Rationale and Design of EU Cohesion Policies in a Period of Crisis

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17.1 Framing the Recent Debate on EU Regional Policies[1]

The paper builds upon the robust scientific debate on European cohesion policies which has taken place in the past decade and has been devoted to the necessary "paradigm shift" from a mainly redistributive logic, typical of the last century's approach, to a development logic (OECD 2001; Bachtler and Yuill 2001). The previous logic was mainly based on the presumed need to compensate lagging regions for the absence of some preconditions for growth—infrastructure, accessibility, education, health care—and to counterbalance the virtuous circles of agglomeration economies and increasing returns benefitting other "core" areas (Fernandez 2011). The new logic, led by generalized conditions of shrinking public resources and by the need to achieve overall spatial efficiency and competitiveness, mainly advocates endogenous development, continuous innovation and a growth perspective.

The debate has originated from three main considerations and empirical evidence substantially shared by all participants (Boldrin and Canova 2001; Rodriguez-Pose and Fratesi 2004; Percoco 2005; Bachtler and Gorzelak 2007; Gorzelak 2011; Barca et al. 2012):

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(a) the huge financial costs, the opportunity costs, and some significant unintended outcomes of the previous approach, which in many cases led to a syndrome of dependency on public support in lagging regions, generous remunerations to local élites and rent-seeking lobbies, and evidence of a low capacity to promote self-sustained growth in the long run;
(b) the evidence of a limited success of regional policies, perhaps not in helping regional transformations or responding to basic needs of the populations concerned, but certainly in achieving a convergence of GDP per capita and growth rates at the inter-regional level within individual countries (Boldrin and Canova 2001; Puga 2002);
(c) the new global context, which imposes on all countries, regions and firms a reshaping of locational patterns of production, new standards in economic efficiency and innovation capability, and new behaviors in managing technology, production cycles, information and finance.

As to be expected, in spite of the generalized agreement that a new development-oriented policy paradigm is necessary, the responses to the commonly-defined challenges in terms of policy philosophies and design have been highly diverse. On the one hand, a more market-driven and institutional approach has been proposed by two influential Reports (Sapir 2003; World Bank 2009) which implicitly (the first) or explicitly (the second) reject regional or cohesion policies as detrimental to aggregate macroeconomic growth and advocate institutional reforms mainly on labor markets, capital mobility and some basic infrastructure and accessibility policies. The World Bank Report fully endorses the New Economic Geography literature (Krugman 1991; Fujita et al. 1999; Belloc and Tilli 2013; Houglin Zhang 2014), pointing out the superior efficiency of large metropolitan areas and the need to support them for the sake of aggregate wellbeing. Market forces are no longer supposed to lead to a spatial re-equilibrium through the virtuous opposite movements of capital (towards lagging regions) and labor (towards large core cities), as in the early neoclassical literature on regional growth (Borts and Stein 1964): they are conducive to inescapable yet welcome economic disequilibria generated by the agglomeration economies achieved in a few large cities and by their leadership in innovation processes. The trade-off between aggregate efficiency and inter-regional equity hypothesized by the traditional regional policy literature is fully accepted, with favor openly expressed for the efficiency goal and "space-blind" policies (Gill 2011).

On the other hand, we find the long-standing position of the OECD (2001, 2009, 2011) and the influential Barca Report to the European Commission (Barca 2009) in favor of the opposite strategy: a "place-based" regional policy founded on place specificities and territorial assets, designed in a transparent and inclusive way by local actors with the support of external institutional and economic actors (multi-level governance) and subject to precise "conditionalities" imposed by the Union in order to prevent local rent-seeking and monopolistic practices. The main operational objective of the Barca Report is the production of "bundles of integrated,

place-tailored public goods and services" designed by "aggregating local preferences and knowledge" through participatory political institutions.

The opposite space-blind strategy supported by the World Bank is criticized as not being space-neutral: in fact, it favors large economic concentrations that are mainly the outcomes of non-market decision-making processes led by influential metropolitan and capital city élites (McCann and Rodriguez-Pose 2011; Barca 2011; Kim 2011). Even on recognizing the relevant role of agglomeration economies and the innovation potential of large cities, a world of megacities is not the only one possible. It is not the only efficient one, and it is by no means the most desirable one, given the contradictions and the social costs of a too spatially concentrated development pattern (Camagni 2001a; Henderson 2010; Camagni et al. 2014a). Furthermore, empirical evidence shows that, in terms of growth rates, large cities are not always and not everywhere the most successful places (Dijkstra et al. 2013; Parkinson et al. 2014). Equating large cities directly with economic success is to "confuse correlation with causality" (Barca et al. 2012, p. 141) and, what is even more detrimental, it means treating what may be a positive, factual observation as a normative statement, a guideline for policy action.

