact that this strategy is still largely intact in spite of the catastrophic banking-induced recession is a tribute to its robustness.

“Any formal project evaluation of the Structural Funds needs to be able to quantify the social cost of the main distortions and the social costs of additional public funds. The impact of the programme deadweight must also be quantified.”

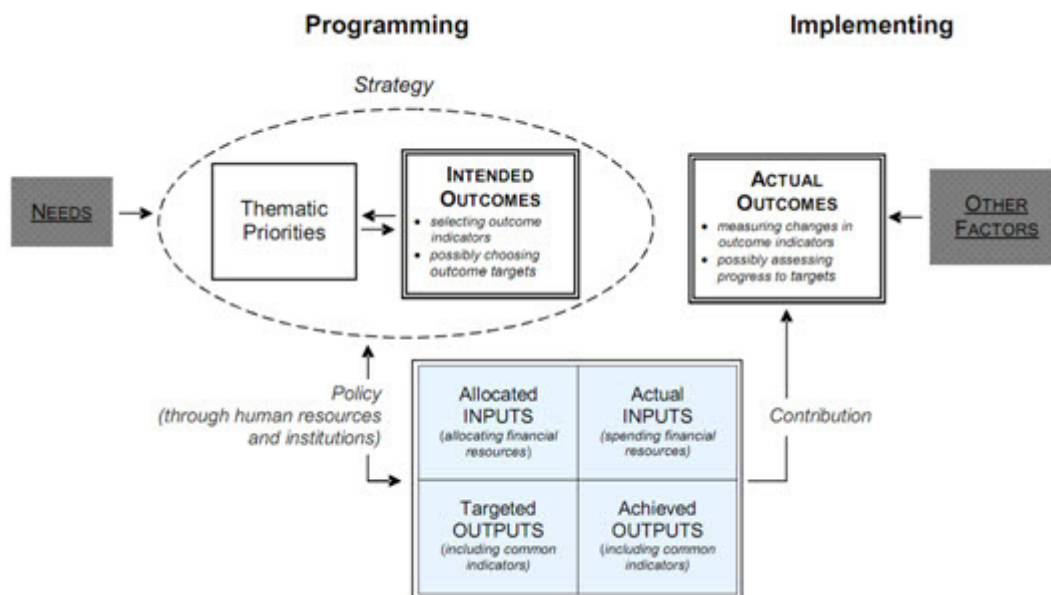
The 1997 Irish Cohesion Policy evaluation went on to propose a set of project and measure selection criteria that attempted to identify aspects of market failure that are the only underlying justification for public policy interventions (HONOHAN, 1997, pp. 72-133). This is an aspect of Cohesion Policy that has generally been neglected by the European Commission and this has deflected evaluation methodologies towards less rigorous approaches that have proved to be singularly unhelpful as means of establishing whether Cohesion Policy actions are effective and are generating an adequate return on investment resources.

BACK TO BASICS IN EVALUATION

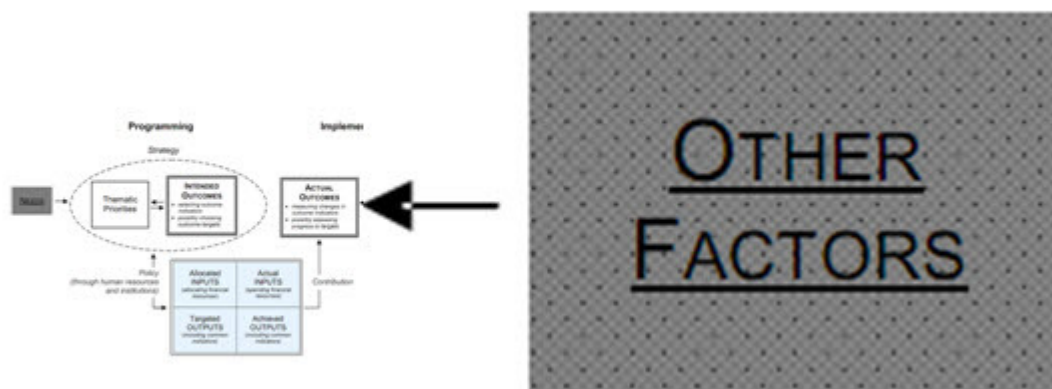
In very simple terms, policy impact evaluation addresses the following question. If we implement policy action X, what impact is it likely to have on economic target Y? If policy action X happened to be: “increase the rate of VAT by one percentage point”, then the implications for VAT revenue would be reasonably easy to approximate using a simple tax revenue model, or to predict more accurately using a more complex economy-wide macro-model in which the tax revenue sub-model was embedded. But when we try to predict the likely impacts of Cohesion Policy, we enter a far more complicated world.

