

Regional policy in a rapidly changing world

Some reflections

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Overview of presentation

- Europe in a rapidly changing world
 - Some stylized facts and debates
- Challenges for regional policy
 - Theory on regional development
 - Multiple goals in Europe 2020
- Evaluating the effectiveness of past and future policies
 - (Conditional) effectiveness
 - Ex ante versus ex post approaches

Developments and challenges ahead

- Widening disparities (globally and regionally)
 - Emerging core-periphery structures
- Deep financial recession and euro crisis
- Global unbalances
 - Role of Europe with rapid developments in BRIC's
- Ageing populations
 - Pressure on social security systems

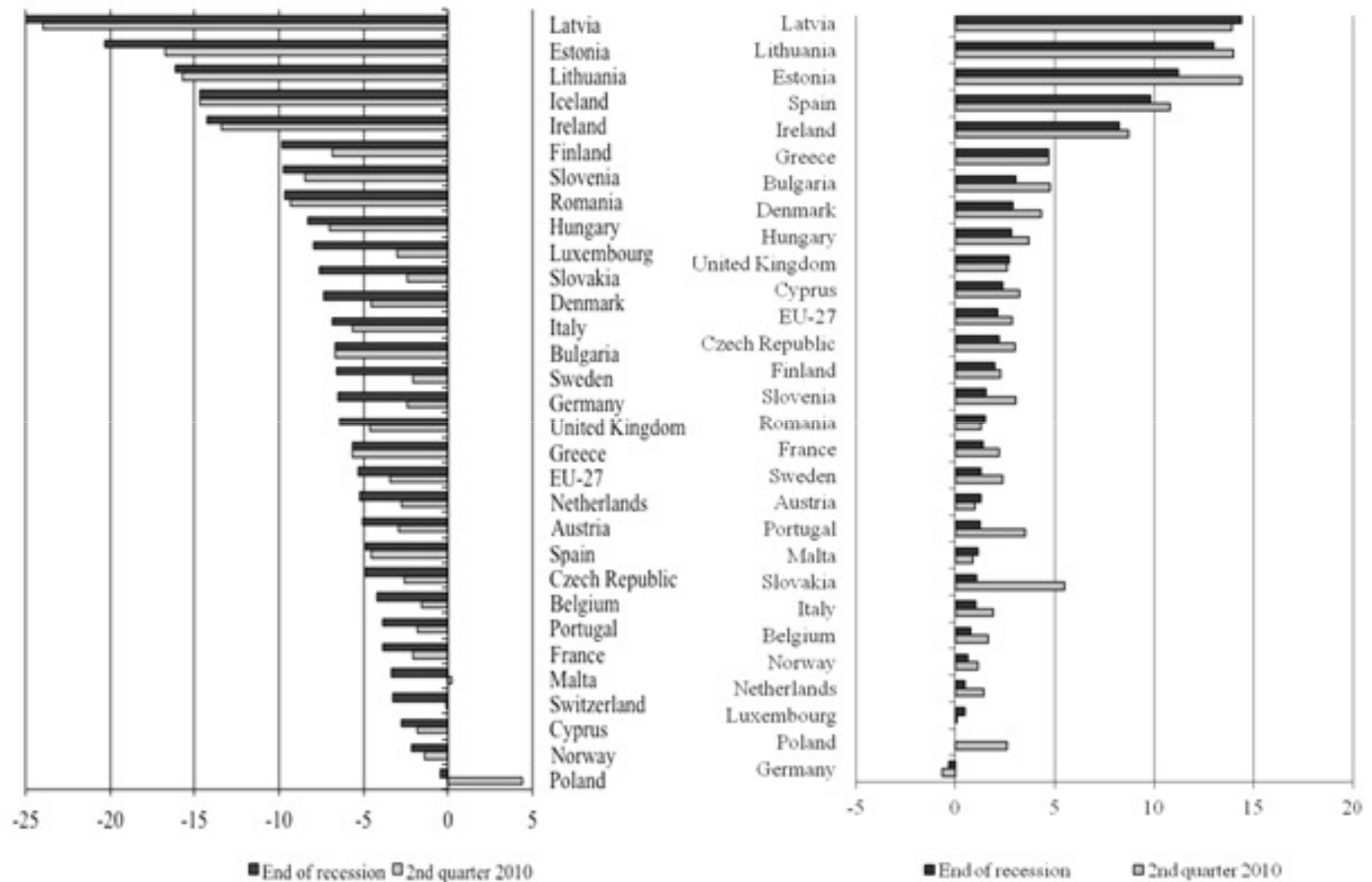
The role of ICT – a General Purpose Technology

