

The Future of Cohesion Policy

Edited by
ZAREH ASATRYAN,
LARS P. FELD, and
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Walter Eucken Institut

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und Ordnungspolitik*

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Mohr Siebeck

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List of Abbreviations

ARDECO	Annual Regional Database of the European Commission
BICC	Budgetary Instrument for Convergence and Competitiveness
CAP	Common Agricultural Policy
CEF	Connecting Europe Facility
CF	Cohesion Fund
CID	Council Implementing Decision
CLS	Council Legal Service
CONT	Committee on Budgetary Control
CP	Cohesion Policy
CPR	Common Provisions Regulation
CRII	Coronavirus Response Investment Initiative
CRII+	Coronavirus Response Investment Initiative Plus
DiD	Difference-in-Difference
DNSH	Do No Significant Harm
EAFRD	European Agricultural Fund for Rural Development
EAGGF	European Agricultural Guidance and Guarantee Fund
EAP-EVAL	European Advisory Panel on Cohesion Policy Evaluation
EAV	European Added Value
EC	European Commission
ECA	European Court of Auditors
EEC	European Economic Community
EGD	European Green Deal
EISF	European Investment Stabilization Function
EMFAF	European Maritime, Fisheries and Aquaculture Fund
EMU	Economic and Monetary Union
ERC	European Research Council
ERDF	European Regional Development Fund
ERM	Exchange Rate Mechanism
ESF	European Social Fund
ESIF	European Structural and Investment Fund
ETS	Emissions Trading Scheme
EU	European Union
EURI	EU Recovery Instrument
FNLTC	Financing Not Linked To Cost
GDP	Gross Domestic Product

GFCF	Gross Fixed Capital Formation
GNI	Gross National Income
GVA	Gross Value Added
IFI	International Fund for Ireland
IPCC	Intergovernmental Panel on Climate Change
JTF	Just Transition Fund
LLM	Large Language Model
M&Ts	Milestones and Targets
MFF	Multiannual Financial Framework
MS	Member States
NGEU	Next Generation EU
RRRP	National Recovery and Resilience Plan
OPs	Operational Programmes
ORD	Own Resources Decision
PAP	Pre-Analysis Plan
RDD	Regression Discontinuity Design
RDT	Reform Delivery Tool
REACT-EU	Recovery Assistance for Cohesion and the Territories of Europe
RRF	Recovery and Resilience Facility
RRP	Recovery and Resilience Plan
RSA	Regional Selective Assistance
RSP	Reform Support Programme
S3	Smart Specialization Strategies
SCO	Simplified Cost Options
SDRM	Sovereign Debt Reconstructing Mechanism
SOTA	State-Of-The-Art
SUMP	Sustainable Urban Mobility Plan
TFEU	Treaty on the Functioning of the European Union
TFP	Total Factor Productivity
YEI	Youth Employment Initiative

Editorial

Zareh Asatryan, Lars P. Feld, Friedrich Heinemann

Overriding Research Questions in a Changing Environment

This book presents the results of a research project commissioned by the German Ministry of Finance on the future of Cohesion Policy (CP) in the upcoming EU funding period 2028–2034. It reflects the collaborative efforts of a European network of researchers. Ahead of the next seven-year Multiannual Financial Framework (MFF) cycle, Europe has the opportunity to rethink and reform the EU budget and CP in particular. Our insights aim to contribute to these reform reflections. The scholars involved come from different countries and disciplines, and include some of the leaders of the past academic work on CP.

Drawing on the accumulated academic knowledge and employing a diverse array of approaches, the book asks the following key questions. What are the fundamental rationales of CP today and how should the future path of this policy look like in a changing environment? What do we know about the impact and performance of over 30 years of CP in light of its objectives? Which are the crucial constraining and enabling factors for a successful CP? And finally, how can CP become more performance-oriented and its evaluations more reliable?

The starting point is the understanding that the environment of CP is undergoing fundamental changes. In the 1990s, when cohesion emerged as a significant component of the EU budget, many of the substantive challenges the European Union (EU) faces today were not yet on the European agenda. For example, the EU's adoption of the Green Deal signals an ambitious commitment to decarbonization, necessitating a comprehensive energy transformation. The Russian invasion of Ukraine has underscored the inadequacies of the EU's defense architecture, prompting general questions about the need to re-prioritize existing fiscal and other resources in a deteriorating geopolitical environment. Moreover, the EU faces long-term challenges stemming from digital and demographic transformations in its economies, and, externally, from a high migration pressure from politically unstable world regions with a poor economic prospect.