In the latter approach, the place or the local context is considered in a holistic manner encompassing economic, social, cultural, identitarian and institutional aspects. Neglecting these characteristics would mean forgoing full comprehension of the local development potential and the local limiting factors, the identification of potential development agents, and the potential synergies arising from the sense of belonging to a community. Even if an underdevelopment trap prevents a place from achieving any economic success, due to lack of capability or even the willingness of local élites to engage in a development effort, a space-neutral strategy avoids the problem, leaving people with the sole only option of outmigration (and the public administration with the burden of providing social assistance).

It is evident that two alternative policy paradigms confront each other, leading to opposite policy approaches: a national and mainly institutional intervention with no concern for territorial specificities, and a regionalized, bottom-up intervention concerned with local institutions and providing both a method for devising good and shared projects and financial support. In spite of some efforts to bridge the gap between the two approaches by representatives of both strategies (Gill 2011, on the one hand; Barca 2011 and Farole et al. 2011, on the other), with not fully convincing outcomes, they appear widely idiosyncratic and risk remaining, as in the past, the expressions of different political views.

What could be more productive in conceptual terms is demonstration that the long-standing supposed trade-off between "efficiency and equity" or, in more recent terms, between competitiveness and cohesion goals, may be overcome and prove non-existent insofar as a renewed cohesion policy—addressing the development potential of almost all "places" with new awareness and a new institutional sensitivity—could claim to achieve both goals at the same time.

One of the main aims of this paper is to support this last thesis, which is developed in Sects. 17.3 and 17.4. The other aim concerns inclusion in the policy

debate of the theme of the present crisis. While, as said before, the main driver of the new policy paradigm(s) has been the need to devise an appropriate response to globalization (and to the limited success of previous EU regional policy experiences), the profound and enduring crisis affecting many European and Western countries suggests new difficult questions: how can cohesion policies be justified in a period of crisis when short-term, anti-cyclical policies intended to boost internal demand may seem more appropriate than structural and supply-side ones? What space remains for cohesion policies when macro-economic policies impose strict controls on sovereign deficits and debts of countries? This question, addressed in Sect. 17.2, touches on an issue important for regional scientists: their overlooking of macroeconomic trends and constraints, mainly to do with demand elements (national fiscal policies, money supply and credit policies, exchange rates and the spatial effects of a common currency), because of their traditional concentration on supply and structural elements. Amid an enduring crisis, weaker or highly indebted countries encounter new and severe development difficulties as a consequence of austerity measures imposed by the Union, which are bound to have deep, though differentiated, effects on regions.

The crisis started mainly in the financial sector (pushing the real estate bubble up to the bankruptcy of many financial institutions), then hit the 'real' economy as a consequence of the global slowdown in demand, but then brought financial issues back to the fore, with the difficulties, costs, and risks generated by the financial speculation on sovereign debts and the need for tight fiscal policies. This obviously implies a much narrower path out of the crisis because: (1) public funds allocated to structural, long-term, objectives are limited and have to be more carefully justified and (2) a higher priority is assigned to the competitiveness issue, with the risk of de-balancing the above mentioned (and supposed) trade-off at the expense of cohesion goals.

More than before, a new justification and a renewed design of cohesion policies are required, which imply additional conceptual thinking backed by new empirical evidence. This paper is an attempt in this direction. The final section is devoted to suggestions on how to respond to the specific and particular challenges that the New Member countries of the EU are now facing, on the basis of the previous reflections.

17.2 Macroeconomic Conditions and Regional Disparities in the EU

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 first, and most straightforward, reason is in the fact that regions belong to different countries, and countries show a diversified resilience to economic downturns because of their different levels of sovereign debt,

different public deficits, and therefore different amounts of public resources available to be devoted to growth policies and regional support. Countries belonging to a monetary union have a further disadvantage because they cannot rely on the powerful policy tool—though risky and effective only in the short term—of devaluation of the currency. This implies further difficulties for countries experiencing a lack of economic competitiveness or an insufficient increase in internal productivity with respect to the other member countries. All this is responsible for some strong and well visible 'country effects' in the map of regional performances in Europe after 2007 (as will be shown later) and for the re-emergence of the role of national elements and specificities in the global development debate.

