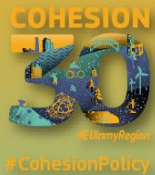




European  
Commission

# CONFERENCE ON GOOD GOVERNANCE FOR COHESION POLICY

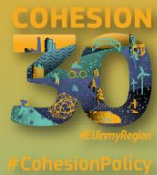


Regional and  
Urban Policy



# INSTITUTIONS, GOOD GOVERNANCE AND THE RETURNS OF REGIONAL POLICY

Andrés Rodríguez-Pose  
*London School of Economics*



Regional and  
Urban Policy

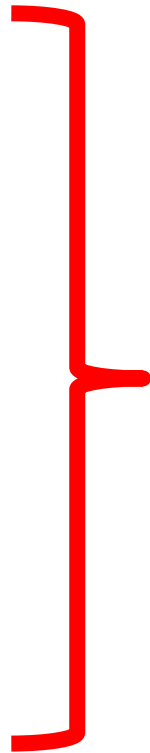


# GOOD GOVERNANCE FOR COHESION POLICY

Brussels – 24 May 2018



#CohesionPolicy



# GOOD GOVERNANCE FOR COHESION POLICY

*Brussels – 24 May 2018*



#CohesionPolicy

- **Policies have generally worked**
  - With caveats, positive impact
  - Impact growing over time (learning curve)
- **But...**
  - Decline in returns to intervention in many of the main axes (mainly infrastructure)

Commission I  
**Expo Station, Seville**



**'Radial' motorways, Madrid**



**AVE Toledo-Albacete**

**Castellón Airport**

**eljueves**

**SUPRIMIDO EL AVE  
TOLEDO-CUENCA-ALBACETE**



**FT**

**Ciudad Real Airport**

FINANCIAL  
TIMES

July 17, 2015 5:38 pm

Spanish ghost airport costing €1bn attracts offer of just €10,000





# FOR COHESION POLICY

**A1  
Motorway  
Greece**

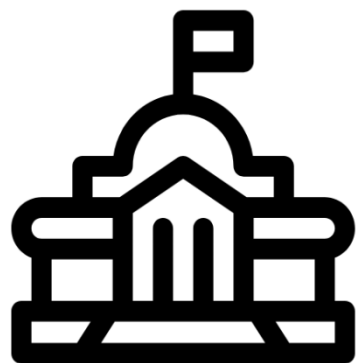
**Motorway Salerno-  
Reggio Calabria**



From 2000 to 2011, Italy received more than \$60 billion in the European Union financing to underwrite a wide array of programs, in areas including agriculture and infrastructure, most of it directed to the south, with little but a half-completed highway to show for it. Spain, which was given a little more than US\$100 billion, at least built a world-class high-speed rail network. (Greece received 50 billion, an enormous amount in per capita terms, also to a clear effect.) *Rachel Donadio, NYT, Oct. 7, 2012*

○ Why has ? grown?

