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## Rethinking EU Cohesion Policy

Cohesion Policy (CP) has been a central economic policy tool of the EU for several decades. In the current context of fundamental challenges facing the EU, and ahead of the next seven-year budgetary cycle, Europe has the opportunity to rethink and reform the EU budget and CP in particular.

This policy brief condenses the insights from a large research project on CP aiming to contribute to this reform debate. The report was prepared by a group of European experts with the support of the German Federal Ministry of Finance and consists of 14 stand-alone chapters. These chapters contribute to the following three broad questions: What are the fundamental rationales for CP today and what should the future path of this policy look like in a changing environment? What do we know about the impact of over 30 years of CP in the light of its objectives? And what are the key constraints and enablers for a successful CP?

➤ [The full report on the project can be downloaded here](#)



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### KEY MESSAGES

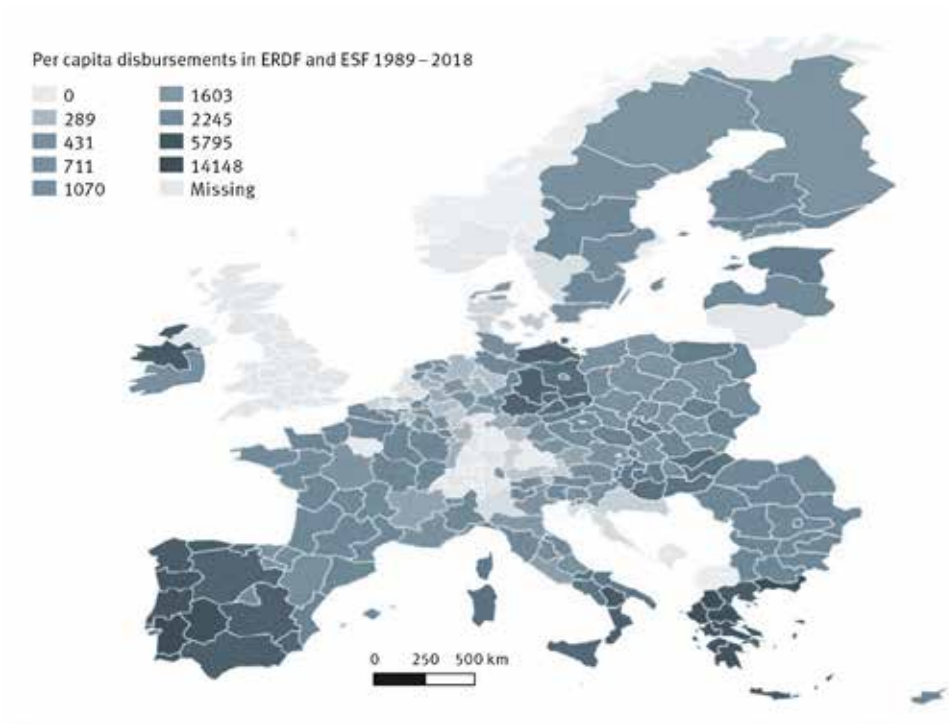
- CP should become more focused in terms of its objectives.
- The case for maintaining (or even increasing) the CP budget is far from obvious.
- Economic gains can be achieved by reallocating CP resources based on local enabling factors.
- Local bottlenecks that limit the effectiveness of CP should be addressed, especially in the least developed regions.
- Policy decisions should be based on impartial policy evaluations and transparency about the limits of our knowledge.

## WHAT SHOULD THE FUTURE PATH OF CP LOOK LIKE IN A CHANGING ENVIRONMENT?

CP aims to reduce the economic divergences between the regions of the EU and to promote catching-up processes of the least developed regions. Despite widening objectives, this is still well-reflected in the data from the past 30 years on the allocation of CP funds among European regions, as shown in Figure 1 below. The crucial question is whether this convergence objective is still a top priority for the EU in the light of new economic and geopolitical realities. If funds are to be made available for other priorities, CP could save resources by refocusing its spending on less developed regions and on programmes with a proven higher impact.

**Trade-off between convergence objective and new spending priorities**

**FIGURE 1:** PER CAPITA REGIONAL ALLOCATION OF CP



The map plots the per capita amount of funds dispersed from the ERDF and ESF fund received by NUTS-2 regions between 1989 and 2018, expressed in yearly current EUR prices. Darker colours indicate larger funding amounts received. Source: Asatryan & Birkholz (2024)

Increasingly vague objectives of CP blur responsibilities and ownership of the policy. A refocusing of the policy could involve a stronger focus on the basic convergence objective by compromising those objectives that have first-best instruments other than CP (e.g. price mechanisms with comprehensive EU ETS CO<sub>2</sub> prices for decarbonisation). For the remaining objectives, the “Tinbergen Rule” could guide a reform aiming at a one-to-one mapping of objectives and instruments, unless too complex interdependencies between policies do not allow this. From a legal standpoint, this strategy of refocusing the policy on more limited objectives would be more in line with the Treaty basis and the subsidiarity principle.