- Optimism about ICT revolution in 1990s
 - Death of distance / the world is flat (Cairncross / Friedman)
 - Prospects of end of cities, rapid convergence and end of business cycle
- Developments since then
 - Deepest recession since 1930s
 - Revival of cities
 - Widening regional disparities

Recession in Europe

- Huge variation in Europe
 - Between countries and also within countries
 - But also in terms of output and unemployment
- Caused by
 - Different insitutional settings
 - Different degrees of integration in the world economy
 - Different sectoral specialization patterns

Figure 2. Spatial heterogeneity in the effects of the crisis: change (in %) of GDP (left panel) and change (in %-point) of unemployment (right panel) relative to the pre-crisis level



Source: Eurostat, Quarterly National Accounts statistics, December 2010

Figure 12. Sensitivity of the business cycle of regions

Legend

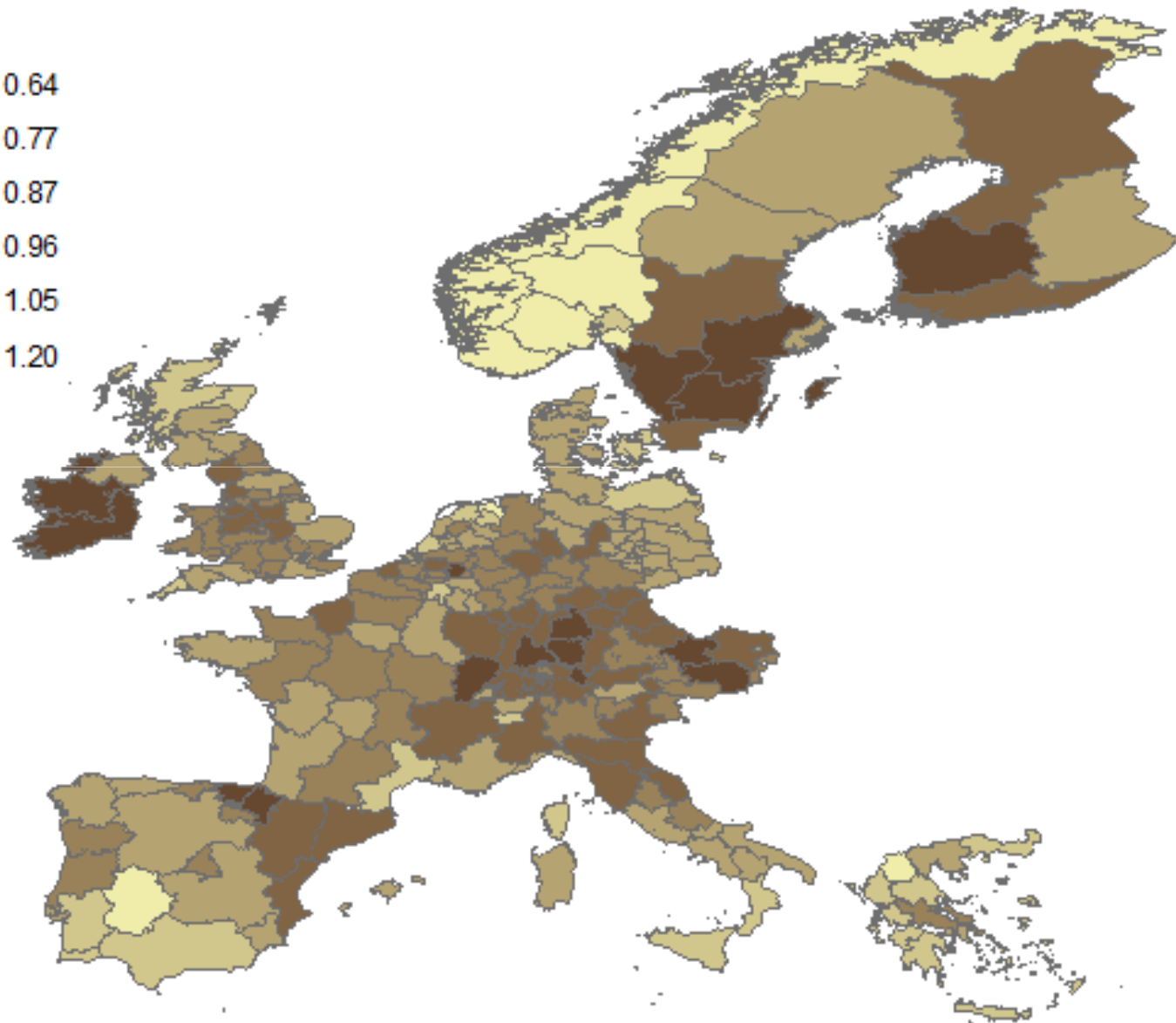
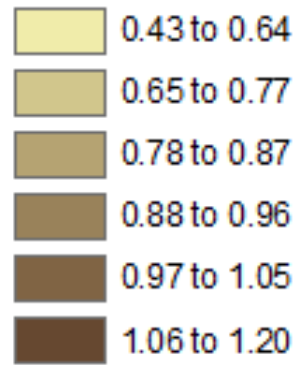
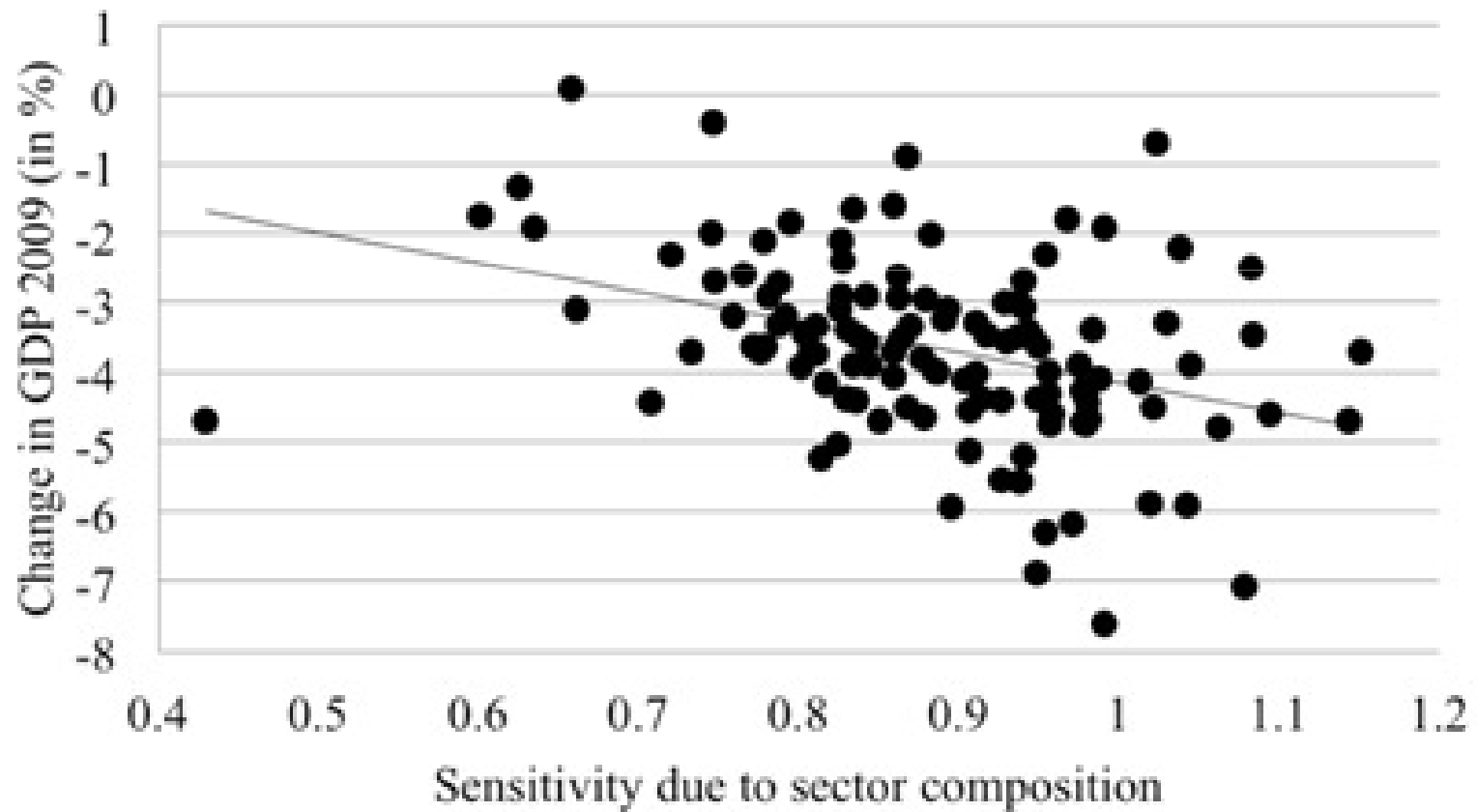