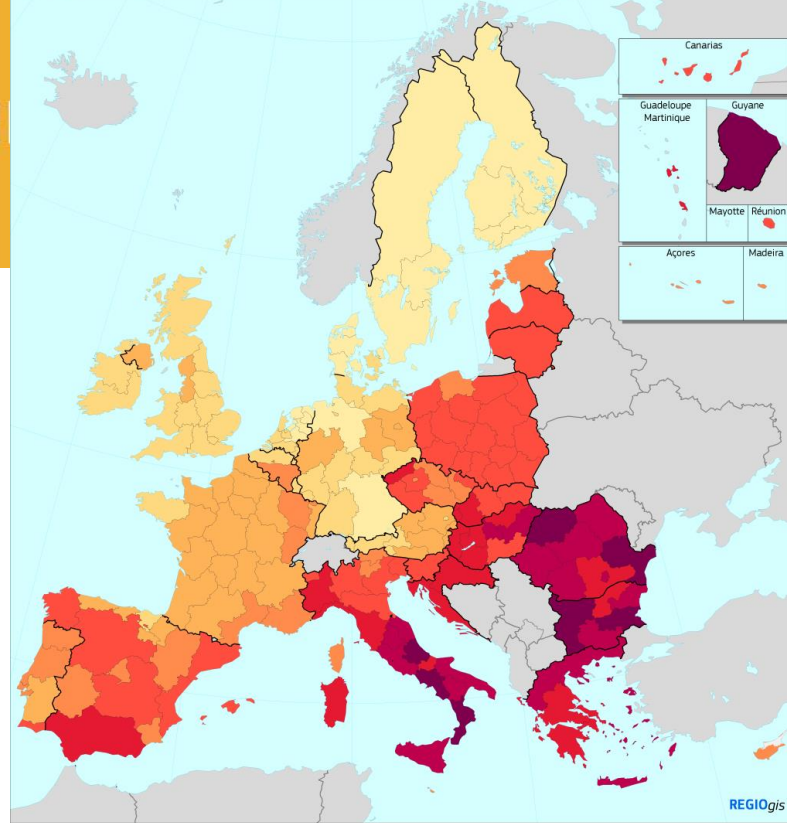
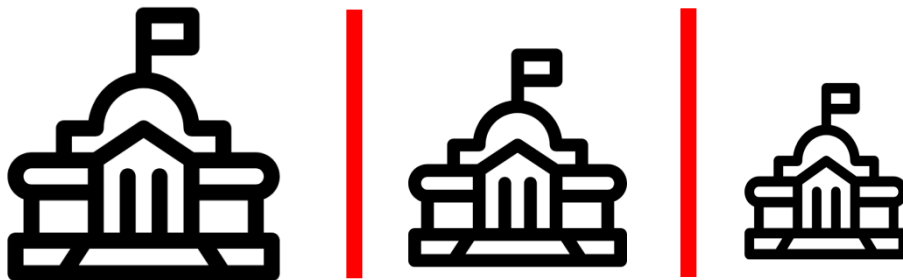
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# GOOD GOVERNANCE FOR COH

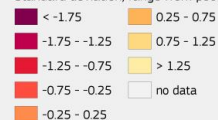
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- **But quality of institutions varies enormously across European regions**



European quality of government, 2017

Standard deviation, range from poor quality (negative) to high quality (positive)



EU = 0  
Source: World Bank data and a regional quality of government survey.

0 500 km



# GOOD GOVERNANCE FOR COHESION POLICY

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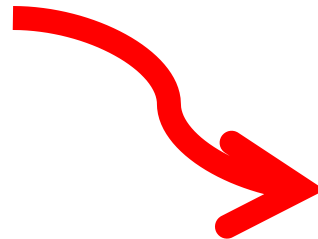
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- **The implications of lack of good governance for development in the EU are both:**

- **Direct**



- **Indirect**



# Results based on thorough analysis

The returns of greater cohesion expenditure weaken as the threshold increases

While the impact of the quality of government becomes more and more important fundamental

As does the interaction between expenditure and quality of government

Dep. Variable	(1)	(2)	(3)	(4)	(5)
GDP pc growth	No threshold	>80€	>100€	>120€	>150€
<b>ln GDPpc</b>	0.000780 (0.00877)	-0.0472** (0.0182)	-0.0621** (0.0197)	-0.0816*** (0.0240)	-0.0720*** (0.0221)
<b>Cohesion expenditure pc</b>	3.10e-05** (1.24e-05)	1.71e-05*** (5.21e-06)	1.72e-05** (6.58e-06)	2.54e-05* (1.17e-05)	1.48e-05 (1.65e-05)
<b>Quality of government</b>	0.00392 (0.00243)	0.0186** (0.00611)	0.0225*** (0.00633)	0.0258*** (0.00627)	0.0315*** (0.00721)
<b>Cohesion exp x quality gov</b>	-9.94e-07 (1.04e-05)	-4.07e-05** (1.51e-05)	-4.39e-05** (1.50e-05)	-5.49e-05** (2.01e-05)	-6.83e-05** (1.94e-05)
<b>Time controls</b>	Yes	Yes	Yes	Yes	Yes
<b>Country controls</b>	Yes	Yes	Yes	Yes	Yes
<b>Observations</b>	972	252	218	103	125
<b>R-squared</b>	0.264	0.342	0.362		
<b>No. of countries</b>	18	11	10		

