

AISRE Conference 2008

Regional Development in a Global Knowledge-driven Society

Are regional policies useful? Europe and Italy

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- **Regional policies in Europe**
 - **Regional policies in Italy**
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Regional policies in Europe

Regional policy is, together with CAP, the oldest and most important EU policy

Regional policies in Europe

1957

Treaty of Rome: “reducing the differences existing between the various regions”.

1975

European Regional Development Fund (ERDF).

1987

“Delors package”

1997

Agenda 2000

Regional policies in Europe

2007-2013

The new cohesion policy focused on the Lisbon and Gothenburg agendas. Convergence, Regional Competitiveness and Employment, European Territorial Cooperation. 35% of EU budget (308 bn euro).

Further conditionality to the use of EU funds: “earmarking” of EU Structural Funds on Lisbon strategy related objectives (for EU-15) (research, innovation, information society, human capital) 60% of expenditure in “convergence” regions; 75% of expenditure elsewhere

Regional policies in Europe

Are they delivering?

- **Macro models**
- **Convergence**
- **Econometric models**

Open issues for discussion

Macro models

The Commission's evaluation is based on the prospective effects of spending on GDP and employment on the basis of different economic models.

Although there are differences in the estimated effect of policy in the different countries between the models, the three macroeconomic models used to assess cohesion policy predict that it will have a significant, permanent, effect in increasing GDP and employment in lagging regions of the EU.

**HERMIN: Effect of cohesion policy 2000–2006
on national GDP and employment in 2006**

Country	GDP gain (% above baseline)	Employ- ment gain (% above baseline)	Employ- ment gain (1000s above baseline)
Bulgaria	:	:	:
Czech Republic	1.6	0.8	39.4
Estonia	1.8	1.3	7.9
Ireland	0.9	0.7	12.9
Greece	2.8	2.0	85.2
Spain	1.0	0.7	133.5
Cyprus	0.1	0.1	0.4
Latvia	1.6	1.2	11.7
Lithuania	1.2	0.9	12.4
Hungary	0.6	0.6	22.1
Malta	0.4	0.4	0.6
Poland	0.5	0.4	50.3
Portugal	2.0	1.4	70.6
Romania	:	:	:
Slovakia	0.7	0.5	11.3
Slovenia	0.3	0.3	2.3
Eastern Germany	0.9	0.7	53.0
Italian Mezzogiorno	1.1	0.8	55.7
Total			569.3

Source: GEFRA, EMDS (2007)

**HERMIN: Effect of cohesion policy 2000–2013
on national GDP and employment in 2015**

Country	GDP gain (% above baseline)	Employ- ment gain (% above baseline)	Employ- ment gain (1000s above baseline)
Bulgaria	5.9	3.2	90.4
Czech Republic	9.1	7.1	327.8
Estonia	8.6	5.4	31.0
Ireland	0.6	0.4	8.2
Greece	3.5	2.3	95.0
Spain	1.2	0.8	156.7
Cyprus	1.1	0.9	3.1
Latvia	9.3	6.0	55.4
Lithuania	8.3	4.8	67.7
Hungary	5.4	3.7	147.3
Malta	4.5	4.0	6.9
Poland	5.4	2.8	384.2
Portugal	3.1	2.1	104.8
Romania	7.6	3.2	267.5
Slovakia	6.1	4.0	87.9
Slovenia	2.5	1.7	15.7
Eastern Germany	1.1	0.9	60.0
Italian Mezzogiorno	1.5	0.9	60.1
Total			1969.7

Source: GEFRA, EMDS (2007)

Regional convergence

Comparing the top 20% of NUTS2 regions in the EU-27 with the bottom 20% in terms of GDP per head between 1995 and 2004, there is a reduction in disparities. The ratio of the average level in the top regions to that in the bottom declining from 4.1 to 3.4.