The second reason is more subtle and refers to more selective spatial effects. While supply-side elements, related to the structural characteristics of single areas and to the differing availability of territorial capital (Camagni 2009), are an immediate and logical explanation for the differentiated spatial impacts of the crisis (Gorzelak and Goh 2010), the same cannot be said of the demand-side, macroeconomic elements that—at first glance—are not expected to generate asymmetric effects at regional level. And yet, they do.

Let us consider the most important macroeconomic effect of the financial crisis, namely the widening of the spread—the risk premium requested on public bonds with respect to riskless bonds—that hit many European countries in 2011–2012 as international markets associated a higher probability of default with large government debts coupled with poor growth capability. The increase in the spread in some problem countries—Italy, Spain, Greece, Portugal, Ireland—generated three, spatially selective, macroeconomic effects:

- a strong control on, and reduction of, public expenditure was imposed by the EU, with stronger likely effects on regions relying more on public demand because they are generally the poorer and less productive ones;
- private investments decreased as a consequence of the increase in interest rates on private loans and bonds, penalizing private actors, and particularly industrial regions with large shares of SMEs;
- a credit crunch came about as a consequence of the financial intermediaries' decision to prefer investing in public bonds rather than in the private sector, when sufficient guarantees existed against possible sovereign default; the real sector and the highly productive but financially fragile SMEs were hardest hit.

A temporal breakdown of the crisis period into different phases is necessary here. In the first phase 2007–2009, when the crisis was associated with real estate mortgage bankruptcy, negative regional effects were easily expected in the presence of financial activities directly or indirectly related to real estate, and of an hypertrophic and overvalued building and construction sector. In a second phase, 2009–2011, the crisis rapidly involved the real sector through the shrinking of global demand, which mainly hit export-oriented, industrial regions. In a third phase, 2011–2013, the crisis again hit the financial sector as a consequence of the international speculation on sovereign

debts of the above mentioned countries and the exposure of large financial institutions with public debtors. The credit crunch that followed extended the crisis from exposed sectors to residential ones (building and construction, commerce) and cumulatively hit internal consumption and demand for investments. Industrial regions joined the less developed ones in unemployment growth and loss of GDP potentials.

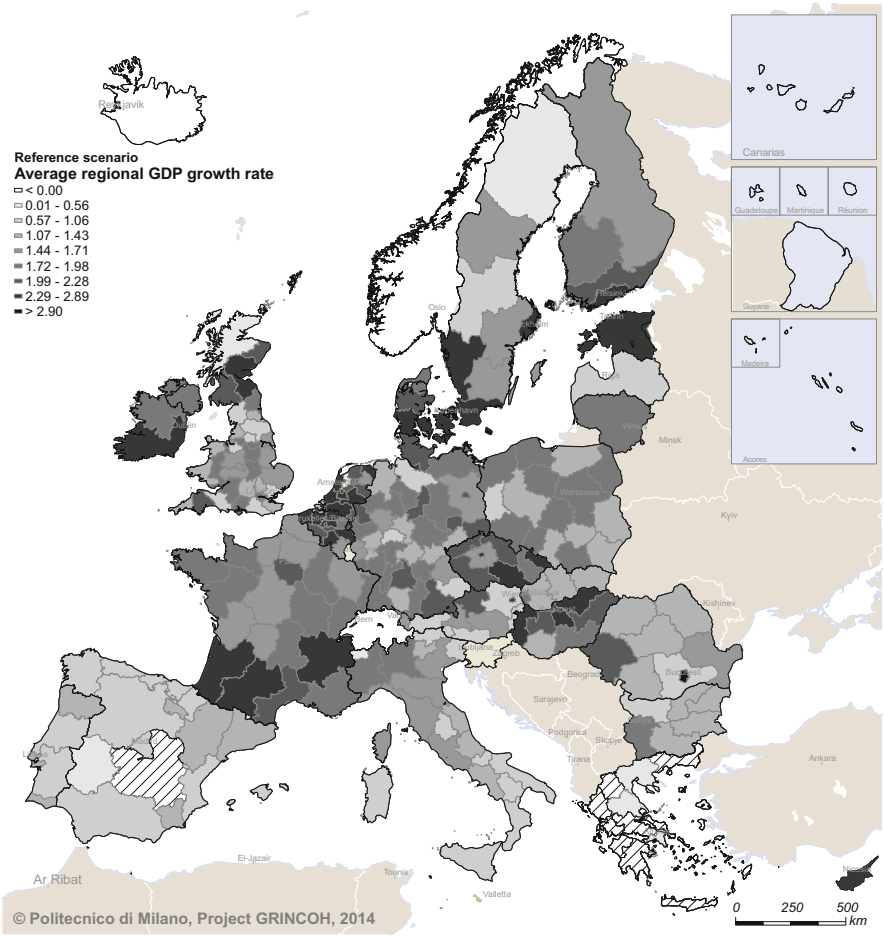
The overall outcome is a highly complex one. In all European countries, international, export-oriented regions have certainly suffered from the decrease in world demand, but if they could count on a strong supply structure they have been able to more easily recover. Peripheral and agricultural regions have been more protected against the decline in international trade but, at the same time, they have suffered more from a weak and less flexible supply structure, unable to react to the structural changes brought about by the crisis, relaunching their dependence on public transfers and support.