Dep. variable: $\Delta \ln \text{ GDP}$	Quality of Government (QoG) Component:				
	QoG Combined Index	Control of Corruption	Rule of Law	Government Effectiveness	Government Accountability
Ln of initial GDP	-0.129*** (0.0218)	-0.131*** (0.0232)	-0.109*** (0.0220)	-0.109*** (0.0197)	-0.0934*** (0.0213)
<b>Change in other roads per 1000 inhabitants</b>	<b>0.000401 (0.000497)</b>	<b>0.000914* (0.000516)</b>	<b>-0.000188 (0.000559)</b>	<b>0.000859* (0.000507)</b>	<b>0.000377 (0.000466)</b>
<b>Quality of Government (QoG) Component</b>	<b>0.0595*** (0.00801)</b>	<b>0.0503*** (0.00953)</b>	<b>0.0272*** (0.00698)</b>	<b>0.0375*** (0.00445)</b>	<b>0.00835* (0.00498)</b>
<b>Interaction term (other roads investment)*(QoG)</b>	<b>0.00352*** (0.00118)</b>	<b>0.00374*** (0.00116)</b>	<b>0.00445*** (0.00151)</b>	<b>0.00273*** (0.000918)</b>	<b>0.00352*** (0.00116)</b>
Spatial Weight of other roads investment	0.00299 (0.00204)	0.00402* (0.00214)	0.00320 (0.00194)	0.00200 (0.00194)	0.00317* (0.00186)
Agricultural Employment	-0.00339*** (0.000834)	-0.00295*** (0.000889)	-0.00367*** (0.000825)	-0.00362*** (0.000759)	-0.00363*** (0.000805)
Ln patents application	0.00753*** (0.00276)	0.00675** (0.00287)	0.00630** (0.00300)	0.00567** (0.00274)	0.00495* (0.00291)
Ln of employed people with tertiary education	0.0420*** (0.0134)	0.0305** (0.0127)	0.0338*** (0.0127)	0.0338*** (0.0113)	0.0227* (0.0119)
Regional population	5.04e-06 (8.77e-06)	-2.01e-05** (7.85e-06)	-1.21e-05 (8.12e-06)	1.29e-05 (9.26e-06)	-2.19e-05** (8.89e-06)
time effects	Yes	Yes	Yes	Yes	Yes

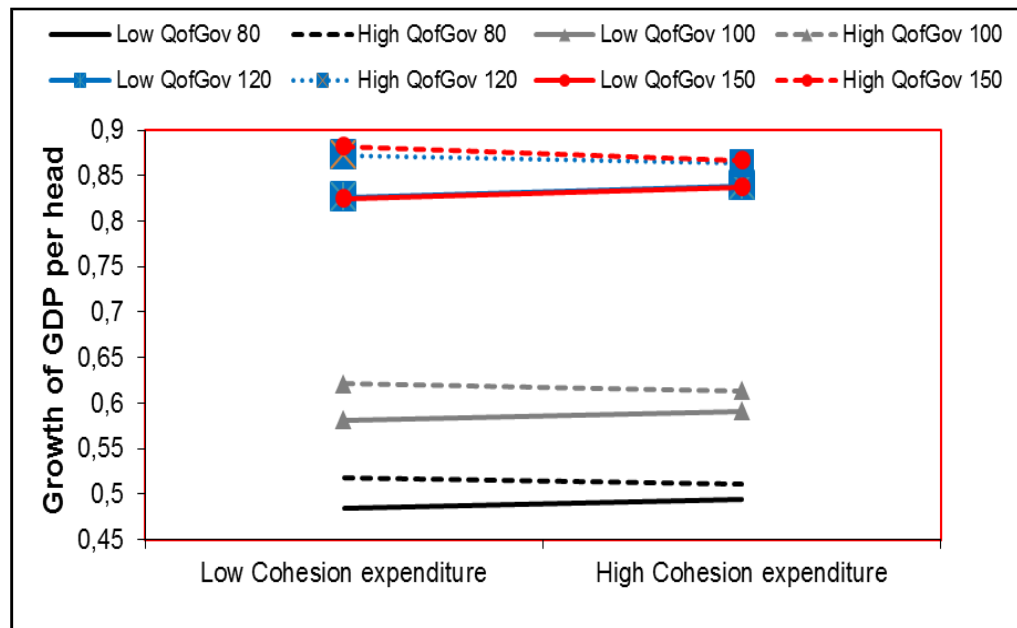
**Weak positive correlation between investments in other roads and growth**