To illustrate the basic problem with most existing approaches to evaluation, in Figure 5 we reproduce a schematic diagram of the process of evaluation from a recent paper by BARCA and McCANN, 2011. This might be termed an “insiders” view of the evaluation process, where Cohesion Policy is the centre of attention. Focus is on an elaboration of indicators, of which 62 are listed in an annex to the BARCA and McCANN paper. Standing back from the details of Cohesion Policy in order to get some perspective, we have re-sized the BARCA and McCANN diagram in a way that we consider more accurately indicates what are the dominant drivers of economic development and cohesion. What we emphasise in Figure 6 is the simple fact that Cohesion Policy actions, however worthy or effective, are simply a very small part of the forces that bring about cohesion. A dramatic illustration of this is provided by the performance of Lithuania or the other Baltic countries or Greece, Ireland and Portugal, which had suffered seriously as a result of the global recession. To be effective, any methodology used to evaluate the impacts of its Structural Fund programme must also be able to disentangle these modest effects from the much larger impacts of what the diagram calls “other factors”. If we do not understand the “other factors”, we cannot understand the Cohesion policy impacts.

**Figure 5: BARCA and McCANN, 2011:
Cohesion Policy - Input, Output and Outcome Framework**



**Figure 6: BARCA and McCANN re-scaled
to represent driving forces of cohesion processes**



There are many other aspects of evaluation that need to be emphasised. For example, cohesion policy is an intrinsically strategic and long term process that spans many separate EU budget programme periods. Portugal has benefited from four programmes since 1988, and is likely to benefit from a fifth. Yet the EC and DG-Regional Policy continue to insist that each EU budget period be evaluated in isolation from all others, even though there is – or ought to be - considerable continuity as one programme leads to the next. In addition, the recently completed ex-post evaluation of the 2000-2006 budget period, performed by the European Commission, analysed the main Cohesion Policy investment elements as completely separate exercises. For example, the evaluation of the ERDF impacts was carried out separately from the evaluation of the ESF impacts as if they had no inter-relationships with each other! The Commission approach might make some sense in narrow, accounting terms. It makes no sense at all in economic policy terms and distorts the whole design and evaluation process.

Many previous attempts to evaluate Cohesion Policy impacts do not distinguish between “implementation” impacts and “post-implementation” impacts. While programmes are being implemented, and investment expenditures supported by Cohesion Policy are being made, there can be significant demand-side (or Keynesian)

impacts.¹⁴ When the programme ends, and expenditures are assumed to cease, only supply-side impacts remain and can continue to benefit the economy for many years if “good” policies were implemented. Evaluation reports regularly confuse these two kinds of different impacts and risk drawing distorted and misleading conclusions. As an extreme example, if a funding injection from the EU were to be used entirely to boost employment in the public sector of the recipient state, it would have a much bigger demand-side “implementation” impact than the alternative case where such funds were used to purchase capital equipment from abroad in order to modernise the manufacturing and service sectors. However, the post-implementation impacts of the former would be almost zero, while significant positive impacts would be likely to flow from the latter.

Perhaps Cohesion Policy impact evaluation is at its weakest in the microeconomic area. The rigorous and logical micro analysis framework set out in HONOHAN 1997, and elaborated by BRADLEY et al. 2006, does not appear to have been promoted by the Commission. The “place-based” approach advocated by the BARCA team in their 2009 report entitled *An Agenda for a Reformed Cohesion Policy: A place-based approach to meeting European Union challenges and expectations*, is a poor substitute for the absence of economic rigor and rationale at both the microeconomic and macroeconomic levels. And however useful the further elaboration of “target” indicators is, as set out in BARCA and McCANN, 2011, the fact remains that, in the absence of rigorous economic examination, we continue to be in the dark about how actual policy actions might be related to targeted outcomes. In the methodology described by BARCA, 2009 and elaborated in BARCA and McCANN, 2011, evaluation becomes a kind of ritualistic and elaborated monitoring procedure that tells us very little about what is being achieved. For example, we may learn how many small and medium sized enterprises (SMEs) introduced product or process innovations by asking them directly, but in the absence of searching microeconomic analysis, we will still have little idea about how and in what way this outcome might be considered as a direct benefit of Cohesion Policy actions.

