REGIONAL CONVERGENCE AND THE FUTURE OF COHESION POLICIES IN THE EU

SVIMEZ PAPER*

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SUMMARY

Persistent economic and social development disparities among Member States cast doubts on the link between nominal and real convergence in the EU. The EMU crisis has exacerbated diverging external imbalances among countries. This has challenged the view that competitiveness differentials can be reduced through adjustments in efficient capital and labour markets, whose working produce the opposite result. Regional disparities are persistent in the EU replicating at a lower territorial scale (and sometimes to a higher extent) national macroeconomic imbalances.

Although this evidence would suggest to exploit the stabilization role of common fiscal policies, the issue is far from being included in the European policy agenda. Furthermore, the future of Cohesion Policy (CP) is under question but its downsizing or, even worse, dismissal would be detrimental. CP has in fact proved to act as the unique growth-friendly federally-financed European policy. European CP has provided a decisive investment leverage in the persistent situation of depressed aggregate demand. However, this merit also mirrors the main limitation of CPs: the lack of additionality of CPs' resources that substitute rather than complementing ordinary macroeconomic policies within the discipline-oriented EU fiscal framework.

As we will argue below, both short- and long-run macroeconomic outcomes at the regional level depend on the interaction among regional, national and supra-national factors acting in a multi-scalar territorial framework. Some of these factors are independent from the implementation of CP. As a consequence, the current design of CP cannot counterbalance the divergence forces activated by structural competitive asymmetries in EU-15 less advanced regions, particularly in the EMU. On the other hand, new Member States seem to benefit from those asymmetries amplified by the European economic general governance. In this situation, CP seems to produce a "selective" regional convergence pattern, not allowing EU-15 less developed regions to take full advantage of its implementation and ultimately hampering the effectiveness of CP.

This paper provides preliminary remarks and suggestions in the attempt to contribute to the forthcoming debate on the reform of CP. In our opinion, EU regional policies should be strengthened in the future in two directions. First, we highlight the need for CPs' internal improvements in order to: i) maintain or even increase the resources allocated to less developed regions; ii) simplify procedures and the wider architecture of the policy; iii) define a strategic, recognizable and identifiable mission oriented to new generations. Secondly, we stress that CPs should be part of a general European economic governance that includes regional convergence among its general objectives. In this perspective, in our opinion, the future agenda of CPs should include three priorities: iv) a *golden rule* for strategic public investments; v) an adequate fiscal compensation system to compensate the Italian Mezzogiorno and other EU-15 less developed regions for the competitive disadvantages caused by tax dumping and other national structural imbalances particularly within the Eurozone; vi) rebalancing current Union geopolitical setups by prioritizing EU's Mediterranean policies, going well beyond migration flows management policies which also need to overcome their current problems.

The design of CP should be reconsidered within a broader framework of European economic policies. This is needed in order to make CPs more convenient for both net recipient and net contributor Member States. This will return to CPs their original mission of «reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions».

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1. Regional Disparities In The EU: Economic Development, Competitiveness

This section uses most recent EU regional data in order to explore the most significant common features and variations within the group of EU less developed regions (i.e., the "periphery") in terms of: recent trends occurred in economic development; current regional social development differentials; and current competitiveness regional differentials. Figures are based on SVIMEZ (2016) elaborations on official European data.

Economic development

Table 1 shows GDP per capita growth rates in EU countries for the pre-crisis years (2001-2007) and during the great depression (2008-2014). National data are disaggregated for less and more developed regions of each Member State. The same disaggregation applies to average values of EU-28 countries, EU-15 (oldest) and EU-13 (new) Member States and, finally, for countries inside/outside the Eurozone. Less and more developed regions are identified according to the Decision of the European Commission setting out the list of regions eligible for funding from the European Regional Development Fund and the European Social Fund and of Member States eligible for funding from the Cohesion Fund for the period 2014-2020 (notified under document C(2014) 974).

EU-28 average reveal a quite evident process of regional convergence from the beginning of the 2000s. Indeed, GDP per capita has grown faster in less developed regions than in more developed ones in the pre-crisis years (46.3% vs 29%), as well as during the crisis (12.5% vs 4.5%). The evidence of regional convergence in the pre-crisis years is also reported and interpreted as an outcome of European CPs in the 6th Report on economic, social, territorial cohesion by the European Commission: *"Until the crisis in 2008, disparities between regional economies in the EU were shrinking. In 2000, average GDP per head in the most developed 20% of regions was about 3.5 higher than that in the least developed 20%. By 2008, the difference had narrowed to 2.8 times. This was mainly due to the regions with the lowest GDP per head growing faster than average and catching up with the more prosperous ones. However, the crisis seems to have brought this tendency to an end and between 2008 and 2011, regional disparities widened. Regional disparities have widened during the last few years because the economic crisis has affected regions differentially. Some regions have been hit severely, others hardly at all"* (European Commission, 2014: 3).

However, Table 1 shows significant variations across less developed regions. As a matter of fact, differences among less developed regions belonging to new (EU-13) and old (EU-15) Member States are noticeable. Economic development has proceeded in less developed regions of Eastern Europe at substantially higher rates than in those belonging to EU-15 countries well before the onset of the crisis. In 2001-2007 GDP per capita grew by 56.4% in EU-13 weak regions as compared to 31.4% in EU-15 ones. During the crisis, the rise in GDP per capita halted in EU-15 weak regions (declining by 1.3%), while it continued in Eastern European weak regions (+20.4%). The 2000s have been characterized by relevant changes in terms of economic development gains achieved within the "periphery". Mediterranean weak regions of Portugal, Greece, Spain and Italy have lost ground as compared to their Eastern peers, the latter having experienced relevant advantages from the European enlargements started in 2004. As a consequence, the overall European regional convergence process should be considered as the net result of two opposite trends observed within the "periphery": the economic decline of Mediterranean regions and the sustained economic development of Eastern countries.

Table 1. GDP per capita (PPP based) growth rates in 2001-2014 (cumulative % var.) ***(a)***

