The crisis exerts considerable pressure on several EU countries, and may even, in the worst case, jeopardize two decades of efforts towards EU enlargement and cohesion. The period of crisis and the related imperatives of tight fiscal policies in highly indebted countries has generated an impressive outcome on the EU space: an interruption of the long term, historical trend towards decreasing inter-regional disparities. The crisis added a new challenge to policy makers: the evidence of large negative country effects in southern European countries and a lower catching-up pace in Eastern countries, all trends that econometric forecasts indicate that will not be easily overcome in the next future.

Cohesion policies are now facing these new, partly unexpected challenges, having to operate inside tight macroeconomic constraints, reduced public resources and increasingly pessimistic political attitudes. In this condition, regional policies are called to rebalance the spatial effects that the ongoing crisis is determining on interregional convergence trends. Beyond that, the necessity to be more selective in targeting public development resources generates the risk of a shift in policy priorities away from cohesion goals and in favor of competitiveness goals that inevitably redirects attention – and resources – towards core areas, where returns on public and private investments look faster and higher.
The analysis on the impact of macroeconomic constraints on regional disparities is something new in the panorama of regional studies, and is worth some in-depth reflection, focusing on the crisis period.

Regional forecasting models, well structured in order to include both regional supply-side assets and national, demand-side macro-economic elements, could assist in disentangling the single different logical chains leading from macro-economic constraints to regional impacts in the recent past, and in building an ex-ante picture of the likely macroeconomic trends out of the present crisis and their regional distribution. A recent simulation exercise was recently carried out in the ESPON - ET2050 project, based on a model of this kind, called MASST (Capello, 2007; Capello et al., 2008, Capello et al., 2011). The last version of the model, MASST3 (Capello et al., 2013) warrants particular attention since it is particularly apt: i) to measure the costs of austerity and growth measures, and their interactions and feedbacks, both in periods of crisis and of economic expansion; ii) to interpret the heterogeneous regional effects that the economic downturn and the subsequent expected recovery are likely to generate.

The results of the ‘Baseline’ scenario are presented in Figure 1 in terms of annual average regional GDP growth rate in the 2012-2030 period. The scenario was developed under the assumptions that present restrictive fiscal policies will not be relaxed (keeping the present 3% of allowed yearly deficit over GDP), that the existing monetary tools in the hands of the European Central Bank will continue to discourage international financial speculation, that no new policy tools (like Eurobonds) will be implemented, that cohesion policy budget will be maintained at present levels and that the crisis will end starting from 2015-16.

The model’s conditioned forecasts (‘foresights’) show that GDP growth will be positive in all European regions, with the exception of a very limited number of regions in southern Europe. Moreover, in terms of GDP growth rate, a two-speed Europe appears, since regions belonging to southern countries grow in general significantly less than northern countries. Finally, the convergence process by New12 countries remains incomplete: Eastern European countries still grow more than the others, but not enough to catch up with the GDP per capita levels of the Western countries by 2030.

These simulation results confirm that the crisis has permanent effects, and considering the business-as-usual nature of the simulated scenario presented here, they demonstrate that the 15 years of post-crisis (2016-2030) are not sufficient to fully counterbalance the negative trend experienced in the years of crisis (2008-2015). In fact, results point to a striking persistence of the relative slowdown of Mediterranean countries with respect to Central and Northern ones. This also holds for some peripheral areas in Spain, and especially in Greece, where an even negative (although modest) GDP growth rate is maintained for the simulation period, as a result of both out-migration and poor productivity performance. Greece seems to be paying the direst cost in this scenario, and in the absence of more expansive policies, most Greek regions would not fully recover from the current contraction of investment and consumption.
A first important message comes out of this simulation exercise. In the absence of policies able to correct the current imbalances, the growth engine looks unable to overcome the damages caused by a long period of downturn.