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 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 has been carried out in the ESPON - ET2050 project, based on a model of this kind, called MASST (Capello 2007; Capello et al. 2008, 2011b). The last version of the model, MASST3 (Capello et al. 2014) warrants particular attention since it is particularly suited: (1) to measuring the costs of austerity and growth measures, and their interactions and feedbacks, in periods of both crisis and economic expansion; (2) to interpreting 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 Map 17.1 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 to 2016.

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 post-crisis years (2016–2030) are not sufficient fully to counterbalance the negative trend experienced in the years of crisis (2008–2015). In fact, the results point to a striking persistence of the relative slowdown of



Map 17.1 Trends in competitiveness of CEECs (Real effective exchange rates, 1994–2012; 2004=100). (**a**) Bulgaria, Czech Republic, Hungary, Poland, Romania, and Slovakia, (**b**) Estonia, Croatia, Latvia, Lithuania, and Slovenia. Source: Authors' calculations on Eurostat data

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.

This simulation exercise conveys a first important message. In the absence of policies able to correct the current imbalances, the growth engine appears unable to overcome the damage caused by a long period of downturn.

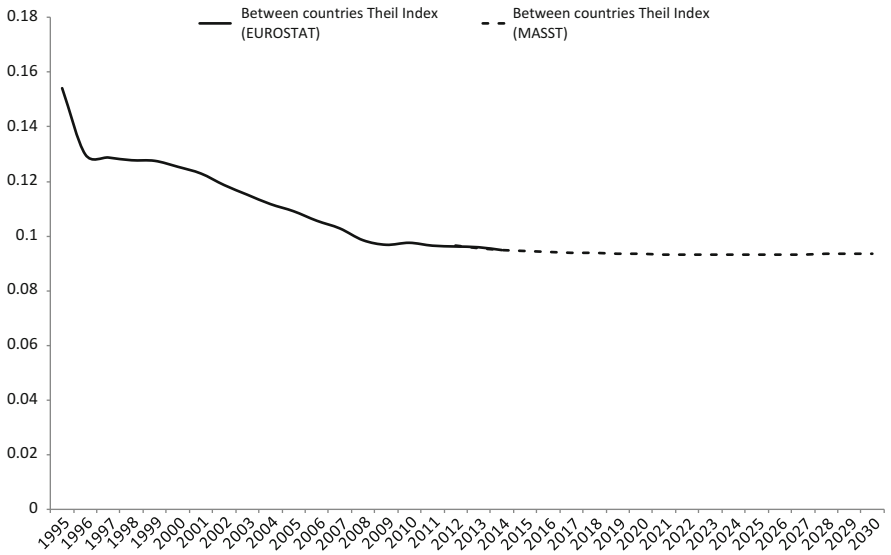


Fig. 17.1 Average annual regional GDP growth rate forecasted by the MASST3 model, baseline scenario, 2012–2030. Source: MASST3 results (ESPON ET2050 Project)

This is not all. Inspection of the spatial imbalances caused by the crisis shows that the lack of adequate development policies risks jeopardizing two decades of efforts towards EU enlargement and cohesion. On looking at between-countries disparities in GDP (Fig. 17.1), where the values of the Theil index are plotted for the period 1995–2012 on official statistics and then up to 2030 on modelling forecasts, it is quite evident that the long-run convergence process was interrupted during the crisis, and that it is likely to slow down substantially from now on. Its sluggish pace will be insufficient to counterbalance the forecasted increase in within-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 (Fig. 17.2). The dual process of inter-national convergence slowdown and of regional concentration implies a greater challenge to future cohesion policies.