Undoubtedly, these developments pose significant challenges to traditional EU policies, such as the CP and the Common Agricultural Policy (CAP), which together currently absorb approximately 60 percent of the core budget. The emergence of numerous other pressing needs has increased the opportunity costs associated with allocating funds to these traditional policies, that is costs

related to the non-realization of potential benefits had the funds been spent on other worthy goals. Each euro assigned to CP, and consequently unavailable for other urgent purposes, now requires an even more compelling justification.

A common response to addressing newly emerging challenges has been to integrate new objectives into the existing instruments. Such policy adoptions have served as easy fixes given that they safeguard budgets and protect traditional recipients of funds, however they should be approached with great caution. While CP, with its focus on public investments, may offer strong opportunities for growth and regional cohesion, a policy that is explicitly designed to target regional development will generally not be the most effective instruments to address a more diverse set of objectives. Also on a technical level, there is a significant governance issue related to “goal congestion”: an expansion of objectives is likely to blur responsibilities and complicate the evaluation of policy performance. Furthermore, adapting CP to new purposes implies a departure from the European Treaties and their clear definition of CP objectives.

A second reaction to mitigate budgetary conflicts between traditional policies and new necessities has been to advocate for increased funding, potentially sourced through new fiscal instruments, including the issuance of EU debt. However, it is important to recognize that an increasing level of public spending, whether at the national or European level, will further burden European economies. Raising revenue from taxpayers imposes significant welfare costs through higher distortionary taxes, which weaken incentives to work, invest and innovate. Therefore, there must always be compelling evidence that the public money spent delivers a high return. Furthermore, a more relaxed EU budget constraint may disincentivize the scrutiny of effectiveness of EU spending programmes.

For all these reasons, the starting point for this project is the recognition that even a well-established policy like CP requires ongoing justification, especially in a rapidly evolving environment. There must be a continual readiness to reassess both the budget and the design of this policy. A prudent review necessitates acknowledging and accepting the potential limitations of our knowledge. Too often, political documents on CP present an overly optimistic view of its success, which contrasts with the more nuanced and varied findings of academic research on cohesion. It is also crucial not to overlook the fact that many regions, particularly in the South, were not able to catch up within the EU despite receiving substantial CP funding for decades. While this does not necessarily indicate CP failure because of the possibility that these regions would have diverged much further in the hypothetical absence of CP, it does underscore the limited impact of cohesion spending in reaching convergence in these parts of the EU. On the other hand, success stories can also be found, highlighting the importance to better understand the conditioning factors that enable the CP to be successful.

Therefore, an honest and impartial evaluation is imperative, aiming to understand both the strengths and weaknesses of the current system.

This book collects 12 stand-alone but related chapters. It is structured following the sequence of our four overriding questions and deals with (1) the CP system, (2) the impact of cohesion spending, (3) the conditions for success and failure, and (4) governance and evaluation.

Part One – The System

The chapters contained in the first of the four parts of this book share a common approach: they employ comprehensive and systematic analyses from a bird's-eye view. These overarching perspectives delve into the historical transformation of the system and explore potential fundamental reforms that could systematically alter the nature of the policy. While some of these reform proposals may have limited political feasibility, they nonetheless enrich our understanding of the underlying constraints and weaknesses of the status quo.

The first chapter by Clemens Fuest on “Fundamental Considerations for a More Rational EU Cohesion Policy” asks whether the convergence objective is still a top priority for the EU in light of new economic and geopolitical realities. It suggests that the answer is no, and that a reduction in funds could be achieved with stronger concentration of CP on the Member States (MSs) with the lowest level of development. Furthermore, the chapter suggests that reforms should strengthen the principle of subsidiarity and introduce more ownership of the cohesion programmes in the recipient states.

Chapter 1.2 by Michael Thöne on “The Fiscal Architecture of the EU Cohesion Policy” analyses the primary function of the CP as a financial equalisation between the Member States and their regions. In view of the much-criticised over-complexity and inefficiency of European policy – also a major obstacle to enlargement – he recommends a less bureaucratic Cohesion Policy that focuses more strongly on equalisation transfers from rich to poor Member States. An end to the subsidisation of even the richest regions of the EU and a stronger focus on the principle of subsidiarity could also make it easier for Member States to implement modern place-based policies to achieve (among other things) regional green and digital transformation more easily and efficiently.

Chapter 1.3 by Lars P. Feld and Joshua Hassib titled “On the Role of EU Cohesion Policy for Climate Policy” similarly views CP as a compensation for poorer MSs’ agreement on additional steps of European integration, and considers climate policy a target that could, like support for more integration, be incentivized through such compensating payments. The authors argue that a wide adoption of carbon pricing rules within the framework of the emissions trading system might be preferable to a comprehensive subsidy policy but that it might require funds that help MSs transform their existing carbon intensive capital stock to a more carbon-neutral one. The chapter also highlights potential

conflicts between the goals of CP and climate policy from the perspective of a first-best policy approach.