Regions with GDP per head <75% below of EU average, 1995 and 2004

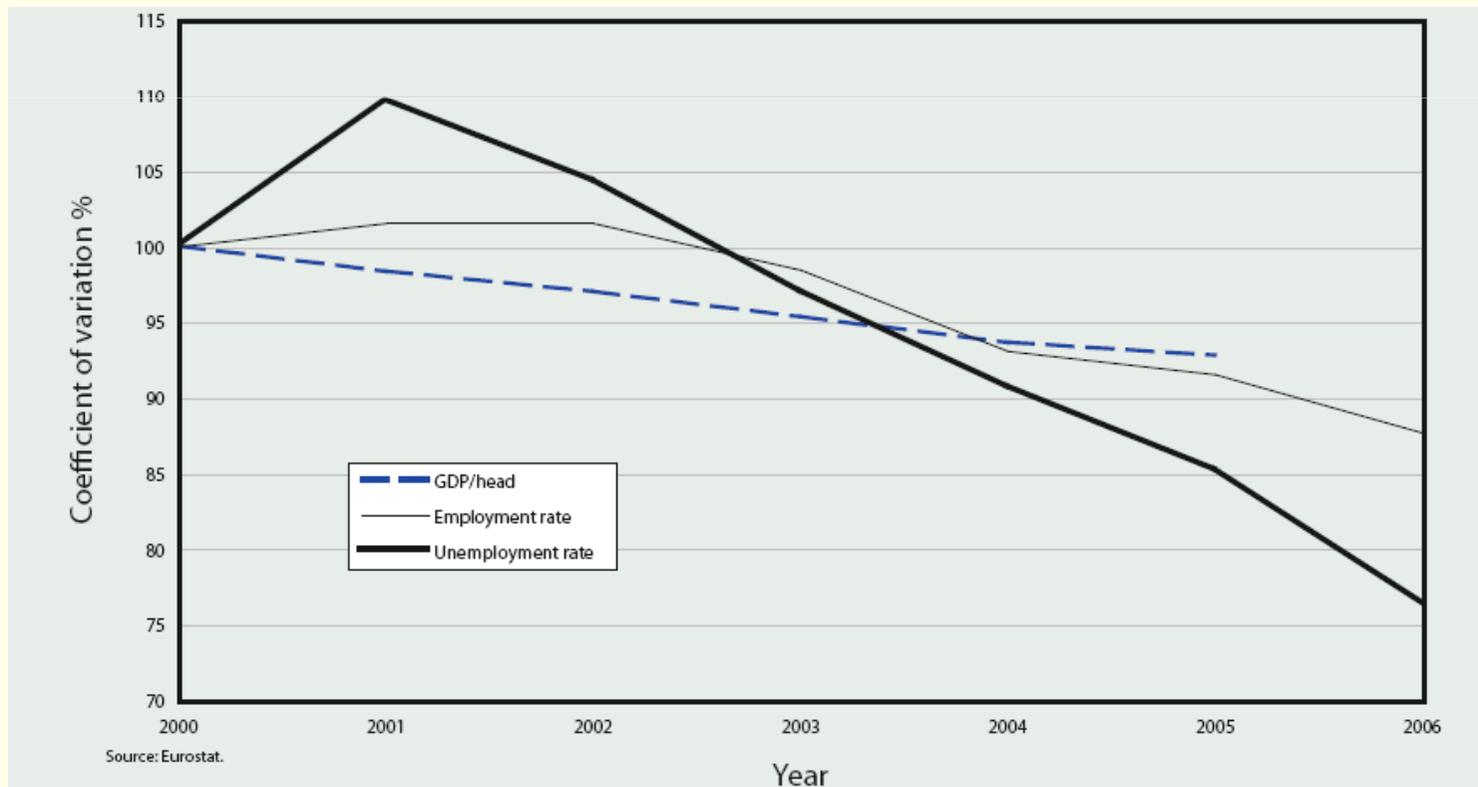
	EU-15		NMS12		EU-27	
	1995	2004	1995	2004	1995	2004
Number of regions	213		55		268	
Total population (million)	372	386	106	104	479	490
GDP per head <75% of EU average						
Regions						
Number	27	21	51	49	78	70
%	13	10	93	89	29	26
Population						
Number (million)	32	32	103	91	136	123
%	9	8	97	88	28	25

Source: Eurostat

Regional convergence

Convergence among European regions has remained strong in recent years, leading to a narrowing of disparities in GDP per head, employment and especially unemployment rates. This trend is largely driven by improvements in the poorest countries. It is much more a convergence among nations than among regions within the same country.

Dispersion of regional (NUTS2) key indicators (%) (coefficient of variation)





Econometric analyses

Try to measure the *actual* impact of cohesion policy on convergence.

The evidence is mixed: some studies report a positive, some an insignificant and some even a negative effect.

There is not clear evidence about the impact of cohesion policy on convergence. Problems:

1. we don't have a counterfactual scenario;
 2. regional policy alone cannot determine economic convergence between regions. National macroeconomic policies are very important.
- 



Aspects to be considered when evaluating evidence:

Quantitative aspects: how many funds?