Countries	Regions	2001-2007	2008-2014	2001-2014	Countries	Regions	2001-2007	2008-2014	2001-2014
EU 28 countries	More dev.	29.0	4.5	34.9	EU 13	More dev.	69.0	13.7	92.1
	Less dev.	46.3	12.5	64.6		Less dev.	56.4	20.4	88.3
	Total	31.8	6.0	39.7		Total	59.3	18.8	89.2
Euro Area 18	More dev.	28.3	2.0	30.8	Euro Area	More dev.	64.0	6.7	75.0
	Less dev.	38.8	2.3	42.0		Less dev.	77.0	15.5	104.3
	Total	29.8	2.0	32.4		Total	70.2	11.1	89.0
Non Euro Area	More dev.	30.4	2.7	34.0	Cyprus	More dev.	43.3	-13.2	24.4
	Less dev.	51.1	19.4	80.4	Estonia	Less dev.	110.7	18.1	148.8
	Total	36.0	7.7	46.5	Latvia	Less dev.	116.9	13.6	146.5
EU 15	More dev.	27.6	4.1	32.9	Slovenia	More dev.	48.1	-1.5	45.9
	Less dev.	31.4	-1.3	29.6		Less dev.	39.7	2.7	43.5
	Total	27.9	3.7	32.7		Total	44.6	0.2	44.9
Austria	More dev.	25.0	12.1	40.1	Slovakia	More dev.	95.7	24.6	143.8
Belgium	More dev.	20.9	9.3	32.1		Less dev.	73.8	20.5	109.4
Germany	More dev.	28.9	13.8	46.7		Total	83.9	22.5	125.3
Denmark	More dev.	20.9	10.0	32.9	Non Euro Area	More dev.	73.2	19.2	106.4
Greece	More dev.	41.4	-15.5	19.5		Less dev.	53.5	21.2	86.1
	Less dev.	35.7	-17.3	12.2		Total	56.6	20.9	89.2
	Total	37.9	-16.6	15.0	Bulgaria	Less dev.	80.3	19.0	114.4
Spain	More dev.	39.3	-5.6	31.5	Czech Republic	More dev.	69.1	1.1	70.9
	Less dev.	49.2	-3.4	44.2		Less dev.	47.1	8.9	60.1
	Total	39.8	-5.5	32.1		Total	52.4	6.8	62.7
Finland	More dev.	30.7	1.0	32.0	Croatia	Less dev.	64.4	1.6	67.0
France	More dev.	21.6	4.5	27.0	Hungary	More dev.	61.1	13.0	82.1
	Less dev.	37.0	14.6	56.9		Less dev.	38.0	20.7	66.5
	Total	24.2	6.4	32.1		Total	43.5	18.6	70.3
Ireland	More dev.	48.5	-4.0	42.6	Lithuania	Less dev.	105.3	32.1	171.1
Italy	More dev.	16.4	-2.1	14.0	Poland	More dev.	50.4	40.6	111.3
	Less dev.	17.7	-4.1	12.9		Less dev.	47.5	32.7	95.7
	Total	16.6	-2.4	13.8		Total	47.8	33.5	97.3
Luxembourg	More dev.	36.7	8.8	48.7	Romania	More dev.	131.2	41.3	226.6
Netherlands	More dev.	30.5	2.0	33.1		Less dev.	65.1	22.5	102.4
Portugal	More dev.	36.6	0.4	37.1		Total	76.1	26.6	123.0
	Less dev.	34.2	6.2	42.6					
	Total	35.2	3.8	40.4					
Sweden	Comp	28.4	1.9	30.9					
UK	Comp	28.2	-0.2	28.0					
	Less dev.	34.3	-1.7	32.0					
	Total	28.4	-0.2	28.2					

(a) Less and more developed regions are identified according to the Decision of the European Commission setting out the list of regions eligible for funding from the European Regional Development Fund and the European Social Fund and of Member States eligible for funding from the Cohesion Fund for the period 2014-2020 (notified under document C(2014) 974).

Source: SVIMEZ Report, 2016

Social development

So far we have dealt with recent regional trends of economic development in the EU, pointing to the radical variations within the group of less developed regions. Current EU regional differentials in social development as measured by the so-called regional EU *Social Progress Index* (SPI) can stimulate further interesting considerations[2].

The SPI measures social progress at the regional level in the EU as a complement to traditional measures of economic progress in order to show "inclusive" growth. As it is intended to complement (not to substitute) economic measures of development, it leaves out of the picture indicators such as GDP, income or employment, which are not used in the computation of the index. By excluding economic indicators, the SPI can be used to study the relationship between economic development (measured for example by GDP per capita) and social development. The SPI is computed by aggregating 50 indicators (primarily from Eurostat) that are aimed to capture three dimensions of social progress: *Basic Human Needs*, *Foundations of Wellbeing*, and *Opportunity*. Each of the three dimensions includes four components and each component is in turn measured using several indicators. The four components included in *Basic Human Needs* are: nutrition and basic care; water and sanitation; shelter; and personal safety. *Foundations of Wellbeing* include: access to basic knowledge; access to ICT; health and wellness; and ecosystem sustainability. *Opportunity* includes: personal rights; personal freedom and choice; tolerance and inclusion; and access to advanced education.

Regional EU SPI figures are useful for territorial comparisons with two different aims. First, they allow to measure EU regional disparities from a social perspective (rather than a purely economic one) by comparing SPI scores obtained by more developed regions with those obtained by less developed ones. Second, this framework allows to rank regions in terms of social development regions with similar levels of economic development.

Table 2 reports SPI scores at the overall and dimension levels (*Basic Human Needs*, *Foundations of Wellbeing*, and *Opportunity*). All scores are based on a 0-100 scale. Not surprisingly, social progress top performing regions are those with the highest GDP. Overall, European regions generally perform better on *Basic Human Needs* than on *Foundations of Wellbeing* and *Opportunity*. High regional variations can be observed for all the three considered dimensions. *Opportunity* seems to show the lowest level of performance and the most significant regional differences.

Social development differences are relevant at the regional level in the EU. At the EU-28 level, less developed regions' SPI overall score is 54.5 (vs about 70 in more advanced regions). The gap is most noticeable in the *Basic Human Needs* (63.6 vs 82.4) and *Opportunity* (45.1 vs 62.8) than in *Foundations of Wellbeing* (55.8 vs 65). On average, regional differences are (still significant but) less intense in the Eurozone than outside. In the non-euro area the regional SPI gap widens for the combined effect of a higher SPI score of more advanced regions (72 vs 69 in the Eurozone), and a lower SPI score of less developed regions (53.2 vs 57.1 in the Eurozone). Looking at the three dimensions of social development it seems that the better condition of Eurozone less developed regions is due to higher standards of *Basic Human Needs* than in peer regions outside the Eurozone.

[2] The EU Regional Social Progress Index is a three-year joint project of the European Commission (DG REGIO), Social Progress Imperative and Orkestra (Basque Institute of Competitiveness). The SPI intends to help regions to prioritise issues they want to address with their cohesion policy programmes and to identify peers from whom they could learn. Moreover, it can serve as well as a sounding board for the EU executive to assess whether its policies and programmes address the right issues in the right places. Finally, it allows DG REGIO to make a contribution to the beyond GDP debate.