17.3 Main Challenges and Justification for a Renewed Regional Policy Strategy

Owing to the increasing difficulties that territorial approaches to development encounter nowadays, refreshed theoretical reflection on the economic rationale for a territorial approach to development is in order. This rationale may be found in the following elements:

(A) in a context of international integration, especially in the earlier periods, market forces determine a concentration of activities and an increase of

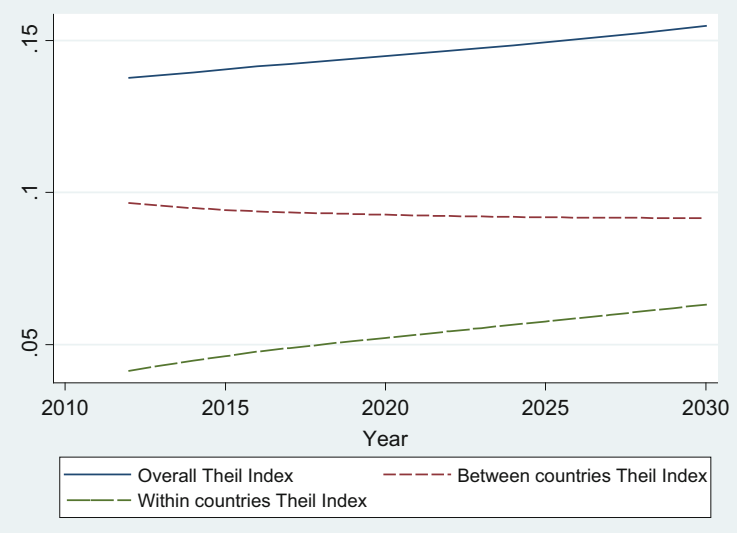


Fig. 17.2 Convergence interrupted: past and expected inter-national disparities in the EU. Theil index 1995–2030. Source: Authors' elaboration (EUROSTAT and ESPON ET2050 Project)

regional disparities (Williamson 1965). This is due to the cumulative nature of development processes in macroeconomic and microeconomic terms (increasing returns to scale at the firm and urban level, in-migrations and widening of internal markets; cumulative technical progress) (Myrdal 1957; Krugman 1991; Fujita et al. 1999) and the limited capacity of spontaneous adjustment processes to rebalance differentiated regional starting conditions and underdevelopment traps (Capello 2007, Chap. 4; Barca 2009). In presence of the new challenges of a globalizing world, these processes are enhanced by the higher resilience and reaction capability of stronger regions.[2] Are these spontaneous trends an acceptable or a desirable condition?;

(B) the absence, in an inter-regional context, of certain powerful macroeconomic adjustment mechanisms that work at the level of countries (devaluation of currencies, flexibility of prices and wages) and that are able to guarantee each country a role in the international division of labour, according to the well-known Ricardian principle of comparative advantage. These mechanisms and policy tools are not present at the regional level, and whenever a region has lower rates of productivity growth with respect to other regions or other

[2]Until the beginning of the present crisis, for more than two decades the convergence of regional GDPs in the EU was due to the catching up of weaker countries, not to a reduction of inter-regional disparities within the single countries. During the crisis, a slowing catching up process by the new Eastern member states and the deep crisis of many southern European countries was not of an extent to counterbalance the general increase in within-countries disparities (as shown before). See: Boldrin and Canova (2001) and Puga (2002).

structural deficits (e.g. in accessibility), its fate is out-migration and even, at the extreme, 'desertification'. All this can be summarized in the statement that regions compete according to a Smithian principle of 'absolute advantage', not to a Ricardian principle of 'comparative' advantage (Camagni 2002), and it confirms that the trend towards increasing disparities within each country is the most likely outcome;

(C) the evidence of huge economic costs of non-intervention in a context of increasing disparities and globalization provides even clearer support for spatial development policies. A strategy of non-intervention, in fact, has the following drawbacks (OECD 2001, Chap. 1; Camagni 2001b):
- the risk of a super-concentration of population and jobs in advanced regions and cities, with high risks of inflationary pressures. This happened in many EU countries after joining the Union: Italy in the early 1960s, Spain in the 1990s; Ireland in the 2000s; the New Eastern Member Countries in the mid-2000s;
- the high opportunity cost of adding new activities in already successful areas. In a context of full employment, new workers for new activities are found at the expense of existing activities—therefore, at a cost—while in weak areas, characterized by high unemployment, they are drawn from the unemployment reservoir, and their opportunity cost is close to zero;
- the high social costs of migrations, which represent both a barrier to regional adjustment—particularly in countries with historic local traditions and between countries with different institutions and language (Cheshire 2011)—and a drawback in social terms (Barca et al. 2012), especially when lagging areas encompass millions of people[3], although they are difficult to assess;
- the channeling of a large share of national savings into the building and construction industry and real estate speculation in advanced regions and cities, as a consequence of migration processes and possible building bubbles, subtracting those savings from more productive uses;
- a lower exploitation of the creativity potential of all regional communities constrained by the presence of some basic locational disadvantages and underdevelopment traps (accessibility, services, infrastructure, unsuitable local élites).