- **capping to resources**
- **cofinancing**
- **additionality**

The respect of the additionality commitment may be difficult

- **involves the macroeconomic dimension (public finance)**
- **involves a potential trade-off:**

Maastricht parameters vs regional investments

- **a concrete example: Italy in the 2000-2006 period**
- 

Open issues

Give priority to growth (Sapir Report: is there a trade-off between growth and cohesion?).

Restructuring convergence policy (convergence policy focused on low-income countries rather than low income regions; EU convergence fund allocated to low-income countries should be used for two purposes: (i) improving the administrative capacity of Member States; (ii) investment in human and physical capital).

Restructuring of the EU budget to support the growth agenda

Open issues

EU Financial Perspectives 2007-2013: a compromise

Between 2001 and 2003: large debate, organized by the Commission, on future priorities and management with Member States, regions and other players.

February 2004: Commission adopts the Communication on Financial Perspectives 2007-2013 allocating Euro 336 billion to Cohesion Policy and the 3rd Cohesion Report laying down the framework for the policy's reform. This approach is largely supported by the European Parliament and a majority of Member States but partly contested by six of them.

17 December 2005: the European Council finds a compromise on the Financial Perspectives 2007-2013, which allocates Euro 307.6 billion (35.7% of the total) to Cohesion Policy instruments.

The future

In September 2007, the Commission launched a public consultation on the challenges with which cohesion policy will be confronted in the coming years. Issues for discussion:

- ✓ should cohesion policy cover the whole territory of the UE?**
 - ✓ address new challenges such as globalisation, demographic change and social tensions and climate change?**
 - ✓ should Community sectoral policies (in particular, rural development) take better account of regional aspects?**
-

The Italian case

Is it delivering?

Italy:

- **The “missing growth”**
 - **Explanations**
 - **Quality of policies**
-

The Italian case

*National Framework Plan (Quadro Comunitario di Sostegno)
2000-06*

**45 bn euros for the Mezzogiorno (14 bn national programmes
transport, industrial development, R&D, education; 31 bn regional
programmes)**

15 bn euros for regions in the Centre-North

The Italian case

Macro results:

A very low growth rate in the Mezzogiorno

QSN cumulated growth forecast for 2000-05 was 13,7%

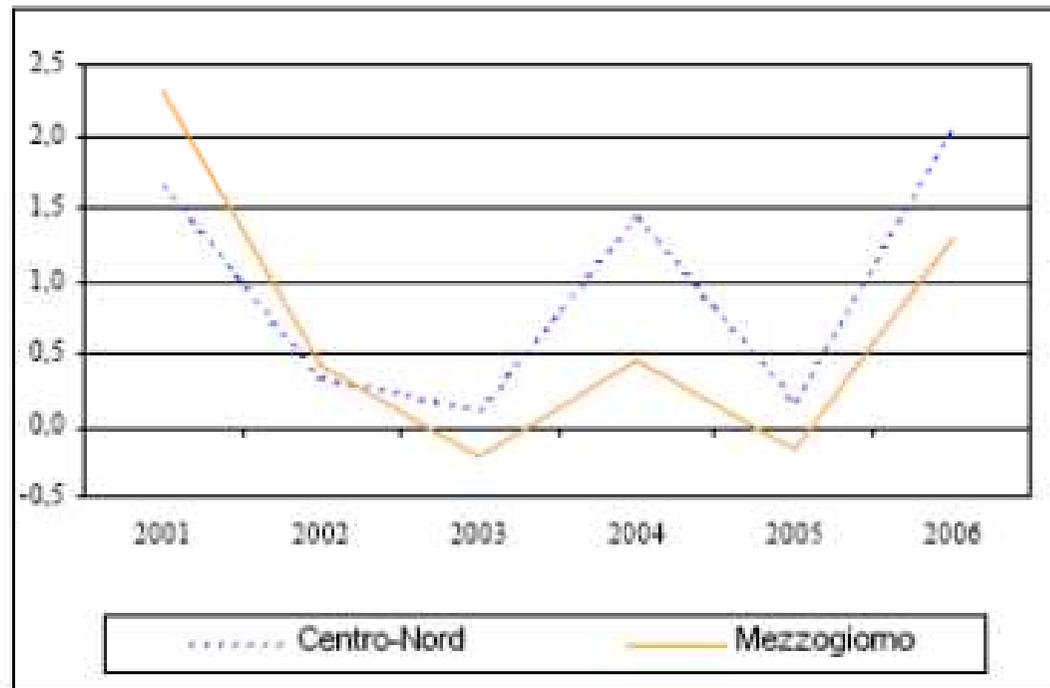
Actual growth in the same years was 5%.