Figure 14. Sectoral composition and change in regional GDP (2009, in %)



Impressive policy challenges ahead

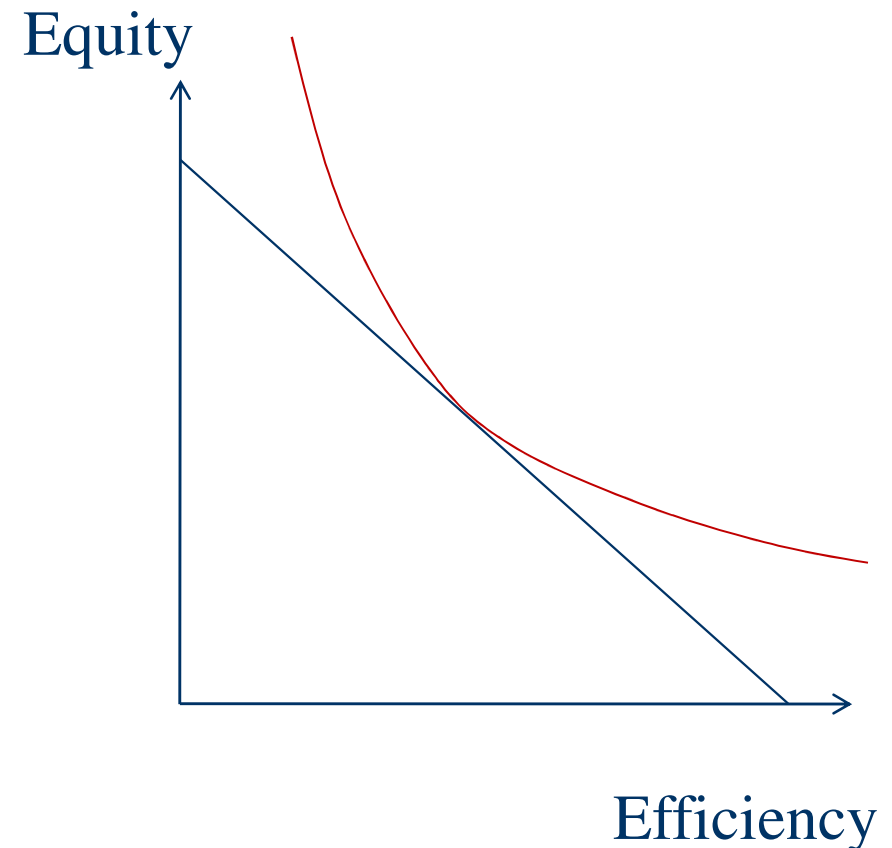
- Smart growth
- Sustainable growth
- Inclusive growth
- Against the background of equity-efficiency trade-offs requiring need for integrated approach and the notion that one size fits all policies will not work