Table 2. ***EU regional Social Progress Index (SPI) (a)***

Countries	Regions	SPI	Basic Human Needs	Foundations of Wellbeing	Opportunity	Countries	Regions	SPI	Basic Human Needs	Foundations of Wellbeing	Opportunity
EU 28	More dev.	69.8	82.4	65.0	62.8	EU 13	More dev.	59.6	66.4	58.5	54.2
	Less dev.	54.5	63.6	55.8	45.1		Less dev.	53.1	60.3	55.0	44.9
	Total	64.9	76.4	62.1	57.1		Total	53.9	61.0	55.4	46.0
Euro Area 18	More dev.	69.0	82.7	64.6	60.8	Euro Area (NMS)	More dev.	62.3	71.8	61.3	54.4
	Less dev.	57.1	70.6	57.7	44.7		Less dev.	57.5	66.4	60.4	46.9
	Total	67.1	80.8	63.5	58.3		Total	59.1	68.2	60.7	49.4
Non Euro Area	More dev.	72.0	81.9	66.3	68.4	Cyprus	More dev.	57.3	69.4	52.5	50.8
	Less dev.	53.2	60.5	54.6	45.3	Estonia	Less dev.	63.0	65.6	67.1	56.6
	Total	62.1	70.6	60.1	56.2	Latvia	Less dev.	53.1	55.0	55.5	48.9
EU 15	More dev.	70.3	83.2	65.3	63.2	Slovenia	More dev.	68.3	77.6	68.0	59.8
	Less dev.	57.8	71.6	57.7	45.6		Less dev.	63.9	77:4	64.4	51.1
	Total	68.7	81.7	64.4	61.0		Total	66.1	77:5	66.2	55.5
Austria	More dev.	71.3	86.5	65.1	63.3	Slovakia	More dev.	61,3	68:3	63:4	52.6
Belgium	More dev.	69.6	82.1	63.6	63.9		Less dev.	55,1	66.8	58.5	41:5
Germany	More dev.	70.9	85.0	66.4	62.2		Total	56,6	67.1	59.7	44.3
Denmark	More dev.	79.8	87.4	72.9	79.5	Non Euro Area (NMS)	More dev.	57.5	62.4	56.4	54.0
Greece	More dev.	54.8	70.6	52.8	43.0		Less dev.	52.5	59.5	54.2	44.6
	Less dev.	55.5	69.7	54.7	43.7		Total	52.9	59.7	54.4	45.4
	Total	55.3	69.9	54.2	43.5	Bulgaria	Less dev.	43.3	46.9	48.9	35.0
Spain	More dev.	66.0	79.8	63.2	56.0	Czech Republic	More dev.	64.4	73.9	60.3	59.5
	Less dev.	63.1	79.8	58.3	52.8		Less dev.	59.1	72.6	59.1	46.9
	Total	65.8	79.8	62.8	55.8		Total	59.7	72.8	59.2	48.5
Finland	More dev.	79.3	84.6	73.6	79.9	Croatia	Less dev.	53.6	68.7	56.5	38.0
France	More dev.	67.5	82.2	63.9	57.5	Hungary	More dev.	58.0	65.3	57.2	51.9
	Less dev.	62.0	74.0	70.0	44.4		Less dev.	53.9	64.5	53.2	44.8
	Total	66.1	80.1	65.4	54.2		Total	54.5	64.6	53.8	45.8
Ireland	More dev.	70.5	78.7	71.7	61.6	Lithuania	Less dev.	57.6	58.2	61.3	53.4
Italy	More dev.	59.7	76.9	56.2	48.0	Poland	More dev.	56.6	58.4	57.1	54.3
	Less dev.	50.8	64.2	51.8	38.0		Less dev.	55.6	60.8	57.4	48.9
	Total	57.2	73.4	55.0	45.2		Total	55.6	60.7	57.4	49.2
Luxembourg	More dev.	71.4	82.2	67.0	65.7	Romania	More dev.	51.1	52.0	50.9	50.2
Netherlands	More dev.	77.6	89.7	70.0	73.7		Less dev.	45.1	47.2	46.3	41.7
Portugal	More dev.	60.0	74.1	57.6	49.8		Total	45.8	47.8	46.9	42.8
	Less dev.	57.4	73.2	52.4	48.1						
	Total	58.3	73.5	54.1	48.7						
Sweden	Comp	78.2	89.1	68.8	77.4						
UK	Comp	71.1	81.8	66.0	66.0						
	Less dev.	70.4	82.9	65.3	63.9						
	Total	71.0	81.9	65.9	65.8						

(a) Less and more developed regions are identified according to the Decision of the European Commission setting out the list of regions eligible for funding from the European Regional Development Fund and the European Social Fund and of Member States eligible for funding from the Cohesion Fund for the period 2014-2020 (notified under document C(2014) 974).

Source: SVIMEZ Report, 2016.

How does Italy perform in this ranking? Italian more developed regions (59.7) are well below the EU-28 and EU-15 averages (69.8 and 70.3 respectively). They are the worst performers (with the exception of Greece) among peer regions. Such a bad performance is largely due to their deficit in *Opportunity* (48 vs average value of 63.2 in EU-15 countries).Within the Italian economy it clearly emerges the “Mezzogiorno gap”. It is interesting to notice that such a gap is largely due to

the worse performance in the dimension of *Basic Human Needs* (64.2 vs 76.9). However, the most striking aspect to stress here is that the SPI overall score of Italian less developed regions (50.8) is the lowest among peer EU-15 regions (57.8) and below the average score of EU-13 peer regions (53.1).

Competitiveness

Additional relevant information on current EU regional differentials pertain the idiosyncratic capabilities of territories to compete in international markets. The European Commission has developed the *Regional Competitiveness Index* (RCI) to improve the understanding of territorial competitiveness at the regional level in the EU (Annoni and Dijkstra, 2013). The RCI is suitable for comparisons in this field as it points to strengths and weaknesses of each of the EU NUTS 2 regions. The eleven pillars of the RCI describe both inputs and outputs of territorial competitiveness, grouped into three sets describing *Basic*, *Efficiency* and *Innovative* factors of competitiveness. The RCI framework is also useful for its suitability to capture both short- and long-term competitive capabilities of territories.

The *Basic* pillars represent the basic drivers of competitiveness for all economies, regardless their initial level of economic development, and include the following factors: quality of institutions; macro-economic stability; infrastructure; health; and the quality of primary and secondary education. Despite being important for all economies, all these pillars are most important for less developed regions.

The *Efficiency* pillars are the following: higher education and lifelong learning; labour market efficiency; and market size. All these factors are crucial for economies that have already undertaken their development path.

The *Innovation* pillars include: technological readiness; business sophistication; and innovation. This group plays a more important role for intermediate and especially for highly developed regions in order to maintain their (already high) competitiveness levels.

The RCI framework provides information for useful comparisons from two main perspectives. First, it is able to demonstrate that territorial competitiveness has a strong regional dimension, thus providing additional insights with respect to the well-known national competitiveness imbalances dividing the core from the periphery of the Union. Second, it allows to measure in more detail competitive asymmetries within the periphery, thus complementing the information on economic development trends already shown in Table 1.

Table 3 reports overall RCI scores and the three sub-indexes for the *Basic*, *Efficiency* and *Innovation* groups of pillars in the periphery of the EU (i.e., the group of less developed regions eligible for funding in the 2014-2020 programming period). The EU average is set to 0. The Table report the RCI scores and the corresponding rank for each of the 17 countries that includes less developed regions (countries are ranked in a descending order according to their scores). The above mentioned competitive asymmetries clearly emerge.