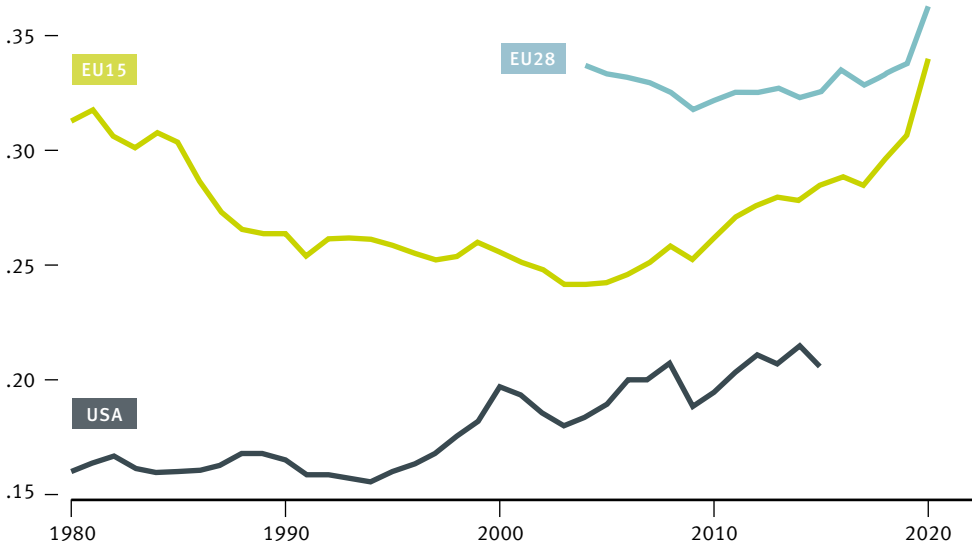
**Refocusing the objectives of CP**

# WHAT DO WE KNOW ABOUT THE IMPACT OF OVER 30 YEARS OF CP IN THE LIGHT OF ITS OBJECTIVES?

Academic research confirms that CP has had some success in stimulating growth and employment, thereby contributing to the traditional objectives of the policy. However, there is evidence that these effects tend to be short-lived rather than permanent, and that their marginal effects decrease with the amount of spending.

**Evidence of systematic positive effects of CP, which are, however, often short-lived**

**FIGURE 2:** EVOLUTION OF DISPARITIES AT THE LEVEL OF NUTS3 REGIONS IN THE EU AND METRO REGIONS IN USA



The figure displays the coefficient of variation defined as the standard deviation divided by the mean of GDP per capita for the EU and income per capita for the US across Metro Areas based on Eurostat data, OECD metro definitions and BEA data for US metro regions. Source: von Ehrlich (2024)

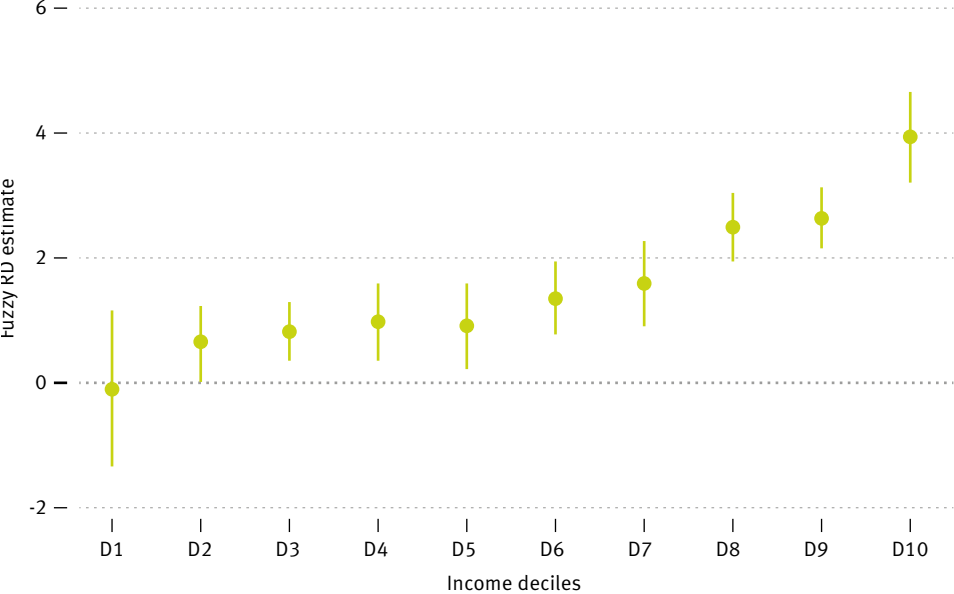
Figure 2 suggests that regional disparities in the EU have not decreased substantially despite 30 years of CP. Of course, in the counterfactual of no CP, disparities could have increased more, but the descriptive fact of increasing regional disparities in the last two decades still holds by this and other indicators.