This is not all. Looking at the spatial imbalances caused by the crisis, it appears that the lack of adequate development policies risks to jeopardize two decades of efforts towards EU enlargement and cohesion. By looking at between-countries disparities in GDP (Figure 2), where the values of the Theil index are plotted for the period 1995-2012 on official statistics and then up to 2030 on modeling forecasts, it appears quite evidently that the long-run convergence process was interrupted during the crisis and that it is likely to slow down substantially now on. Its sluggish pace will be insufficient to counterbalance the forecasted increase in inside-countries disparities (that was also observed in past decades), so that the index of overall regional disparities is expected to increase from now to 2030 (Figure 3). The simultaneous process of inter-national convergence slowdown and of regional concentration implies a superior challenge to future cohesion policies.
Another recent research result bringing support to the thesis that an appropriate and smart design of regional policies could overcome the dilemma between competitiveness and cohesion comes from the already mentioned ESPON project (ESPON ET2050, 2013), concerning the construction and assessment of territorial scenarios for the EU. Beyond a baseline scenario, three “exploratory” scenarios were built, namely:

1. a “Megas” scenario, a typical market driven scenario implying a concentration of investments in European large cities, with a welfare system fully privatized and national economies called to repay public debts by 2030;
2. a “Cities” scenario, in which public policies are mostly at national level with a concentration of investments on second rank cities, actual welfare system reinforced through increased taxation, national public debt not fully repaid in 2050, a constant budget for cohesion policies;

3. a “Regions” scenario, in which public resources are mostly devoted to social and development policies in lagging, rural and peripheral regions, presence of a strong public welfare system at the expenses of the financial debt which is repaid only in 2050, and a budget which is significantly increased for cohesion policies.

The first and the third scenarios can easily be interpreted respectively as a competitiveness and a cohesive scenario. The “cities” scenario, instead, embraces the philosophy of supporting second rank city regions, highly diffused in Europe and representing potentially productive areas, rich of specific, not fully exploited territorial capital assets and un-exploited agglomeration economies: it may be seen as an intermediate scenario, looking at the same time to enlarge the development area in relatively advanced regions and to pick the relatively better structured areas, namely urban areas, in lagging regions.

The results of the three scenarios – obtained by running a third version of the macroeconometric regional growth model MASST – are rather impressive. In aggregate terms, the “Cities scenario” is, at the same time:

- the most expansionary among the three, both in Western and Eastern EU countries (Table 1);
- also the most cohesive one, showing the least increase in overall regional disparities (Theil index: Figure 4a), thanks to the best outcome in terms of reduction in between-countries disparities (catching up of lagging countries: Figure 4b) and a limited relative increase in the within-country disparities (Figure 4c). As expected, the “Megas” scenario is the less cohesive, due to a very high increase in the within-country disparities; on its turn, the “Regions” scenario is – almost by definition – the most cohesive in the within-countries disparities.

<table>
<thead>
<tr>
<th>Scenarios Macro-regions</th>
<th>Baseline</th>
<th>Megas</th>
<th>Cities</th>
<th>Regions</th>
<th>Megas vs. baseline</th>
<th>Cities vs. Baseline</th>
<th>Regions vs. Baseline</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU27</td>
<td>1.89</td>
<td>2.22</td>
<td>2.31</td>
<td>1.82</td>
<td>0.33</td>
<td>0.42</td>
<td>-0.06</td>
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<td>Old15</td>
<td>1.88</td>
<td>2.22</td>
<td>2.32</td>
<td>1.81</td>
<td>0.34</td>
<td>0.44</td>
<td>-0.07</td>
</tr>
<tr>
<td>New12</td>
<td>1.93</td>
<td>2.22</td>
<td>2.23</td>
<td>1.98</td>
<td>0.29</td>
<td>0.30</td>
<td>0.05</td>
</tr>
</tbody>
</table>
Trying to widen development outside the traditional core areas in the direction of second and third-rank European cities is likely to bring multiple advantages: exploiting a wider mass of potential territorial capital assets, avoiding the drawbacks of agglomeration diseconomies and the inflationary costs of excessive spatial concentration and supporting spill-over effects towards the urban poles of lagging and peripheral regions.