The serious weakness of microeconomic evaluation of Cohesion Policy actions has knock-on consequences for their macroeconomic evaluation. This kind of top-down evaluation needs structural macro models of various kinds. Economists still argue about which model design is best for purpose, but there is wide agreement on many

¹⁴ Economists argue about the existence and strength of Keynesian “implementation” impacts, although they tend to agree more on the “post-implementation” supply side impacts. See BRADLEY and UNTIEDT, 2008 for a treatment of this issue.

modelling questions and where model-based impact evaluations differ from each other, the differences can usually be reduced to differences of emphasis, interpretation of research and even ideological preferences. However, all macro model-based evaluations suffer from the paucity of good micro-based evaluation research and are forced to use approximations to quantify specific relationships between policy instruments (say, investment in physical infrastructure) and macro-sectoral impacts (say, increases in sectoral output or sectoral productivity). The paper by BRADLEY et al., 2006 develops these issues in more detail, but lack of a microeconomic approach to evaluation remains a serious barrier to improved and more robust evaluation of Cohesion Policy.

WHAT DO WE NEED FOR THE 2014-20 PROGRAMME?

At the EU level, we believe that there is an urgent need to reverse what we might term the “Balkanisation” of Cohesion Policy into a multitude of policies that risk becoming even more incoherent or incompatible with each other than they are at present. If the EU wishes to implement policies that, however admirable they are in other respects, seem to have a rather ill-defined role in directly promoting the catch-up of lagging states and regions, then it would be better to strip these out of the Cohesion Policy budget, operate with a smaller but more coherent Cohesion Policy, and build up other, new, non-Cohesion Policy areas that can be justified, implemented, and evaluated on their own specific terms.

Again at the EU level, there is an urgent need to clarify the benefits of EU-wide development for the so-called “net donor” states as well as for the “net recipient” states. We believe that Cohesion Policy is a positive sum game at the EU level, in much the same way as the Single Market is, or ought to be, a positive sum game. But until the process of evaluation of Cohesion Policy at the EU level is made more rigorous and far reaching, this will be very difficult to carry out.

Turning to the national level, there is an urgent need to integrate Cohesion Policy more closely into the full set of domestic policy actions, national and regional, that are likely to affect economic development. In this process, it will be important for governments to recognise that Cohesion Policy actions, however vital, are by no means the major policy input into promoting faster, sustainable development. It is often the case that responsibility for Cohesion Policy is separated into a specific policy group and isolated from more “mainstream” domestic policy considerations. There are even cases where responsibility is hived off to a line “spending” Ministry that runs the risk of being seen by the Finance Ministry as a “supplicant” rather than as a main actor in promoting development.

At the national level, the integration of Cohesion Policy with other relevant aspects of domestic policy carries the requirement to place the evaluation of Cohesion Policy firmly in the context of a wider framework of domestic policy evaluation. The obvious challenges to be faced in attempting to achieve this synthesis should not pre-

vent an effort being made, since the likely benefits of an integrated policy framework could be very great.

Turning to the regional level, we need to explore politically and socially acceptable ways of acknowledging that some regions are likely to develop earlier and grow faster than others. This essentially comes down to the need to reconcile the increasing emphasis placed by DG-Regional Policy on “place-based” development policy with the rather different insights and evidence from analysis of “people-centred” policy, and this is a huge political challenge for both the EC and for national governments. It does not imply that national governments should ignore the obvious benefits – social as well as economic – of subsidiarity, i.e., devolving power to local actors. Nor does it imply that the unsustainable growth of huge metropolitan areas at the expense of impoverished rural hinterlands is inevitable or desirable. But governments who manage to leverage national development by initially harnessing the development potential of their most favoured regions will quickly be able to generate the resources and the skills necessary to bring their less favoured regions into line.¹⁵

Initially, favoured regions are likely to include cities with their sophisticated education establishments; existing successful enterprise agglomerations; regions with good communication links to external markets, etc. The wrong way to do this is by uncritically devolving too much policy making power down to regions that may have conflicting priorities. However, it would also be wrong for the centre to try to retain all policy-making power and address cohesion issues exclusively by means of income re-distribution between regions, since this can engender long-term dependency of weak regions and hamper the resource-generating power of strong regions. For better or worse, “place-based” and “people-centred” policies have to act jointly and getting that crucial balance right will generate synergies that will best promote the achievement of the EU cohesion objective.

If there continues to an unwillingness to ground Cohesion Policy design and impact evaluation in the best available economic policy research and methodologies, the credibility of the Commission’s actions and efforts are likely to be greatly weakened and the net donor states, who have to carry the burden of financing Cohesion Policy through higher taxes on their citizens, may come to believe that in a time of fiscal austerity their resources could be better directed elsewhere. This would be an un-

¹⁵ An example, if an imperfect one, of this sequential development process is provided by the performance of the Irish economy in the period 1990-2000, before the catastrophic policy failures in banking regulation that led to a property bubble (GILL, 2010).

fortunate and misguided conclusion on a policy that will be crucial in promoting renewed long-term development when the current fiscal and financial crisis passes.

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