Almost 9% GDP growth is “missing”

The Italian case

Actual growth was very weak, with no convergence

Figura I.2 - PIL PER RIPARTIZIONE, 2001-2006 (variazioni percentuali -valori concatenati*)



* I valori concatenati misurano nel nuovo schema di contabilità nazionale le dinamiche reali degli aggregati economici annuali. Il nuovo metodo degli indici a catena sostituisce il sistema a base fissa utilizzato precedentemente (Cfr. in Appendice nota metodologica).

Fonte: elaborazione DPS su dati Istat, nuova serie, Conti economici territoriali, gennaio 2008

The Italian case

Widespread negative opinion

“In the Mezzogiorno we have wasted billions only to feed organized crime, instead of sustaining firms”

(Emma Marcegaglia, President, Confindustria, 25.5.2008)

The Italian case

A total failure?

No.

Why 9% “missing growth”?

What happened is not a mystery

Why “missing growth”?

Causes of lower growth than expected can be explained by economic analysis (*UVAL-DPS, Aggiornamento della valutazione intermedia del QCS ob. 1 2000-06, november 2006*)

5% (out of 9%) of “missing growth” was due to the changes in the national and international scenarios

In the same years (2000-05) 8% missing national growth in Italy comparing official Government forecast with actual results

Government forecast and actual growth in Italy 2001-07									
			2001	2002	2003	2004	2005	2006	2007
FORECAST									
DPEF	00-03	(1999)	2,6	2,8	2,9				
	01-04	(2000)	2,9	3,1	3,1	3,1			
	02-06	(2001)		2,2	2,2	2,1	2,1	2,1	
	03-06	(2002)			2,7	2,3	2,3	2,3	
	04-07	(2003)				1,8	2,1	2,2	2,1
	05-08	(2004)					1,9	2,0	2,1
AVERAGE			2,7	2,7	2,7	2,3	2,1	2,2	2,1
ACTUAL GROWTH			1,8	0,5	0	1,5	0,6	1,8	1,5
DIFFERENCE			0,9	2,2	2,7	0,8	1,5	0,4	0,6
CUMULATED DIFF.			0,9	3,1	5,8	6,6	8,1	8,5	9,1
Source: Own calculations based on official data (DPEF)									



Regione Lombardia. Documento di programmazione (2002):

Expected cumulated growth for 2004-06 = more than 9%

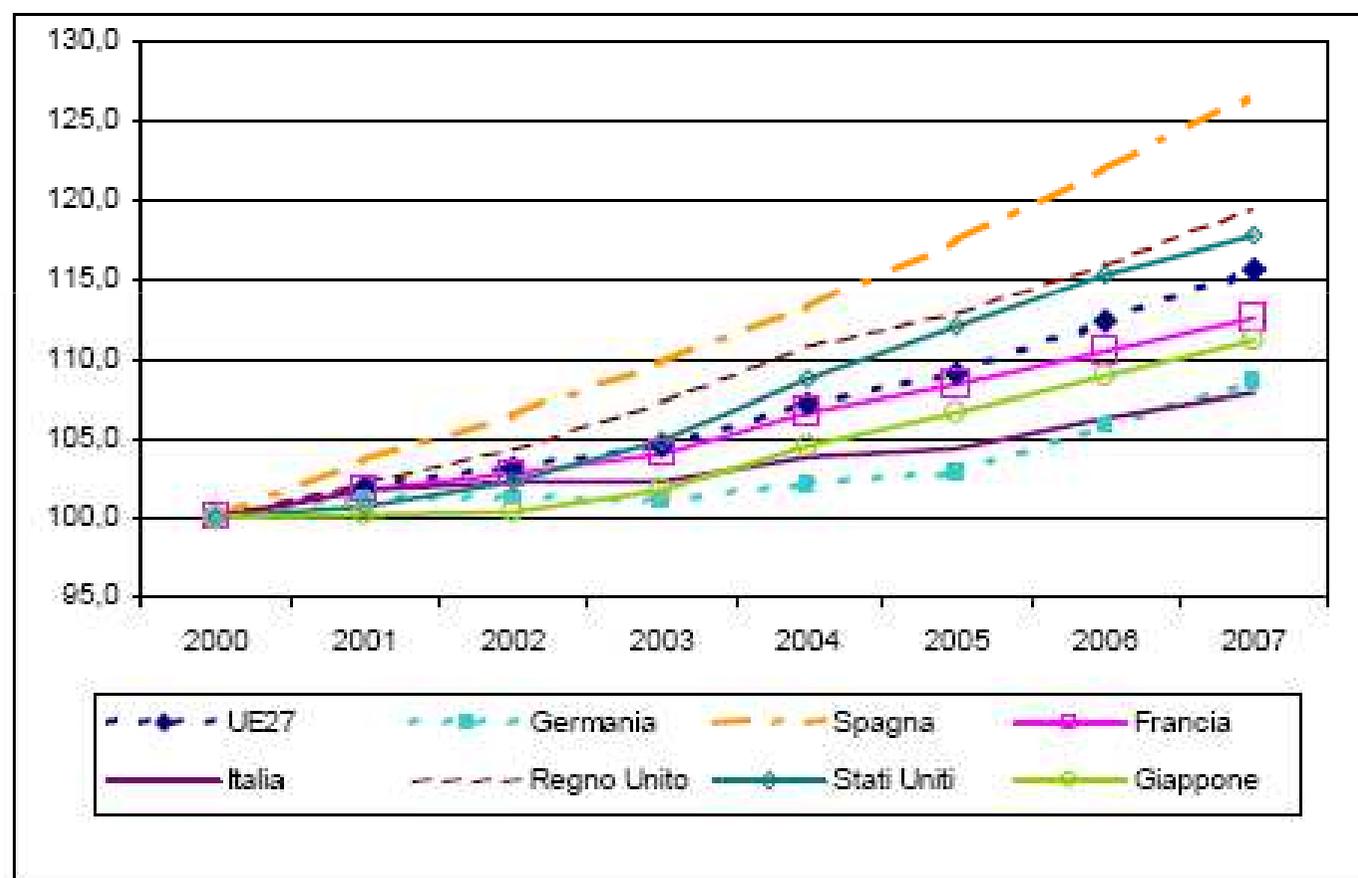
Actual cumulated growth for 2004-06 = 2,4%