The overall RCI ranking underlines the substantial gap suffered from EU-15 less developed regions. Eastern countries are at the top of the ranking. Overall, such a competitive advance of Eastern economies can be considered a likely explanation for the differentiated the economic development performance shown in Table 1. This correlation is at the core of ongoing empirical research (Balli et al. 2016).

Among the three dimensions of competitiveness, the *Basic* factors are characterized by the highest variability. These are the most relevant factors for less developed regions (including quality of institutions; macro-economic stability; infrastructure; health; and the quality of primary and

secondary education), thus amplifying the observed competitive asymmetries. Differences in terms of *Efficiency* and *Innovation* are also important but less intense.

Table 3. ***EU less developed regions Regional Competitiveness Index (RCI) and Basic, Efficiency and Innovation Pillars (EU = 0) (a)***

Countries	*Basic*		*Efficiency*		*Innovation*		RCI	
	Index	Ranking	Index	Ranking	Index	Ranking	Index	Ranking
UK	0.11	2	–0.06	1	–0.13	2	–0.02	1
Estonia	0.45	1	–0.62	4	–0.07	1	–0.18	2
Slovenia	–0.15	3	–0.16	2	–0.45	3	–0.21	3
Czech Republic	–0.25	5	–0.35	3	–0.65	6	–0.38	4
Portugal	–0.45	8	–0.63	5	–0.88	13	–0.62	5
Poland	–0.42	7	–0.70	6	–1.00	14	–0.65	6
Hungary	–0.67	12	–0.73	7	–0.82	11	–0.72	7
Slovakia	–0.54	9	–0.81	9	–0.82	10	–0.73	8
Croathia	–0.63	11	–0.94	10	–0.65	5	–0.79	9
Spain	–0.24	4	–1.16	15	–0.86	12	–0.81	10
Lithuania	–0.94	14	–0.80	8	–0.68	7	–0.82	11
Latvia	–0.68	13	–0.99	11	–0.72	8	–0.84	12
Italy	–0.54	10	–1.11	12	–0.79	9	–0.87	13
France	–0.41	6	–1.41	17	–0.52	4	–0.93	14
Bulgaria	–1.37	16	–1.15	14	–1.30	16	–1.25	15
Greece	–1.32	15	–1.28	16	–1.14	15	–1.27	16
Romania	–1.53	17	–1.12	13	–1.61	17	–1.33	17

(a) Less developed regions are identified according to the Decision of the European Commission setting out the list of regions eligible for funding from the European Regional Development Fund and the European Social Fund and of Member States eligible for funding from the Cohesion Fund for the period 2014-2020 (notified under document C(2014) 974).

Source: SVIMEZ Report, 2016.

As for the Mezzogiorno, Italian less advanced regions (Campania, Puglia, Basilicata, Calabria and Sicily) occupy only the 13th place in the ranking. Scoring -0.87 they are just more competitive than regions with comparable levels of per capita income in France (-0.93), Bulgaria (-1.25), Greece (-1.27) and Romania (-1.33). Two considerations are in order here. First, the lack of competitiveness is more a national issue than a local one. Table 4 shows that only Lombardy stands close to the EU-28 average, scoring 0.01 and occupying the 128th place in the ranking of 272 EU regions. Second, despite we observe a certain degree of differentiation within the Southern regions, they should be regarded as a unique less developed macro-region sharing common problems in the *Basic* dimension of competitiveness (the Mezzogiorno concentrates about 50% of the population of the EU-15 less developed regions). Overall, the Mezzogiorno seems to be trapped in a two-level structural divergence path in Europe. On the one hand, his competitiveness standard is constrained by the belonging to a national economy increasingly less competitive than other major European economies. On the other hand, it suffers from an inner competitive gap from other EU disadvantaged areas due to its status of peripheral macro-region, especially after the East enlargement (SVIMEZ 2016).

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Table 4. ***Italy Regional Competitiveness Index (RCI) and Basic, Efficiency and Innovation Pillars (UE=0)***

Regions	*Basic*		*Efficiency*		*Innovation*		RCI	
	Index	Ranking	Index	Ranking	Index	Ranking	Index	Ranking
Lombardia	-0.09	139	0.11	111	-0.09	134	0.01	128
Emilia Romagna	-0.23	172	0.09	116	-0.30	155	-0.09	141
Lazio	-0.26	175	-0.16	145	0.03	118	-0.13	143
Auton. Prov. of Trento	-0.19	160	-0.04	127	-0.34	161	-0.16	145
Liguria	-0.21	164	-0.12	138	-0.22	150	-0.17	146
Piemonte	-0.17	155	-0.18	150	-0.25	153	-0.20	152
Friuli Venezia Giulia	-0.27	178	-0.17	149	-0.27	154	-0.22	157
Veneto	-0.21	166	-0.15	143	-0.46	170	-0.26	158
Toscana	-0.28	180	-0.23	155	-0.32	156	-0.27	160
Umbria	-0.30	184	-0.23	154	-0.56	178	-0.34	167
Auton. Prov. of Bolzano	-0.23	171	-0.25	159	-0.61	183	-0.36	173
Marche	-0.36	191	-0.36	172	-0.59	181	-0.42	177
Valle d'Aosta	-0.27	179	-0.34	169	-0.71	197	-0.44	178
Abruzzo	-0.43	200	-0.47	181	-0.73	200	-0.52	187
Molise	-0.49	215	-0.59	193	-0.93	225	-0.64	201
Campania	-0.50	217	-1.00	224	-0.56	178	-0.76	217
Sardegna	-0.55	220	-1.01	227	-0.68	194	-0.81	222
Basilicata	-0.52	218	-1.02	228	-0.95	226	-0.85	227
Puglia	-0.52	219	-1.14	236	-0.79	207	-0.88	232
Calabria	-0.61	226	-1.11	235	-0.85	214	-0.91	233
Sicilia	-0.58	224	-1.28	246	-0.75	202	-0.96	235

Source: SVIMEZ Report, 2016.

2. UNDERSTANDING "SELECTIVE" EU REGIONAL CONVERGENCE

The variability of GDP per head growth rates among less developed regions (Table 1) has produced *a "selective" pattern of regional convergence* in the EU. The marked reduction in regional disparities occurred since the beginning of 2000s has been largely due to the positive dynamics of new Eastern Member States, whereas convergence has not involved EU-15 less developed regions.

This evidence of "selective" EU regional convergence calls for more attention to in-depth analysis of the driving factors of regional growth (SVIMEZ 2015, 2016; Petraglia and Pierucci 2016). In particular, the relevant empirical issue is to disentangle the different factors that have supported the catching-up of EU-13 lagging regions, causing the observed variations in growth performances within the "periphery". In other words, the proper understanding of the driving factors of heterogeneous regional growth outcomes within the EU "periphery" should represent the very important preliminary task to fulfil before suggesting proposals for the future of EU regional policies (Balli et al. 2016). We need to understand better how the general framework of the EU policies (and its weaknesses) affects the level and dynamics of regional imbalances.