Chapter 1.4 by Päivi Leino-Sandberg on “Cohesion Policy and the Principle of Subsidiarity – a Legal Analysis” provides an analysis of the legal argumentation behind the transformation of CP in the last decade. It describes how CP used to be a defined policy focused on least favoured regions in line with Art. 174 Treaty on the Functioning of the European Union (TFEU) and how these limits have dissolved over time. It shows how, in particular, with Next Generation EU (NGEU) the policy has departed substantially from its original mission and how legal interpretations have been substantially broadened without much public debate. The chapter concludes by considering further arguments for new delimiting principles with the recommendation to use the European Added Value (EAV) criterion as the prominent guide.

Part Two – The Impact

The second part discusses the efficiency and distributional impacts of CP in the light of the literature.

Chapter 2.1 by Maximilian von Ehrlich on “The Importance of EU Cohesion Policy for Economic Growth and Convergence” provides a thorough discussion of the theoretical case of why CP may or may not be a good idea, and reviews the findings of the recent empirical literature on how the policy has contributed to economic dynamics of European regions. It suggests that significant market-driven processes have meant prevailing levels of regional disparities in Europe, and that CP has been successful in alleviating these trends but only moderately so. For example, while the effects of cohesion on growth and employment have been robustly documented, a consensus is also emerging on the effects being bound to the short-run and the effect diminishing with the size of funds.

Chapter 2.2 by Valentin Lang on “Redistributive Effects of EU Cohesion Funds” studies these effects on the level of households. Consistent with the past evidence, the analysis suggests that most of the working population benefits from cohesion in income and jobs, and that the high skilled and higher income benefit more. This new and much more granular evidence allows studying the question of whether cohesion also leads to social convergence, in addition to regional convergence. Evidence does not support that hypothesis which rules out cohesion as a tool of an effective inter-personal redistribution scheme.

Part Three – The Conditions for Success

The third group of contributions extends this impact analysis, focusing specifically on identifying critical factors that either facilitate or hinder the effective utilization of CFs. These insights are particularly valuable for contemplating potential reforms in the re-design of CP.

In Chapter 3.1 on “Constraining and Enabling Factors of a Successful EU Regional Policy in Europe”, Ugo Fratesi argues that the effectiveness of CP has been spatially very heterogeneous, and provides a descriptive statistical analysis to identify the main conditioning factors that determine the effectiveness of the policy. This evidence confirms the existence of the main trade-off between policy effectiveness and convergence objective that the policy faces: the impact tends to be larger in regions less in need of support (agglomerated and growth poles) than in structurally weak regions. One recommendation is to prioritize the build-up of territorial assets, including basic public and human capital as well as good governance systems, in those disadvantaged regions before investing in more advanced interventions.

In Chapter 3.2 on “The Role of Administrative Capacity for an Effective Implementation of EU Cohesion Policy”, Julia Bachtrögler-Unger focuses on a prominent explanation behind the effectiveness of CP that is on the role of regional administrative capacity for the absorption and effective use of CFs. The chapter provides statistics on the issue of absorption, and discusses the relevant body of literature which highlights that administrative capacity and more specifically human capital of managing authorities may be at the core of the issue. It concludes with a case study on the role of regional capacity, boosted by technical assistance, in implementing programmes related to green and digital technologies with a good match to specific regional preconditions.

Chapter 3.3 by Zareh Asatryan, Carlo Birkholz and Friedrich Heinemann on “The Heterogenous Output-Impacts of EU Cohesion Policy – A Review of Recent Literature” takes stock of the literature that assesses the output effects of CP. The chapter suggests that the academic evidence speaks in favour of positive growth and employment effects of CP, which are however often bound to the short-run while the marginal effects of CP seem to be decreasing with the amount of spending. The policy literature presents an overall more optimistic picture, such as when considering the long-run effects of CP, and the chapter asks if the methodological limitations in this research can explain some of the divergence in these findings of the academic and the policy literature. Nevertheless, a consensus emerges when it comes to the conditional impacts of the policy, in terms of the effectiveness of CP being dependent on key local factors such as related to local institutional quality and availability of human capital.

Part Four – Governance and Evaluation

This final part explores the system through the lens of performance budgeting. It presents studies that address governance issues arising from the temporary coexistence of NGEU and the core budget. Additionally, it conducts a thorough examination of the CP evaluation system, covering empirical and conceptual issues such as the conceptualization of the “European Added Value” of CFs.