(6,5% growth missing in 3 years)



The Italian disease

Figura I.1 – CRESCITA CUMULATA PIL 2000-2007 NEI MAGGIORI PAESI INDUSTRIALIZZATI
(indice 2000=100)



Fonte: elaborazione DPS su dati Eurostat.

“Missing growth”

The other 4% (out of 9%) of “missing growth” was due to much lower allocations for capital expenditure in the Mezzogiorno than planned.

Structural Funds were mainly substitute for lower national capital expenditure instead of being additional (formal additionality of SFs was also reduced in 2004)



**Political goal for capital expenditure in the Mezzogiorno
(Source: DPEFs from 1998 to 2007¹) was for year 2000 on:**

45% OF TOTAL ITALIAN CAPITAL EXPENDITURE

as resulting from the summing of:

+EUROPEAN STRUCTURAL FUNDS FOR MEZZOGIORNO

+85% OF NATIONAL REGIONAL DEVELOPMENT FUNDS (FAS)

+30% OF NATIONAL "NON TARGETED" CAPITAL EXPENDITURE

¹(DPEF's 2006 and 2007 reduce goal to 41%)

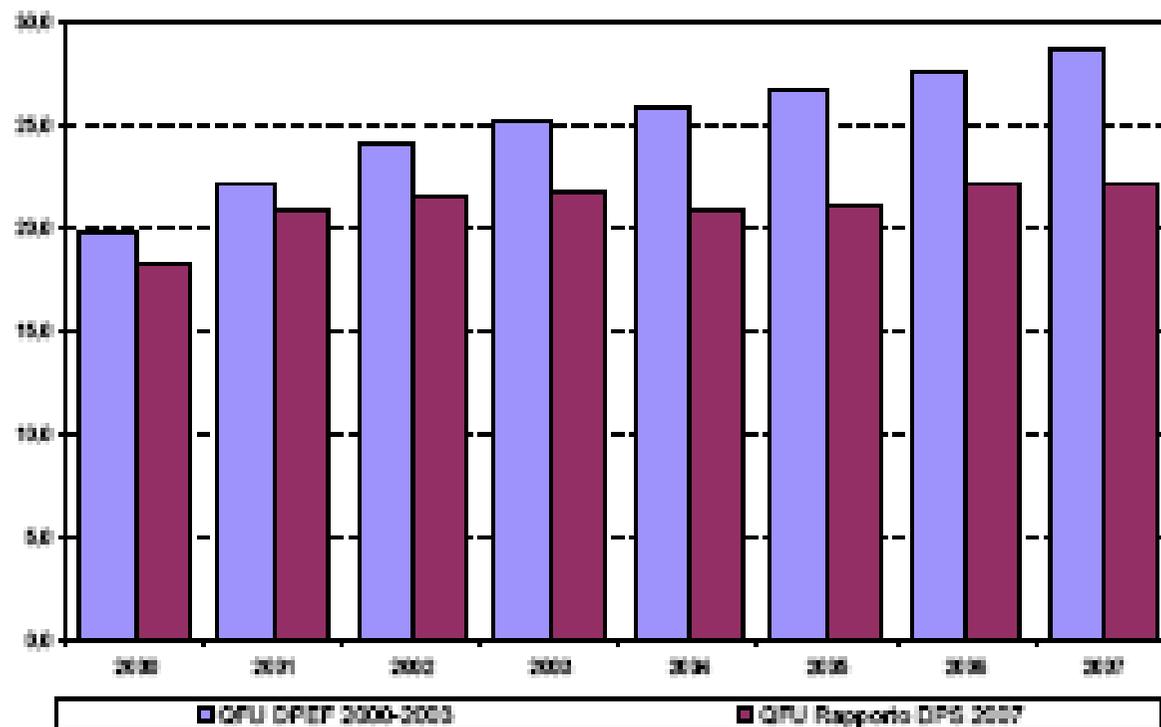


The goal was totally missed

Capital expenditure in the Mezzogiorno				
(bn euros and % of total)				
	bn euro	% of Italy		
2000	18,3	39,1		
2001	21,0	40,4		
2002	21,6	38,5		
2003	21,8	36,7		
2004	21,0	35,9		
2005	21,2	36,0		
2006	22,2	36,7		
2007	22,3	35,3		
Source: Rapporto DPS 2007, tav. IV.2				

Capital expenditure: goals and results

Figura IV.4 – VALORI PROGRAMMATICI INIZIALI E REALIZZAZIONI DELLA SPESA PUBBLICA IN CONTO CAPITALE DAL 2000 AL 2007 NEL MEZZOGIORNO (miliardi di euro)



Fonte: elaborazioni DPS



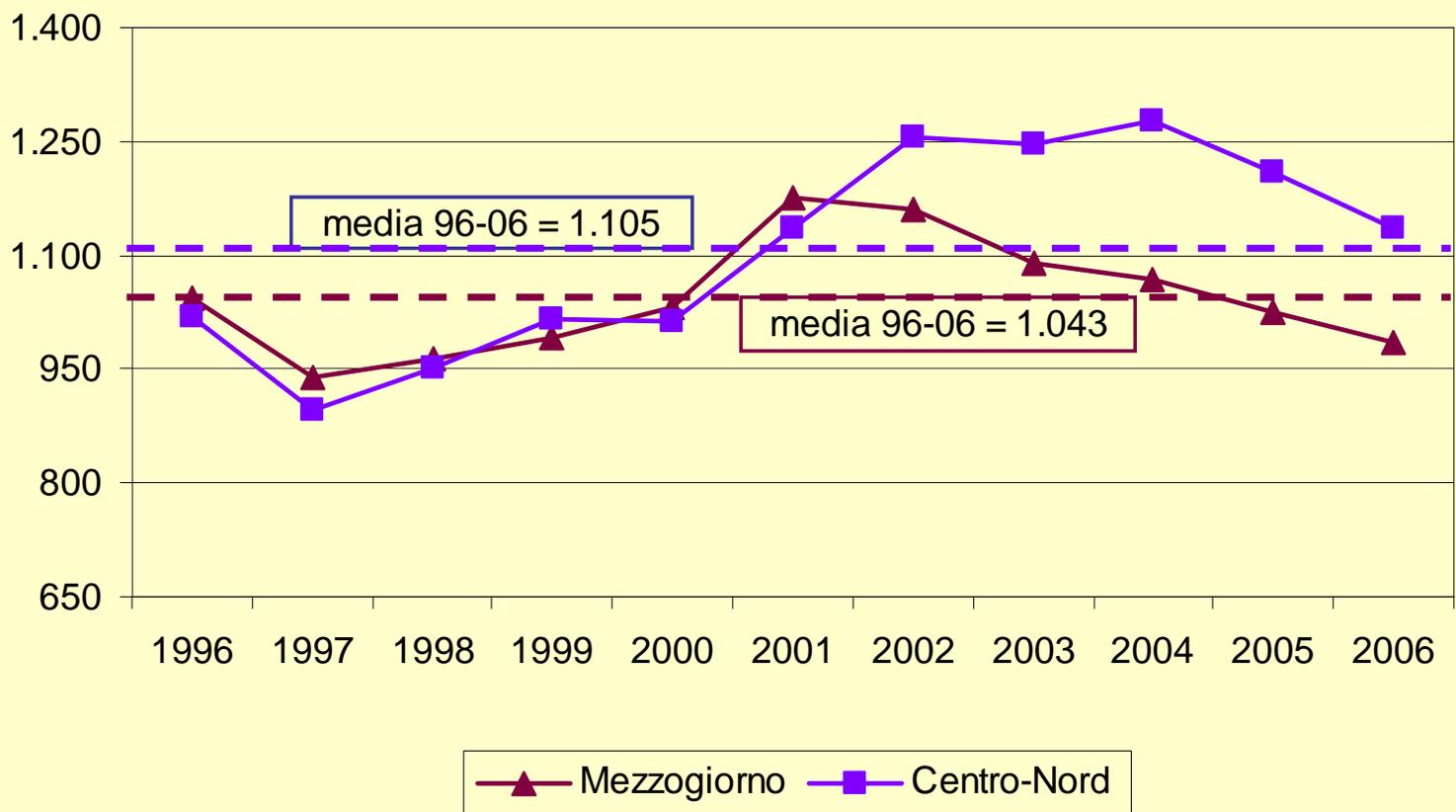
The goal of 45% was completely missed. Value for 2007 is 35% (32% if taking into account “extended” public sector).