Figure 3 suggests that CP tends to benefit wealthier households in the beneficiary regions more than poorer households. One reason for this is that the highly-skilled and active labour force are the primary beneficiaries of CP, given the investment rather than redistributive nature of most of the funds. Another reason is that CP transfers capitalise into real estate and land prices, with property owners being the main beneficiaries. This evidence on the distributional impact of CP is relevant to any fairness-related debate on CP.

As public investments constitute a substantial part of CP, a crucial question is how CP interacts with Member States' investments. Our research suggests that CP moderately crowds out public investments, which is not in full compliance with the additionality principle. At the same time, CP has had much larger and positive effects on private investments. This suggests that the design of CP should focus more on further facilitating its complementarities with the private sector.

**CP has potential to facilitate private investments in Member States**

**FIGURE 3:** EFFECTS OF EU COHESION POLICY ON DIFFERENT INCOME GROUPS



The figure shows the estimated effects of EU Cohesion Policy on annual growth of total income by regional income decile groups. Source: Lang (2024)

### WHAT ARE THE KEY CONSTRAINTS AND ENABLERS FOR A SUCCESSFUL CP?

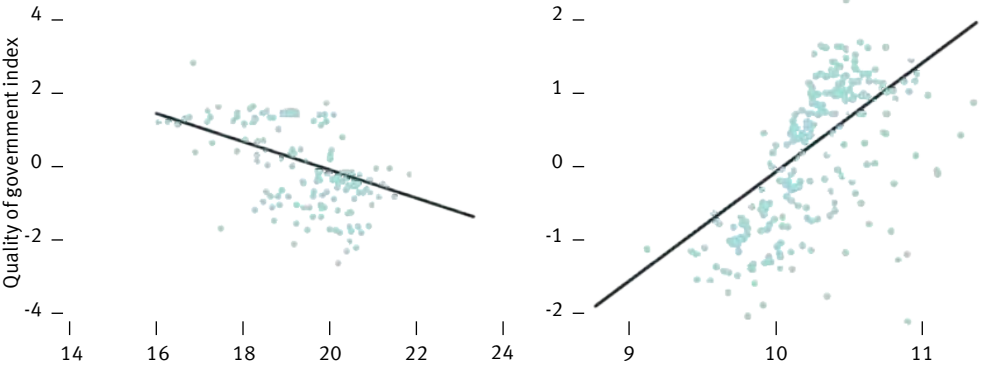
Beyond the aggregate effects, a consistent finding in the literature is that the positive effects of CP are contingent on certain conditioning factors. These factors include strong government capacity, robust institutions (e.g. absence of corruption), and the availability of human capital. These findings help to explain why even intensive cohesion spending over decades has not been more successful in promoting convergence.

Although it follows from this that the reallocation of CP resources based on these local enabling factors can lead to economic gains, a trade-off exists as long as the regions with stronger conditioning factors are also richer. Figure 4 illustrates this trade-off using the example of

Local conditions play a major role in the success of CP

Address bottlenecks that limit the effectiveness of CP

**FIGURE 4:** EU TRANSFERS AND QUALITY OF REGIONAL GOVERNMENT 2014 – 2020



The figures illustrate the correlation between an index of the quality of government and regional transfer intensities on the left and GDP per capita on the right. Source: von Ehrlich (2024)

institutional quality: The least developed regions that receive more EU transfers are precisely those with lower institutional quality. One way to address this trade-off is to ease local bottlenecks through administrative reforms, for example by improving the human capital of managing authorities.

Beyond these fairly well-understood local enabling factors, current cohesion governance faces challenges due to a lack of national ownership. Coordination problems arising from the simultaneous existence of the RRF and permanent CFs further exacerbate absorption challenges, particularly in the main RRF recipient Member States.

These nuanced findings on the impacts of CP as assessed in the academic literature often contrast with those made by policymakers. The latter assessments are generally more optimistic and do not always recognise the existing methodological limitations when trying to evaluate the effectiveness of CP. For informed decision-making in the future, it is highly desirable that these assessments by European institutions become more impartial and transparent about the limits of our knowledge.

**Issues of national ownership and local absorptive capacity**

**Policymaking should become better informed by scientific evidence**



## ZEW policy brief

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