Chapter 4.1 by Francesco Corti, Matteo Pedralli and Chiara Pancotti on “The Recovery and Resilience Facility: Key Innovations and the Interplay with Cohesion Policy” presents a timely analysis of the Recovery and Resilience Facility (RRF) funds as well as their interplay with the traditional CFs. The chapter compares the governance of the RRF and CP. It highlights the key RRF innovation, namely the conditionality of the funds which ties their allocation to the fulfilment of ex-ante set Milestones and Targets (M&Ts). Whether this works in practice, will depend, among other factors, on the capacities to carry out credible and independent assessments. The chapter also identifies the overstretch of the MSs’ absorption capacity as a challenge for the simultaneous implementation of RRF and CP and the coordination problems between CP with its regional and the RRF with its more national perspective.

Chapter 4.2 by Zareh Asatryan, Carlo Birkholz and Friedrich Heinemann titled “The System of EU Cohesion Policy Evaluations” summarizes research from two papers – one empirical and one normative – focusing on the question on how we can improve the evaluation system of CP. The empirical approach uses data from about 2500 evaluations to study whether institutions governing the evaluation system have deficiencies that lead to biases in the evaluation outcomes. It shows that the findings of evaluations do not square well with the economic literature on the output impacts of CP, and that such discrepancies can be potentially explained by factors like the oligopolistic nature of evaluation markets within MSs, their very fragmented natures across the EU, and by the often-strong involvement of managing authorities in the work of (formally independent) evaluators. The normative analysis then goes on to build recommendations for improving the evaluation system. It implies from the above, that fixing deficiencies such as related to the role of vested interests of managing authorities and the limited competition in the market for evaluations will be helpful. More generally, aspects such as the imprecise objective functions of cohesion programmes as a key challenge for evaluations, as well as the limited evaluation capacities, and they propose ideas how evaluation results could impact more on budgetary decisions.

Finally, Chapter 4.3 by Friedrich Heinemann on “Enhancing Precision in Assessing the European Added Value of Cohesion Policy” considers the EAV as an important criterion in understanding the optimal allocation and design of cohesion programmes, in light of the fact that EAV has become a formal eval-

uation criterion since the 2021–2027 programming period. The chapter clarifies the conceptual foundations of the EAV terminology, and proposes a checklist comprising essential requirements for a comprehensive EAV examination.

Insights for Reform Reflections

These papers provide a multitude of arguments for reforming the CP in the next MFF. The arguments are summarized by the following key insights:

Merits of a more focused CP

Several studies underscore the political function of CP as a financing instrument to garner support for integration (Ch. 1.2, Ch. 1.3). Contributions with a more systematic perspective advocate for a sharper focus of CP and criticize a vague objective function that blurs responsibilities and hinders evaluation (Ch. 1.1, Ch. 1.3, Ch. 4.2). From a legal standpoint, this strategy to refocus the policy on more limited objectives would align better with the Treaty basis and the subsidiarity principle (Ch. 1.4). With an understanding of optimal policy assignment, several contributions highlight the merits of the “Tinbergen Rule,” which recommends a one-to-one assignment of policy objectives and instruments (Ch. 1.3, Ch. 4.2). Specifically, this implies refocusing cohesion on the convergence objective and relieving the policy of other objectives, for which their corresponding first-best instruments should assume full responsibility (e.g., price mechanisms with comprehensive EU-ETS-CO2 prices for decarbonization, Ch. 1.3). While a rigid one-to-one mapping of policies and objectives would overlook the complex interdependencies between policies (Ch. 3.2), this principle may still offer valuable guidance. Regarding the convergence objective, there are subsidiarity-related arguments in favor of defining eligibility based on national indicators rather than regional indicators (Ch. 1.1).

Addressing CP bottlenecks

Overall, academic research confirms that CP has had some success in stimulating growth and employment, thereby contributing to the traditional objectives of the policy. Reliable empirical studies, employing convincing methods to identify causal channels, consistently affirm positive growth and employment effects (Ch. 1.1, Ch. 2.1, Ch. 3.3). However, evidence suggests that these effects are short-lived and recede after the end of EU support (Ch. 2.1, Ch. 2.2). A consistent finding across the literature is that positive effects are contingent on certain conditioning factors (Ch. 2.1, Ch. 2.2, Ch. 3.1, Ch. 3.2, Ch. 3.3). These factors include strong government capacity, robust institutions (e.g., absence of corruption), and the availability of human capital.