CPs have produced different impacts in regions due to their different degree of local and national capabilities to implement effective and timely policies. Cohesion is the main EU-wide policy that continues to play the fundamental role it has had since its establishment. It has been a key tool not only for reducing development gaps of Eastern European regions, but it also proved to be decisive to sustain the economy through investments at micro level, also during the economic and financial crisis, in particular in areas where national investments would lack or be insufficient.

The analysis of the different factors leading CPs to deliver different results in different territories deserve much attention as regions share different degrees of "local" institutional quality, entrepreneurship, innovative propensity, and so on.

However, short- and long-run macroeconomic outcomes at the regional level should be regarded as the result of the interaction among many factors - both *endogenous* and *exogenous* to regional economies - working in a multi-scalar territorial framework. More importantly, not all of them can be affected by the implementing policy instruments within the framework of CPs.

We can identify three sets of factors:

- *region-specific factors* linked to structural supply-side characteristics of the local economies: such as the degree of sectorial diversification of economic activities; the availability and accumulation of physical and human capital; entrepreneurial and innovative capabilities; openness to trade; the quality of local institutions, and so on;
- *national-level macroeconomic conditions*: "health" of public finance, tax systems, labour cost, employment protection regulations;
- *supra-national macroeconomic conditions*: supra-national fiscal rules; lack of supra-national tax harmonization; regions in the Eurozone vs regions belonging to countries with national currency; proximity to growing real markets.

The impact and strength of each of these factors differ significantly across regions producing the remarkable asymmetries shown in Tables1-3, affecting regional short-term resistance to and recovery from negative economic shocks, and determining long-run local competitiveness. Region-specific factors are endogenous to regional economies, whereas macroeconomic national and supra-national conditions are exogenous factors able either to magnify or to worsen regional performances independently from the effort of local private and public actors.

Among *region-specific factors*, the regional industrial mix, human capital accumulation and innovative capabilities are most relevant for many reasons. Productive sectors exhibit different degrees of sensitivity to adverse macroeconomic shocks. As a consequence, higher diversification reduces the concentration of risks linked to adverse sector-specific shocks. For instance, manufacturing and construction industries are typically more cyclically sensitive than private service industries. Regional specialisation in non-exporting sectors and public sector services can protect local economies against international economic crisis. Many empirical studies conclude that either productive or trade specializations are an important factor for regional growth. The accumulation of human capital and innovation capabilities (spurred by public and private resources devoted to R&D) are most significant in determining both regional competitiveness and enhancing the regional capability to react and adjust to negative external shocks. Human capital and innovation are key drivers of regional economic performance and competitiveness. Furthermore, more innovation-friendly regional environments and higher endowments of human capital make local economies more attractive to foreign direct investment, especially those linked to high-value-added productive activities. On the other hand, when a territory loses human capital as a consequence of migration of skilled workers, the consequent higher local concentration of unskilled workers will attract foreign investors interested in exploiting the advance of low labour cost.

Region-specific factors are only a part of the story. As recently recalled by Camagni and Capello (2015): *"Analysis of the impact of macroeconomic constraints on regional disparities is something new in the panorama of regional studies, and it warrants some in-depth reflection focused on the present crisis period. Macroeconomic trends and policies are likely to generate asymmetric and differentiated regional impacts, especially in periods of financial turmoil and sluggish development, for many reasons."* The evidence provided in the previous section suggests that this argument should apply, more generally, to the structural competitive asymmetries that the European integration process has not been able to lessen. These asymmetries were at work well before the crisis; they have been amplified by the lack of EU harmonization of national tax systems

and by the coexistence of Eurozone countries and national economies that have preserved their national currencies.

Asymmetric impacts of Austerity

Public finance national imbalances are a well-known fact in the EU. Different levels of sovereign debt, and different public deficits imply different amounts of public resources potentially available for the national support to economic social and territorial cohesion. Hence, less developed regions belonging to countries with less "healthy" public finances suffer from a clear structural disadvantage.

A strong evidence of such disadvantage has occurred when the EU-15 cohesion countries Italy, Spain, Portugal and Greece have been hit by the sovereign debt crisis. The consequent fiscal consolidation strategies implemented in these vulnerable economies involved drastic cuts in different kinds of public investment and other policy instruments aimed at supporting disadvantaged regions. The reduction of public expenditure has typically stronger effects on regional economies relying more on public demand as it is the case of poorer and less productive regions. In Italy, fiscal consolidation policies have largely been financed by cuts in resources devoted to regional policies. thus lessening public support to the Mezzogiorno (Giannola et al. 2015) and amplifying output and employment contractions.

Cuts in public investment in the EU periphery occurred in contrast to policies implemented in other extra-EU economies where public investment was used as a countercyclical fiscal stimulus. Figures on the composition of the cuts of public expenditure show a common feature in EU countries: government investment has been a primary target for fiscal consolidation in the periphery. However, this occurred to a different extent among EU countries. Between 2009 and 2013 public investment collapsed in Greece, Ireland, Spain and Portugal: -51% in nominal terms, fell by -24% in Italy, and remained almost stable (-1%) in other EU-15 countries. In the same period, public investment declined by 7% in Member States that joined the EU between 2004-2007.

Austerity policies have caused a substantial downsizing of interregional redistribution (through both higher tax burden and cuts in public expenditure) in Italy, thus amplifying the economic downturn in Southern regions. In particular, the share of public gross fixed capital formation in GDP (including gross fixed capital formation and capital transfers) has declined at the national level from 3.9% to 2.3% from 2009 and 2014. In the same period this figure collapsed to 0.9% in Southern regions.

As recalled by the European Commission: *"The crisis has had a profound impact on national and regional budgets, limiting funding availability across all investment areas. In the EU as a whole, public investment declined by 20% in real terms between 2008 and 2013. In Greece, Spain and Ireland, the decline was around 60%. In the central and eastern European countries. where Cohesion Policy funding is particularly significant, public investment (measured as gross fixed capital formation) fell by a third. Without Cohesion Policy, investments in the Member States most affected by the crisis would have fallen by an additional 50%. Cohesion funding now represents more than 60% of the investment budget in these countries"* (European Commission 2014: xv).

The Commission properly points to the importance of CPs for investment, missing to notice that this evidence also shows their lack of additionality. Additionality is a prerequisite for the effectiveness of CPs. If such an essential principle of CP is not applied, policies themselves degenerate[3].

[3] «Additionality is one of the principles driving the workings of the European Structural and Investment Funds. This principle stipulates that contributions from the Funds must not replace public or equivalent structural expenditure by a Member State in the regions concerned by this principle. In other words, the financial allocations from the Structural and Investment Funds may not result in a reduction of national structural expenditure in those regions, but should be in addition to national public spending. The principle of additionality is verified in Member States where less developed

Asymmetries in tax and currency systems

Tax rates on labour, capital and corporate income among Member States are a key factor explaining firms' and investment location choices, and differences in tax rates imply a structural disadvantage for less developed regions belonging to national economies with high tax burdens. Hence, the lack of tax harmonization implies a unequal competition among territories willing to attract resources from abroad. In addition, many Eastern economies derive advantages from geographical proximity to major European markets.