Fundamental trade-offs

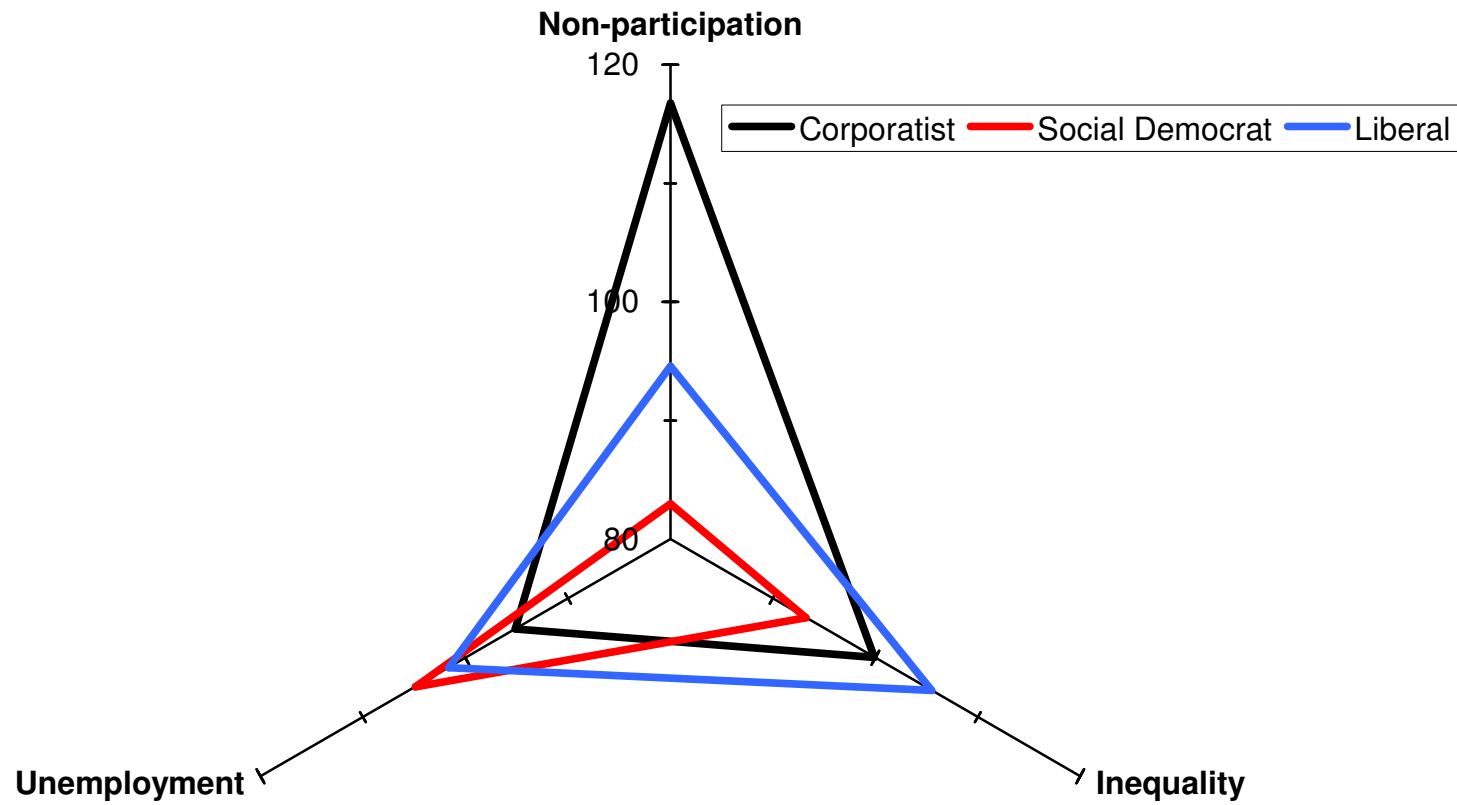
- Growth – inequality
 - Kuznets curve
 - Role of physical and human capital in the growth process
- Growth – sustainability
 - Green Kuznets curve
 - Porter hypothesis
- Specialization – diversity
 - Agglomeration literature

Facing the trade-offs

- World with winners and losers (regions or people)
- Relevant notions
 - Moving towards frontier
 - Moving the frontier out
 - Optimal position conditional on preferences