**QoG always significant**

**The better the institutional quality and the higher the investment in local roads, the higher the economic growth**

**Weak evidence of spillover effect. Innovative potential and human capital strongly affect growth**

## ○ Direct impact





- **Direct impact (2)**

### Impact on growth of one standard deviation increase



	>80€	>100€	>120€	>150€
Increase in structural fund expenditure	1.93	1.68	1.59	1.50
Increase in quality of government	6.94	6.93	5.63	6.89

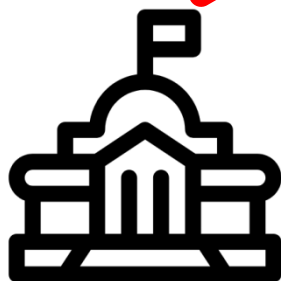
Impact of increase in quality of government is significantly greater above €80

The economic returns of investing more in cohesion in Europe stop at €120

Above €80, regions with a higher quality of government perform significantly better at the same level of cohesion expenditure

Massive increase in Cohesion budget (> 2.7 times) to overcome the problems of poor governance

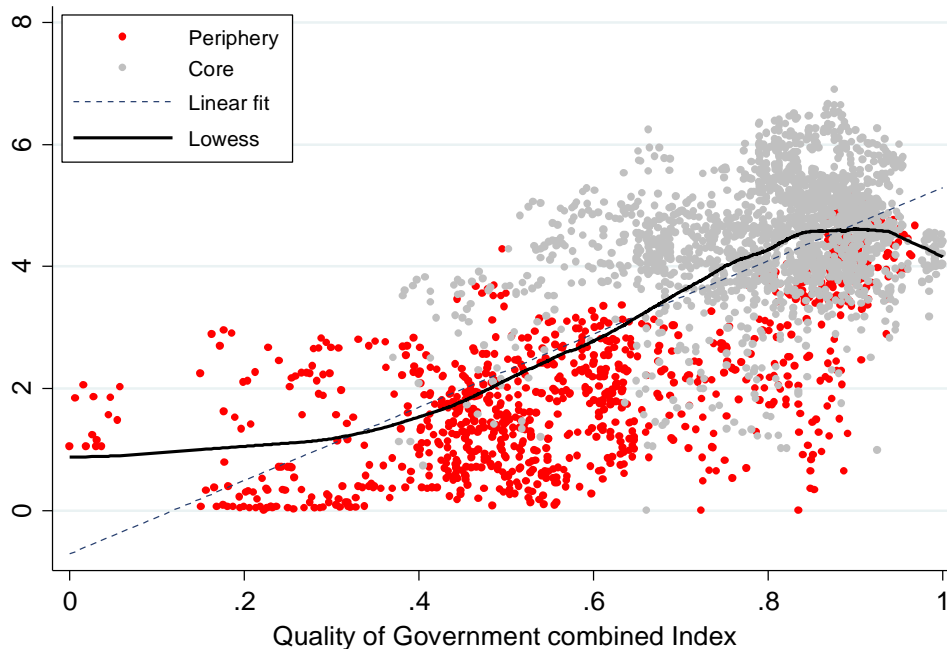
## ○ Direct impact (3)



## Indirect impact



Overall variation: Patents vs. QoG



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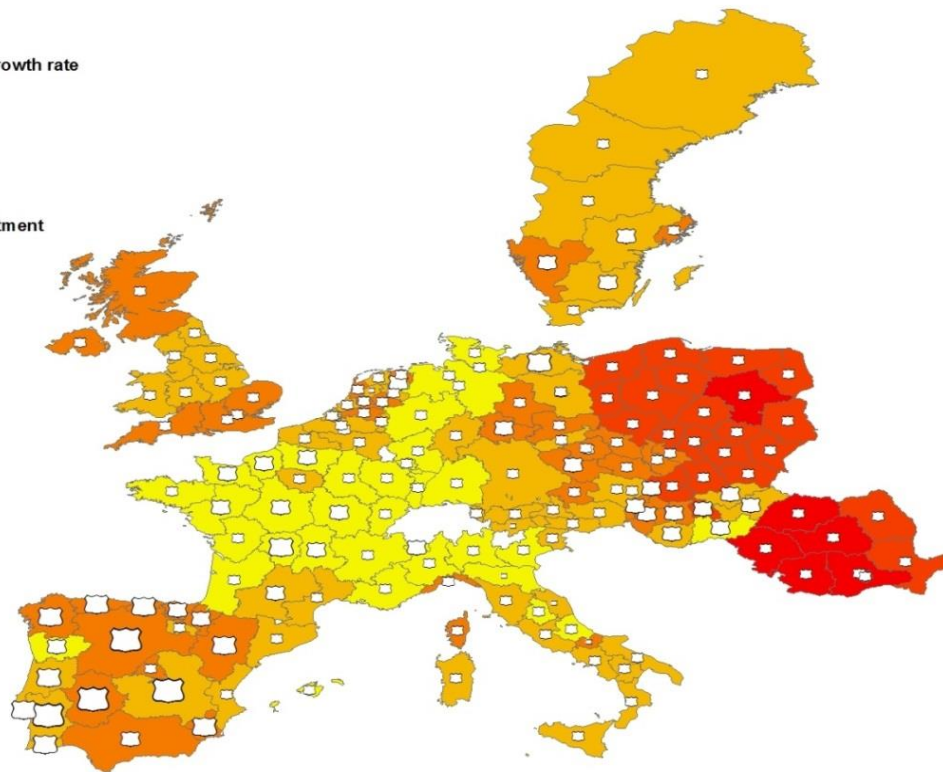
## Indirect impact (2)