Furthermore, less developed regions belonging to countries within the Eurozone suffer from extra disadvantages. On the one hand, not relying on the short-term tool of devaluation of the national currency hampers their negative shock- recovery capabilities. On the other hand, the lack of fiscal union undermines the optimality of the currency area not allowing for mechanisms of fiscal transfers able to mitigate asymmetric shocks typically hitting backward regions more severely.

Asymmetries in tax systems, in labour costs, and other exogenous factors to regional economies, cause important regional differences in competitiveness that leave Euro Mediterranean regions in a position of structural disadvantage.

All this gives rise to significant competitive asymmetries that may explain the significant variations in economic development shown in Table 1.

3. The Need to Revive European Convergence Policies

A comprehensive reform of the European Semester is necessary. The European Semester should be reshaped in order to integrate the requests coming from the territories into a wider dialogue with the European governance. Therefore, what currently appears as a punitive policy should be reversed and the infraction and recommendation points should be turned into an agenda of priorities for investment in which local, national and European institutions develop synergies for growth policies.

The CP is complementary to this list of priorities and it becomes the instrument of an expansive economic policy, able to respond to these priorities, integrating local and European issues. The above-mentioned change would also give a new meaning to the European Semester, which should be considered as a coordination of national fiscal policies in the European context. At present, it seems rather to have assumed the characteristics of a detailed exam of national budgets by the European Commission and the Council, losing the idea of coordination and convergence of economic and social issues between Member States and regions in order to build a more cohesive Union.

Sections 3.1 and 3.2 build upon these general considerations in order to preliminary remarks and proposals in the attempt to contribute to forthcoming debate on the reform of CP. Section 3.1 deals with *needed internal improvement of EU CP*. Section 3.2 we take a broader view pointing to the need to take into account the responsibilities of the entire framework of EU policies when evaluating the strength of regional convergence in the Union. We will stress that CPs should be part

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regions cover at least 15 % of the population because of the scale of the financial resources allocated to them. At the beginning of the programming period, the level of expenditure that the Member State will maintain throughout the programming period is set out in the Partnership Agreement ('ex ante' verification). The Commission will verify each Member State's compliance with the principle of additionality at the mid-term of the programming period, in 2018, and after the end of this period, in 2022».
Source: http://ec.europa.eu/regional_policy/en/policy/what/glossary/a/additionality/

of a general European economic governance that *include regional convergence among its general objectives*.

Overall, reaching this general aim would imply substantial modifications of the Fiscal Compact, going beyond the currently allowed margins of flexibility within existing rules. Proposals on required amendments go beyond the scope of this paper. However, here we would like to highlight that the coordination of CP with the European economic governance should be strengthened in the future in order to reactivate an inclusive and smart growth path, to counterbalance structural imbalances within the EMU, and more generally, to give legitimacy to the European project.

3.1. INTERNAL IMPROVEMENTS TO EUROPEAN CP

The best way to defend the CP is to reform it in order to strengthen it. Any watered-down compromise would weaken the policy and a weak policy is more difficult to justify. The limits of implementation and effectiveness that CP has manifested, especially in some regions, need to be addressed by looking at the objectives to achieve.

If the main goal is economic, social and territorial convergence, the cohesion policy of the future must:

a) *Maintain or even increase the resources* directly allocated to achieve the objective of reducing the disparities of *less developed regions*, within a federal budget to be strengthened; these resources should be added to those that a national and European policy must provide in order to reduce internal imbalances;

b) *Simplify procedures* and reduce unnecessary bureaucracy, in *order to improve the effectiveness and efficiency* in the implementation of the policy and to reduce the growing gap between citizens and local institutions with the European institutions;

c) *Simplify the wider architecture of the policy*[4] aimed to accomplish the final objective of inclusive and smart growth following to *two complementary strategies*: i) *supporting accumulation and economic development* and, in general, providing territories with institutional and context conditions suitable to the development using policy instruments *financed by the ERDF*; ii) *creating and preserving equal initial conditions among individuals* by supporting social and human capital investments using policy instruments *financed by the ESF*;

d) Face new thematic challenges with flexibility for national political choices, but as part of a *strategic mission* that is *recognizable* and *identifiable*: as we will see below, *a CP "friendly" to new generations*.

Recommendations on most recent Commission's proposals

In the forthcoming months a debate will arise on the reform of CP that we hope will be as broad as possible, which in addition to stakeholders, institutions and the economic and social partnership may involve experts and citizens, mainly those living in less developed regions. Our paper is a contribution in this direction, on the eve of two crucial institutional steps.

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[4] Throughout the years different recommendations on a deep CP simplification were carried out. For example, the Sapir Report put forward a radical reform of EU regional policy, emphasizing the importance of simplification, concentration, and the need to apply conditionality (Sapir et al. 2013).The Report suggested to replace the cohesion and structural funds by two new policy instruments: the convergence fund and the restructuring fund. The convergence fund should had focused on reducing income inequalities prioritizing investment in human and physical capital and institution building (including upgrading administrative capacity). The restructuring funds should had provided financial support for workers displaced by technological change and intra-EU competition and globalization. This idea gained only limited traction with EU policy-makers. Indeed, the idea of a convergence fund did not catch on.

First, as part of the mid-term review of the multiannual financial framework (MFF) 2014-2020, the Commission promoted a proposal to amend the so-called regulations Omnibus (2016/0282), with two main objectives: simplification and flexibility. It consists of a general part, the Financial Regulation, and a second part in which certain sectorial regulations are amended, including the ERDF (1301/2013) and the General Regulation (1303/2013). It will introduce relevant innovations in CP, which announce the forthcoming EC´ guidelines for the post-2020 review.

Secondly, the European Parliament Committee of Regional Affairs is currently discussing a report on cohesion policy, to be approved before the Cohesion Forum that will be held in late June, with the aim of preparing a position paper for cohesion policy after 2020.

Concerning the changes to CP contained in the so-called Omnibus, two limited, but relevant changes to the ERDF are introduced: removal of restriction to "small size" for infrastructure in tourist and cultural context by increasing the possibility of intervention beyond 10 million; introduction of thematic priority "welcome and migration". More complex changes are developed for General Regulation, which can be divided into three main areas: simplification, financial instruments and residual operations (which do not generate any major problems and are mostly technical adjustments).