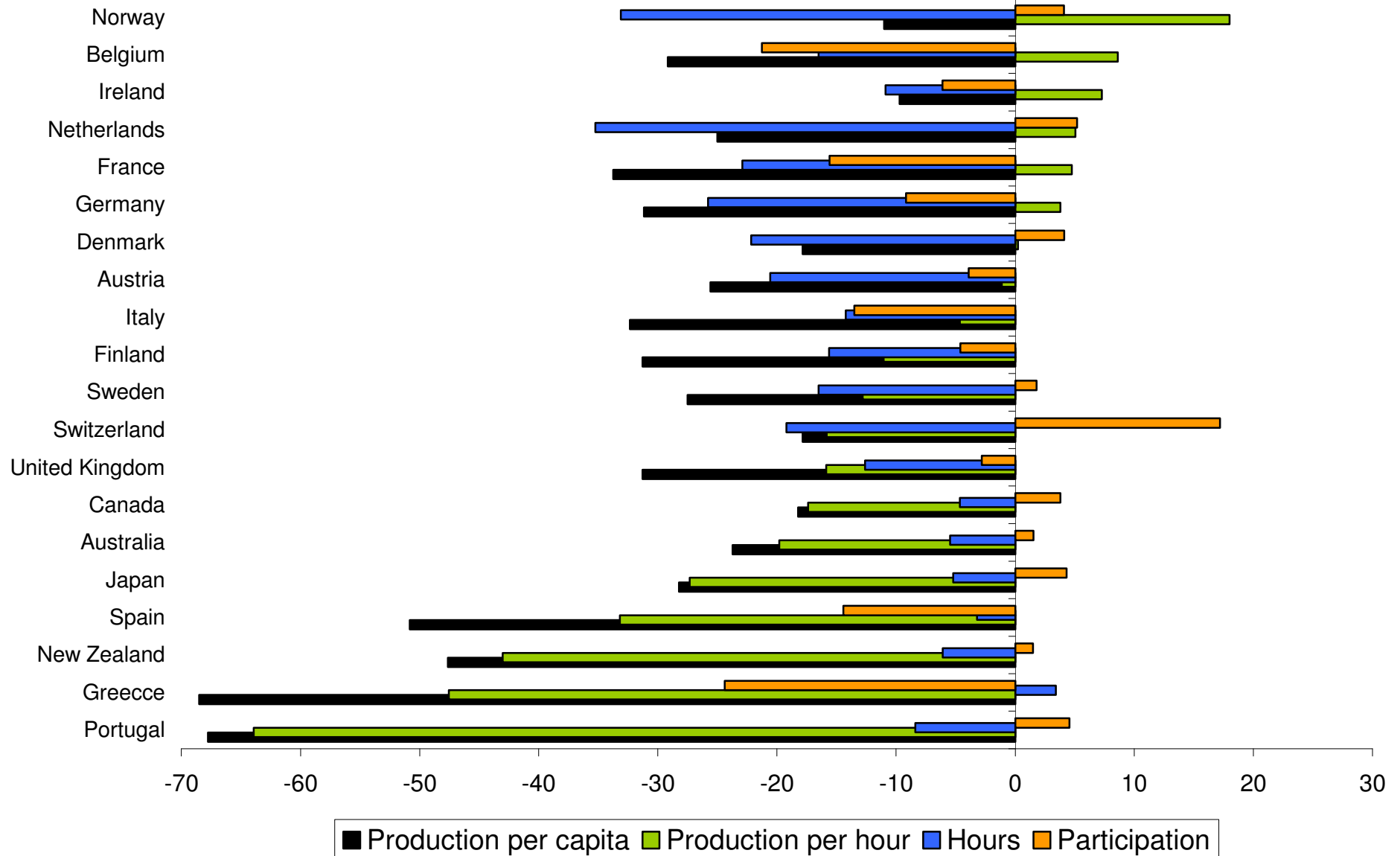


Trade-offs in outcomes



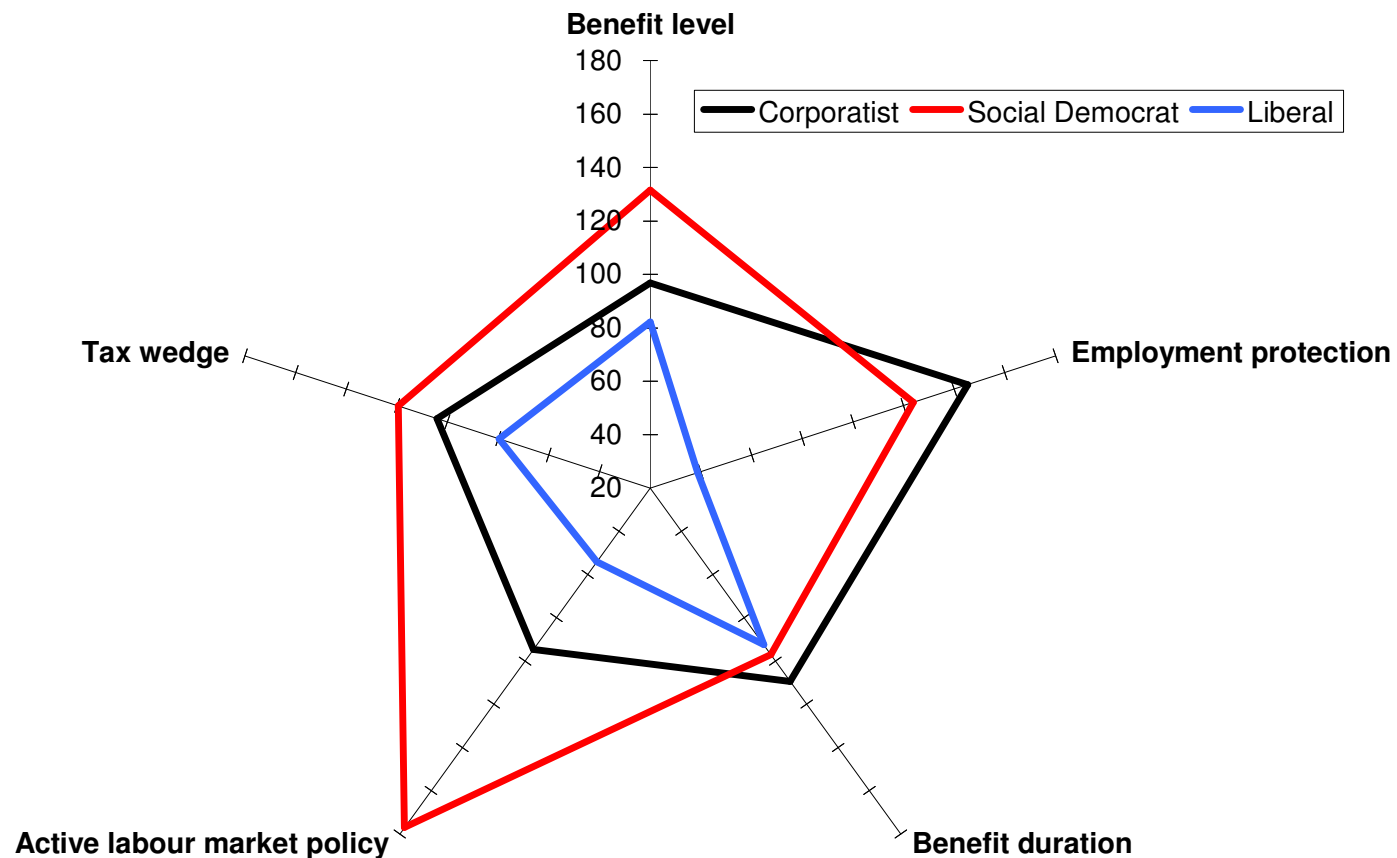
Paris - May 30, 2011

Resulting in structural differences



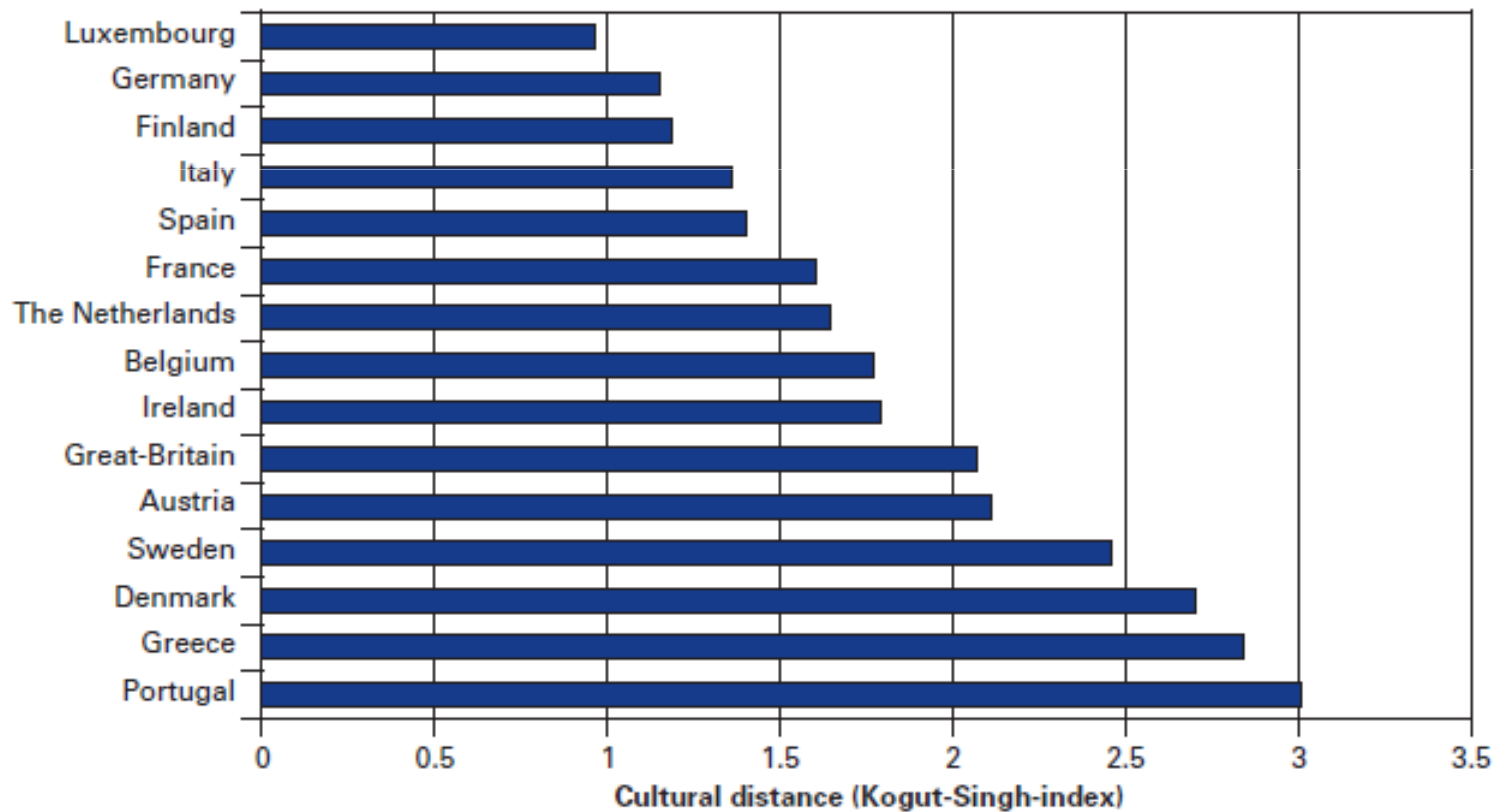
Paris - May 30, 2011

Caused by institutional differences



Reflecting cultural variation

Figure 3.1 Average cultural distance between EU 15 countries and the other EU 15 countries



Role for regional policies...

- Basic idea: supporting 'investments' can enhance growth and speed up convergence
 - neoclassical growth theories
 - endogenous growth theories
 - new economic geography

... but with plethora of problems

- Crowding out
- Spill-overs to other regions
- Financed projects need not be growth enhancing
- Misallocation of scarce resources due to co-financing
- Effectiveness conditional on good institutional quality