Approximately 10 bn euro “missing” per year.

Capital expenditure per capita in the Mezzogiorno instead of being higher than average (for helping economic catching up and reducing large disparities in infrastructure endowment) is lower than national average



B- Spesa in conto capitale al netto delle partite finanziarie





EU-funded Central Government programmes were often ineffective

National programme transport

70% of EU-funded covers investments already financed by national resources (national resources “freed” become again available for the national budget)

Railways investments in the Mezzogiorno

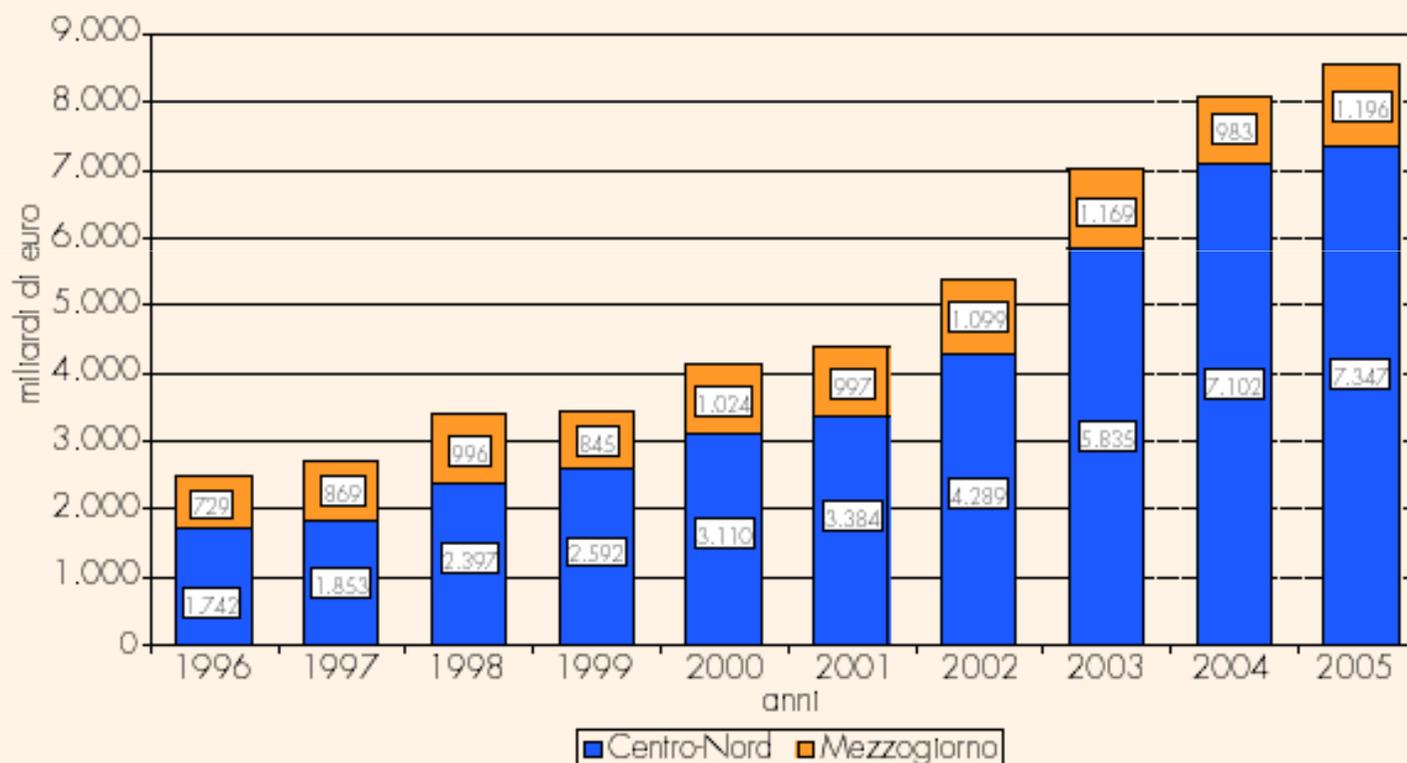
1996-98 30% of national total

2003-05 15% of national total



The Italian case

Figura IV.36 - SPESA IN CONTO CAPITALE PER LE FERROVIE



Fonte: Conti Pubblici Territoriali



“Missing growth” is totally explained by the “Italian disease” and by lower allocations.

However, qualitative issues must also be considered in explaining results:

- Timing of execution of programs**
- Large number of projects**
- Too large share of state aid over total capital expenditure**

The evidence is mixed





Slow implementation

As of end 2007 only 54% of projects financed by Structural Funds in the Mezzogiorno (both national and regional programmes) was concluded. As a comparison the figure was 68% in the Centre-North. Regional administrations in the South insufficiently efficient.



The Italian case

But

Public investments are very slow all over the country

Days needed to start infrastructure projects in Italy (national average)

TECHNICAL PLANNING 2137 days

CONTRACT WRITING 125 days

CONTRACT CLOSING 404 days

TOTAL 2666 days

AND THEN: Normal delay in operations = 43%

(no regional difference)

Source: National Construction Firms Association (ANCE)



Modernization of the Salerno-Reggio Calabria motorway

National programme managed by a national institution (ANAS)

To be concluded 2006

Situation summer 2008

KMS MODERNIZED	166
KMS ON WORK	119
KMS TO BE CONTRACTED	94
KMS TO BE PLANNED	64
TOTAL	443



The Italian case

Fragmentation?

**245.000 project funded in 2000-06 in the Mezzogiorno
with Structural Funds**

The Italian case

But

285.000 project funded in Centre-North (with 1/3 of resources). (Average European financing: 220.000 euro in the South, 60.000 in the Centre-North).