These findings help explain why even intensive cohesion spending over decades has not been more successful in supporting convergence. In regions with poor institutions, cohesion transfers may be squandered in rent-seeking or could even be counterproductive when used to stabilize declining industries instead of promoting new ones (Ch. 2.1). Moreover, current cohesion governance faces challenges due to a lack of national ownership (Ch. 1.1, Ch. 2.1). Coordination problems arising from the simultaneous existence of the RRF and permanent CFs further exacerbate absorption challenges, particularly in the main RRF recipient MSs (Ch. 3.2, Ch. 4.1).

Reform reflections should therefore carefully consider how to promote national ownership, foster administrative capacity crucial for selecting good projects (Ch. 3.2), enhance the quality of institutions, and attract high-skilled workers to backward regions targeted for CP spending. A clear recommendation is to prioritize the development of basic territorial assets before investing in more advanced interventions (Ch. 3.1, Ch. 3.2).

Unintended side-effects for interpersonal distribution

The study results highlight further limitations of CP. CP should not be seen as an effective instrument for fostering interpersonal redistributive objectives, as it tends to benefit wealthier households in beneficiary regions more than poorer households (Ch. 2.2). One reason for this is that CP transfers partially capitalize into real estate and land prices, benefiting property owners as major beneficiaries (Ch. 2.1). This insight is relevant for any fairness-related debate on CP.

The difficult search for the optimum budget size

There is uncertainty regarding the most appropriate budget size for CP. While the current cohesion spending levels serve as the natural reference point for negotiations, it is unclear whether they are too low, too high or at an optimum. Clearly, the optimal level of CP spending depends on the future focus of the policy, as well as how the funds can be used alternatively and how costly it is to raise them. Our analyses yield several results and considerations that suggest a more cautious approach to setting spending levels.

Firstly, as emphasized earlier, the opportunity costs of CP have significantly increased due to numerous other pressing European spending needs, from energy transition to defense (Ch. 1.1). More urgent alternative spending needs imply a decreasing budget for the established policies. Secondly, a critical unresolved issue is that the regions most in need of the funds often have the worst preconditions for successful use of them (Ch. 1.2, Ch. 2.1, Ch. 3.1). Without improvements in these critical factors, it is challenging to see why future spending would be more successful for these regions than past spending. Keeping up the

spending without high chances of success implies a transformation towards a classical equalization system (Ch. 1.2). Thirdly, empirical evidence from well-identified studies indicates a declining marginal effect of spending on growth and employment (Ch. 2.1). Conceptually, this clarifies that CP can hardly be viewed as a big push type policy and that inefficient overspending is a real possibility. This is especially pertinent when considering the welfare costs of taxation, which, with the exception of taxes on externalities, are always larger than the direct budgetary costs and extend to the distortionary impact of taxes on European growth potential (Ch. 4.3). Lastly, absorption problems are notorious for cohesion and have been exacerbated by the (temporary) parallel existence of CP in the core budget and NGEU (Ch. 3.2). If countries and regions struggle to spend all the EU money allocated to them, this does not support the expectation of a careful selection and execution of projects. Taken together, these reflections and results suggest that the case for maintaining (or even increasing) the CP budget is far from obvious.

Contrast between nuanced academic insights and official documents

Overall, the nuanced findings on the impact of cohesion and the reflections on the appropriate allocation contrast with presentations from European institutions regarding the success of the policy, such as those found in the biannual Cohesion Reports (Ch. 3.3, Ch. 4.2). Those overly positive expositions do not always seem to fully capture the existing state of knowledge from the academic literature. For informed decisions in the future, it is highly desirable that these presentations become more nuanced, impartial, and transparent about the limits of our knowledge.

A proposal to advance the CP evaluation system

Although the CP evaluation system is formally developed with a large number of evaluations, there is scope to enhance the credibility of evaluations commissioned by MSs and regional authorities. Apart from conceptual clarifications, such as how to operationalize the criterion of “European Added Value” (Ch. 4.3), the study recommends more international evaluation teams and the establishment of a European Advisory Panel on CP evaluations (Ch. 4.2). This new institution should promote impartiality and scientific rigor in evaluations. Moreover, for a truly performance-oriented approach to funding, it’s crucial to strengthen the decision relevance of evaluations. Ideally, all policy and program-level decisions should be linked to evidence from impartial evaluations.

Undoubtedly, the EU’s CP has great potential as an investment policy that promotes the future orientation of European public spending. However, it would be a fundamental mistake to assume that this potential has already been realized. Higher ambitions are needed to transform this policy into one that delivers

proven EAV. We hope that this study offers fruitful insights that can inform the upcoming reflections and decisions.

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