**Figure 3.** Theil Index by Scenario: Regional Disparities
The results of conducted analysis advocates in favor of a strengthening of cohesion policies, recalling their multiple economic justifications especially in difficult periods of crisis and denying the existence of the assumed, traditional trade-off between cohesion and development goals, if a new concept and style in regional policies is followed. The new target should be the largest mobilization of existing territorial capital assets, and in particular of local excellences, present and dispersed in almost all regions, though a bottom-up ‘discovery’ process led by local elites and intermediate bodies, tailored upon the potentials and specificities of the single places.

The main message for the Cohesion Policy is that the winning strategy is neither to focus on champion places and regions, in search of the highest efficiency, nor on lagging areas, in search equity; policies designed on each regions’ specificities, competitive advantage and needs are the right policies, able to engage all possible assets and enlarge excellences. This pathway at the same time avoids the social and economic costs of a concentrated development and guarantees the highest returns in terms of both competitiveness and cohesion. Recalling the ‘balanced’ nature of any long term development process, policy interventions should pursue an integrated nature – acting on multiple dimensions – and matching with the specificities of places. The concept of ‘territorial platforms’ could help in this case, suggesting and supporting the potential complementarities among material and non-material, economic and cognitive, social and environmental actions and goals.

Innovation policies too should renovate their intervention philosophy, pursuing a wise concentration of R&D investments – very different from the past – but also devising new intervention strategies in non-core regions. These strategies should fit with the actual ‘innovation pattern’ followed by each region, supporting the blending of external knowledge (in different forms: patents, researchers, scientific consultancy, direct investments) with local productive ‘vocations’, competences and productive traditions, deepening and widening the present specialization through ‘smart’ incremental innovation.

The main message for Central and Eastern European Countries is to focus policy on the specific challenges that these countries are now facing in their structural and institutional transition. Macroeconomic issues – e.g. controlling the trend of unit labour costs and real effective exchange rates – are coupled with spatial ones – e.g., the necessity to enlarge development areas towards second-rank cities and to control real estate bubbles and land rents; industrial and social issues converge in the necessity to enhance local entrepreneurship and to better mobilize the present excellences in many scientific fields in order to enter a new development stage, relying less on foreign investments alone but exploiting all the potential synergies, economic and cognitive, between foreign investments and local culture.

The main objectives of the GRINCOH project is to deal with two major challenges facing the CEECs that are central to the goals of cohesion: they need to embark on a more innovation-driven process of development to secure long-term competitive and sustainable growth; and, at the same time, they need to create conditions for their citizens that allow them to enjoy more equal opportunities and to mobilise their full potential for economic and social development. The specific
The objectives of the project are: (a) to establish development scenarios for the CEECs for the period up to 2020 under different assumptions of political frameworks, institutional conditions and development strategies; (b) to identify the implications for sustainable growth – based on innovation and the development of technological capabilities – and greater economic, social and territorial cohesion in the CEECs; and (c) to advise on future policy options for the CEECs, and in particular for EU Cohesion policy.

**PROJECT IDENTITY**

**PROJECT NAME**  
Growth Innovation Competitiveness: Fostering Cohesion in Central and Eastern Europe (GRINCOH)

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**FUNDING SCHEME**  
FP7 Framework Programme for Research of the European Union – Collaborative project SSH.2011.2.2-1. Addressing cohesion challenges in Central and Eastern Europe

**DURATION**  
March 2012 – February 2015 (36 months).

**BUDGET**  
EU contribution: 2 697 875 €.

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**FURTHER READING**  
R. Camagni, R. Capello: *Rationale and Design of EU Cohesion Policies in a Period of Crisis with special reference to CEECs*