In the South 55% of infrastructure expenditures¹ is for projects larger than 10 meuro (42% in the Centre-North).

¹ Calculated on all project included in National Framework Agreement (Accordi Programma Quadro), financed by European and national funds

The Italian case

Public investment vs state aids

The goal of regional policies in Italy (QSN 2000-06) was to increase substantially the stock of public capital in the Mezzogiorno; for given financing this was to be achieved reducing proportionally traditional direct aid to firms.

This was not achieved

The Italian case

35% of capital expenditure (more than 100.000 “projects” funded by SFs) is state aids to firms in the Mezzogiorno. The figure is a much lower, and reasonable, 19% in the Centre-North.

So, if one calculates per capita public investments 2000-06 (subtracting aid from total capital expenditure) the figure is 30% lower in the Mezzogiorno than in national average.

The Italian case

Per capita capital expenditure		
(euros, average 2000-06, "extended" public sector)		
	South	Centre-North
Public investments	680	946
State Aid to firms	397	236
Total capital expenditure	1077	1182
Source: Rapporto DPS 2007		

The Italian case - Lessons

*1- Regional development is almost impossible without national development (Mezzogiorno growing fast while Italy lagging?)
Regional development policy cannot substitute for national (macro+micro) development policies. They can help national policies to be stronger in the regions*

The Italian case - Lessons

2- Funding is important. Money matters. Additionality of funding of regional policies is a crucial issue. If regional development expenditure substitutes for other expenditures the effect is nil.

The Italian case - Lessons

3- Quality is important. Quality matters.

Concentrating resources on more important programmes (the capacity to choose).

Reducing the role of direct state aid in favour of indirect actions to improve business environment (short vs. long term goals)

Speeding the execution of programmes (efficiency of public administrations plus technical effectiveness)

The Italian case - Lessons

European regional policies in the Mezzogiorno were ineffective? Not at all! Helped facing very hard (2001-2007) times for Italy.

166 kms of Salerno-Reggio Calabria

What if 443 kms concluded?

But without SFs a much worse scenario: 0 kms.