We must highlight the changes in the combination of European Structural and Investment Funds (ESI Funds) and European Fund for Strategic Investments (EFSI), even for the problematic aspects related to them. First, Member States can contribute to EIB financial products as part of EFSI up to a maximum of 25% for each year. The main issue is that the ESI contribution would cover the "first loss". This means that the greater part of the risk would be covered by ESI, while EIB would cover the lowest risk level. In this context, the EIB does not lose its AAA credit rating and would not risk its capital. Direct investments financed with CP, conversely, would be seriously reduced. As for the combination between the ESI Funds and EFSI there are some controversial aspects, in relation to the fact that the management is entrusted to the EIB. Furthermore, it has been introduced a dispensation to the general regulation on procurement, to entrust (by direct steps) to the EIB or any other bank or public financial institution (in the case of the Italian CDP) implementation tasks of financial instruments made by combination of ESI and EFSI funds.

What emerges from these changes is a trend to gradual "slipping" of the CP towards financial engineering tools that reduce the impact of direct public investments, which mainly in certain areas such as Southern Italy, are to date the only lever activated to enable private investment, while maintaining a high capacity to generate income and employment.

It is vital to establish *a virtuous coordination between the funds of the cohesion policy and the financial instruments*, but must be the latter to assume among its growth objectives the reduction of regional disparities, and not the first to be absorbed. This is not the way to revive public investment in Europe, after the dramatic collapse caused by the crisis, and to develop the link between the cohesion policy and the overall economic governance that we strongly support.

A Cohesion Policy "friendly" to the new generations

More broadly, the cohesion policy needs to find a mission post 2020. One of the reasons for the weakening of the cohesion policy is the dispersion of its strategic objectives, the lack of a strategic mission that enables an alliance of beneficiaries and the recognition of the expected results. Today, and certainly for the aftermath of 2020, we believe that this basic mission could lead to a cohesion policy closer to new generations.

The essential and unifying result of the CP, and its greatest contribution to the preservation of the European project must be the *creation of new quality jobs for young Europeans*. Furthermore, Young Europeans should be involved in the management of cohesion policy through specific instruments such as an "*Erasmus project between the administrations of cohesion*" in order to create

a new generation of "cohesion directors", as a prerequisite of a general and sustained improvement of administrative capacity.

In this way, the cohesion policy may gain a newer and deeper legitimateness and, more generally, it can legitimate European policies, returning to be, as described in Tony Judt masterpiece (2005), the "most influential lever available to the Union for the pursuit of its purposes". A task, however, that the CP, as renewed and strengthened, cannot perform alone.

3.2. CPs and the link with Macroeconomic Policies

Section 3.1 has dealt with the implementation of CPs suggesting improvements to make it more effective and efficient. Provided that all factors discussed in section 2 contribute to regional macroeconomic outcomes, here we take a broader view and argue that CPs' main objective of reducing regional disparities may be hampered by more general (external) reasons linked to the stance of European policies. Accordingly, the debate on the determinants of regional convergence and the discussion on the effectiveness of CPs in different regions should be enriched by the consideration of all the key regional growth factors mentioned in section 2. In other words, we would like to draw attention on the need to take into account the responsibilities of the entire framework of EU policies to evaluate the strength of regional convergence in the Union. We would like to stress that if CPs will not be part of a general European economic governance that does include regional convergence among its general objectives, then it is likely that regional imbalances shown in section 2 will widen.

Since the principle of free circulation of goods has been introduced in the Single Market (Treaty of Rome, 1957), European economies have experienced an in-depth economic integration process. Thirty years later the Treaty of Rome, the abolishment of all restrictions to free movements of people and capital among the twelve countries belonging to the EU in 1987 was the key step towards the present Union (European Single Act, 1987). The EMU in 1999 and the circulation of the Euro in 2002 represent the most recent achievements of European integration.

The objectives to be achieved by the Single Market and the EMU were clearly stated in the art. 2 of the Treaty of Rome as amended by the Treaty of Amsterdam: *"The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing common policies or activities referred to in Articles 3 and 3a, to promote throughout the Community a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection, equality between men and women, sustainable and non-inflationary growth, a high degree of competitiveness and convergence of economic performance, a high level of protection and improvement of the quality of the environment, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among member states."* And the intention to reduce *"the differences existing between the various regions and by mitigating the backwardness of the less favoured"* was matched by the implementation of dedicated European regional policies since the mid-1970s with the institution of the ERDF.

However, sixty years after the Treaty of Rome, thirty years after the Single European Act and fifteen years after the launch of the EMU, regional macroeconomic, well-being and social welfare imbalances are still substantial, thus testifying that the benefits of closer economic integration have been unevenly distributed across Member States and regions.

EU regional policy has been in a continuous state of reform since the 1980s partly due to the need for more intensive regional aid caused by the increase in regional imbalances linked to EU enlargements. The most recent contribution to the debate on the future of EU CP is the Barca Report (Barca 2009). The main suggestion of the Report to EU policy-makers is to focus on a

"place-based development strategy" targeting specific economic and social challenges in actual places rather than focusing on financial flows to regions created for the express purpose of receiving aid. Controversially, the Barca Report also asked whether the EU should really seek to achieve income per head convergence between member states and regions (Hodson 2012). Convergence, the report argues, *"Is neither a necessary nor a sufficient condition for achieving the efficiency and the social inclusion objectives of cohesion policy and should not be used as a policy target"* (Barca 2009: xiv).

While acknowledging that the objective of the convergence in GDP per capita is not necessarily a good indicator, empirical evidence reported in section 1 shows that increasing disparities also pertain social development, citizens' wellbeing, and production systems' competitiveness. Hence, in our view, CP must pursue the goal of convergence in the broader sense of promoting "inclusive and competitive" growth in less developed regions. This represents an undeniable goal in the light of the above discussed structural disadvantages suffered by backward regions of EU-15, particularly in the Eurozone. Above all, in consideration of the regional asymmetric effects produced by the crisis, this should be the aim to pursue in coherence with the objectives of the Treaties[5].

However, *CPs cannot produce results in line with these objectives if they are "left alone" by EU general policies that create divergence*. Indeed, Cohesion can be considered as the unique European federally-financed policy, realizing the coordination that instead lacks in EU general counter-cyclical fiscal policies. In the last decades, an increasing number of European political objectives and strategies have been financed by CPs' resources. They have increasingly been "left alone" to accomplish objectives and to finance strategies beyond their institutional aim (this is the case, for instance, of Europe 2020). The debate on the reform of CPs seems to be aware of this; nevertheless the analysis on the effects on the subsequent weakening and degeneration of CPs still lacks due attention (Provenzano 2016).

Clear signals of the "solitude" of CPs (Provenzano 2015) is the role they have being playing during the crisis: without them, public investment in European countries most affected by the crisis would have fallen by an additional 50%, as recalled in section 2. This evidence emphasizes the crucial importance of CPs because of their capability to deliver results which cannot be met by any other type of policy. At the same time, as mentioned above, it should also noticed that this evidence demonstrates *the lack of additionality of CPs' resources* that substitute rather than complementing ordinary macroeconomic policies.

The main limit of the CP is not being part of an overall EU inclusive development policy strategy. The Union's overall economic governance does not set the goal of convergence. The attempt to coordinate CP to EU general economic governance has been made in a very controversial way in the 2014-2020 programming period by introducing the so-called *macro-economic conditionality* principle. Critically, such a mechanism ends up punishing exactly the economies that suffer from worst macroeconomic and public finance conditions due to economic stagnation. This truly represents a contradiction for a policy that should enhance growth.