Need for good evaluation tools

- Three methodologies to evaluate effectiveness
 - macroeconomic I/O models (used by ‘the commission’)
 - case studies
 - econometric approaches (ex-post evaluation)
- Still ‘dominance’ of ex ante evaluations
- But increasingly more recognition of need for ex post
 - collection and disclosure of data
 - policy as part of a continuous learning process

Some evidence of past policies

- Evidence from meta-analysis
 - Statistical survey of existing literature ('Analysis of analyses')
- Huge variety of results
 - According to regions and periods considered, empirical approach, etc.
- Although jury is still out, evidence is at best highly mixed
 - Need for more primary research, need for good data

Challenges ahead – I

- Recognition of location and time specificities
- Focus on continuous learning (during and ex-post)
- Collection of information on policies and effects
- Multiple goals require multiple instruments

Challenges ahead – II

- Deepening of Europe
 - political union – euro crisis but also importance of scale
 - recognition of cultural diversity
 - requiring specialization
 - addressing equity – efficiency trade-off at European level
 - acknowledge subsidiarity principles

For more information

- Contact me at h.l.f.de.groot@vu.nl
- Work on (conditional) effectiveness of structural funds
 - <http://onlinelibrary.wiley.com/doi/10.1111/j.1467-6435.2006.00318.x/abstract>
- Work on crisis sensitivity of European regions
 - <http://www.tinbergen.nl/discussionpapers/11071.pdf>
- Work on Europe and social security systems
 - <http://www.cpb.nl/en/node/772>
- Work on cultural diversity in Europe
 - <http://www.scp.nl/english/dsresource?objectid=22014&type=org>