### Legend

#### per capita GDP growth rate

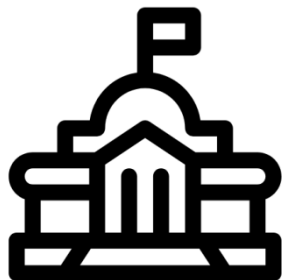
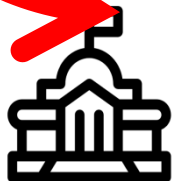


#### motorways investment



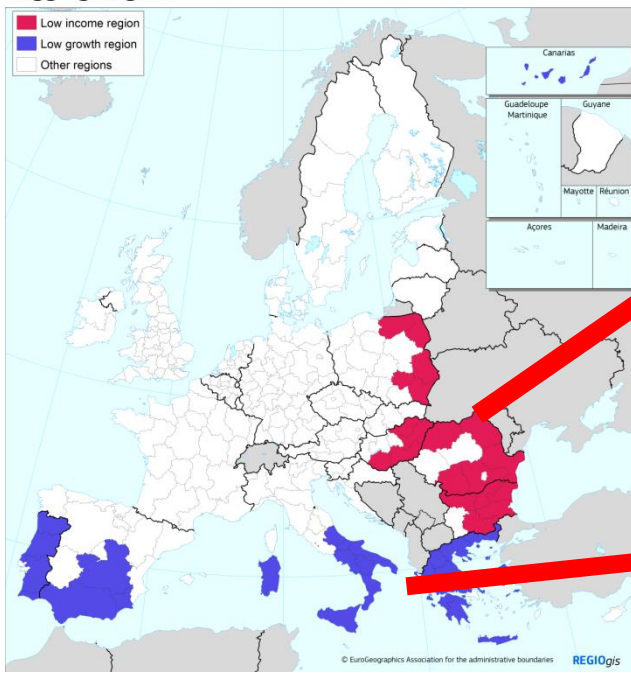


## Indirect impact (3)



## ○ Different policies for different types of territories

### Lagging Regions



- **Good governance matters**
  - ***Directly:*** Good governance is a fundamental factor for the economic performance of regions in Europe
  - ***Indirectly:*** Good governance influences the outcomes of other policies
- **Improvements in governance, powerful driver of growth**
  - Changes in governance matter more than initial levels
  - Poor governance not an insurmountable barrier for jobs and growth
  - Incapacity/unwillingness to improve governance is

# GOOD GOVERNANCE FOR COHESION POLICY

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- **One-size-fits-all policies are not the solution**
  - Determinants of growth vary considerably across different types of regions
  - Different approaches are thus needed
- **Governance improvements essential for low growth regions**
  - Benefits from improving basic growth endowments have become exhausted. Reducing corruption and gov. effectiveness the way forward
- **In low income regions basic endowment shortages still the main barrier to development**

## INSTITUTIONS, GOOD GOVERNANCE AND THE RETURNS OF REGIONAL POLICY

Andrés Rodríguez-Pose  
*London School of Economics*

More information at <http://personal.lse.ac.uk/rodrigu1/>



@rodriguez\_pose