We have witnessed a proliferation of the objectives of cohesion over the years as the result of a compromise among conflicting interests, especially those of net contributor and net recipient

[5] Article 174 TFEU (ex Article 158 TEC): «1. In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its *economic, social and territorial cohesion*. 2. In particular, the Union shall aim at *reducing disparities between the levels of development of the various* regions and the backwardness of the least favoured regions. 3. Among the regions concerned, particular attention shall be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross-border and mountain regions»[italics added].

countries. The Italy peculiar position has to be recalled here: a net contributor country to which belong regions that are among the main beneficiaries of CP.

The need for compromises has clearly emerged in the reform of CP for the 2014-2020 programming period. The interim target of “transition regions” (where GDP per capita was between 75% and 90% of the EU average) has been introduced to respond to the request of net contributor countries whose number of “convergence” regions would have been otherwise drastically reduced. Furthermore, the reform has enhanced the “competitiveness” objective and raised the financing of more developed regions for the achievement of 2020 European strategic objectives. In such a way, CPs’ instruments and funds are currently used to a high extent for purposes that cannot be targeted by any other UE policy.

Such a proliferation of CP resources and objectives mirrors a lack of due attention for the objective of “convergence”. This is problematic as it may cause a widening of EU internal differences, mainly in the Eurozone. In any case, this situation does not follow the precepts of the Treaty and the rationale of CP (especially after the EMU): reducing imbalances and favouring regional convergence.

As for Italy, the resolution of endogenous causes of the Southern gap (such as overcoming the well-known local bottlenecks in the implementation of CPs for gaining efficiency in the use of EU resources) is an essential step to take and will surely lead to improvements. However, provided that competitive asymmetries within the EU periphery largely depend on factors unaffected by CPs, *the efficient implementation of CPs represents a necessary but not sufficient condition* for the recovery of the Mezzogiorno economy.

More broadly, there is a strong need for a general European policy designed to foster inclusive convergence and reduce imbalances. CP needs to be renewed and strengthened and conditions should be set to respect the principle of additionality both at the European and national levels. This is mostly needed to (at least partly) compensate for disadvantages arising from the non-optimality of the Euro. As Mario Draghi said, *“in a monetary union you can’t afford to have large and increasing structural divergences between countries, they tend to become explosive. Therefore, they are going to threaten the existence of the union, the monetary union”* (ECB Forum, Sintra, 2015).

In this perspective, *the agenda of the future of CPs should include three priorities* within, as we said, a wider reform of European economic governance including revisions of the Fiscal Compact and the State aid rules, in order to reach the general purpose of convergence. The three required priorities are summarized as follows:

a) *A Golden rule for investments*. The current European policy does not include a discussion on how to strengthen the EMU by introducing common policies explicitly aimed at reducing macroeconomic imbalances and asymmetries. Furthermore, the implementation of the so-called “Juncker Plan” so far has shown no interest for the support to public investments projects targeted to less developed regions. This lack of attention clearly emerges in the case of the South of Italy. In this context, a general mechanism to promote real additionality of CPs’ investments and counterbalance divergence dynamics (especially in the Eurozone periphery), would be the setting of a *golden rule* for all strategic public investments, going beyond the current flexibility clauses allowed by the European rules.

Such a mechanism will strengthen rather than weakening the relationship between Italy and Europe. It will allow to realise a national infrastructural environmental programme aimed at reaching European standards, in particular in the water and waste management. This will create the conditions to overcome numerous infringement procedures.

More generally, this will enable the *financing of public works*, providing an effective stimulus to income and employment in periods of economic slacks and in territories with infrastructure needs, as it is *in the case of the Mezzogiorno*. Under very prudential assumptions, *the SVIMEZ econometric model estimates public investment multipliers* greater than 1, showing the more than proportional effect on aggregate income of 1 euro spent in public works. According to these estimates, 4 billion euro of additional investments in the South of Italy would raise Southern and national GDP growth by respectively 1.8 and 0.3 p.p. in the first year. The cumulative impact on additional GDP growth in five years on Southern and national GDP is estimated at 2.4 and 0.5 p.p. respectively, producing an overall increase in employment of 115 thousand units in the South and about 42 thousand units in Northern regions[6]. By doing so, *it would be possible to reach the target of 2.7% annual GDP growth required to return to the pre-crisis levels of economic activity in 2020*. Needless to say, this result would be instead postponed by many years.

b) *Fiscal compensations.* As seen above, several factors of internal asymmetries operate within the periphery of the Union, starting from belonging or not to the EMU and the constraints that follow. We need an operational revision of Structural Funds, allowing for *an adequate compensation mechanism for each of these distortions*, based on *an accurate* (although not easy to implement) *computation of past and future advantages and disadvantages* that they imply.

As suggested by SVIMEZ to the national policy maker, the launch of *Special Economic Zones would be a more limited scope of intervention* (but practicable in the short term) to compensate the South of Italy for the disadvantages suffered by tax dumping.

c) *The strategic option of EU-Mediterranean cooperation.* More generally, the South and our national economy could benefit from the reinforcement of EU-Mediterranean cooperation policies. Most of the commitments made by the Euro-Mediterranean Partnership established by the Barcelona Declaration in 1995 (building a common area of peace and stability; fostering cooperation and regional integration; starting to build up an area of shared prosperity to promote the reduction of development disparities in the euro-Mediterranean region; promoting dialogue and respect among cultures) have not been respected in the following years. On the other hand, the relationship with Eastern countries has been reinforced as testified by the EU Enlargements from 2004 onwards. More recently, the Union for the Mediterranean, launched as a French initiative in 2008, has not led to appreciable results. In our opinion, the *re-launch of a process of cooperation for the economic, social and democratic development of the Southern Mediterranean area* is mostly needed, going *well beyond migration flows management policies* (also overcoming current weaknesses of refugees policy).

Rebalancing current Union geopolitical set-ups by prioritizing EU's Mediterranean policies is a strategic priority for the Southern regions and the Europe as a whole.

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[6] **Table 5.** ***GDP and Employment impacts of 4 additional billion euro of public works***

Year	GDP		Employment	
	Mezzogiorno	Italy	Mezzogiorno	
			var.%	Abs. var. (thousands)
1	1.8	0.3	0.8	53.9
2	2.1	0.4	1.5	101.1
3	2.3	0.5	1.7	110.3
4	2.4	0.5	1.7	114.5
5	2.4	0.5	1,7	115.1
	North	Italia	North	
			var.%	Abs. var. (thousands)
1	0.40	0.31	0.1	13.8
2	0.58	0.44	0.2	32.5
3	0.61	0.47	0.2	40.4
4	0.61	0.47	0.2	42.3
5	0.60	0.46	0.2	42.5

Source: SVIMEZ Report, 2016.

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