Other justifications can be proposed in favour of cohesion policies, and they refer to the fact that 'territory matters' in the development process (OECD 2009). In fact:

(D) globalisation has brought to the fore the growing importance of spatial proximity, not in the sense of its being a shelter to the benefit of local markets and communities but in the sense of the growing importance of local conditions for global economic success—the so-called 'localisation' issue. Territories not

[3]Like the Italian Mezzogiorno, with more than 20 million inhabitants.

only supply the infrastructure and service preconditions for successful location decisions and the skills and competencies needed for economic growth, but they represent a crucial stock of non-mobile social and 'relational' capital. These assets are crucial because they may counterbalance the apparent 'hyper-mobility' of some other, globalised production factors, like financial capital (OECD 1999);

(E) the increasing importance of knowledge factors, of non-material elements linked to culture, taste and creativity in present economic processes is deeply embedded in slow, localized learning processes fed with information, interaction, long term investments in research and education. These new and more qualitative aspects of the present international economic picture make space, or better 'territory,' enter the economic development scene as a key player. Learning processes are inherently localised and cumulative because they are embedded in human capital, interpersonal networks, specialised local labour markets and local innovative *milieux* (Camagni 1991; Camagni and Maillat 2006);[4]

(F) sense of place, local trust and synergies, social and relational capital may be seen as public goods (Bolton 1992) supplying local societies with the 'glue' and the 'gas' that they need to engage in fruitful participatory processes, collective actions, and design of potential development strategies (Storper 1995), through more or less formalized processes of strategic development planning and trans-territorial networking. These processes, in their turn, can enhance and reinforce the initial social capital giving rise to a cumulative and virtuous cycle favoring local co-operation and innovation processes (Rodriguez-Pose 1999; Iammarino 2005; Rodrik 2005). A centralized, top-down and space-blind policy approach completely overlooks the importance of these context processes, limiting the possibility to use local knowledge and capabilities in the interpretation and exploitation of local economic potential, to create the necessary local consensus for policies, to select and provide the necessary amount of local public goods, to force local actors to take responsibility for the design, implementation and (co-)financing of local development projects (Bolton 1992; Tabellini 2010; McCann and Rodriguez-Pose 2011);

(G) general institutional conditions operating at the national level are crucial. For instance, we can think of factors such as the regulation of the labour market, market transparency and risk control in financial markets, market openness (antitrust practices), fiscal homogeneity (across countries), etc. However, as shown by Armstrong and Taylor (2000), spatial characteristics and local and regional institutions also play a major role in speeding up or hindering the economic transformation process, with the consequence that they should be

[4]We see here a complex dialectic between the hyper-mobility of some production factors and the territorial 'anchorage' of some others, which act as crucial location factors for the more advanced production processes. The likely result is the cumulative strengthening of the centripetal forces of growth (scale and scope economies, all sorts of increasing returns) and the centrifugal forces of territorial exclusion and decline.

attentively considered by regional development policies. The Barca Report (2009) confirms the centrality of these local institutional elements, adding the political power of local élites that in many cases are not just unable but also, and especially, unwilling to engage in innovative processes and to renounce their rent positions;

(H) spatial policies traditionally found their justification in the evidence of multiple cases of 'market failure' in the allocation of resources (spatial and land resources, physical and financial capital resources, etc.) in a general framework of static optimization. Nowadays, after radical economic transformations in most of the world—from agriculture to industry, to tertiary activities, to information, knowledge and control activities—the general framework is one of dynamic optimization, requiring the ability to provide the conditions for the rapid transformation of local economies and for a quick transfer of resources from declining to 'sunrise' functions (Camagni 2001b). A new crucial task is therefore assigned to regional development policies, in each and every location;

(I) finally, the restrictive macroeconomic and fiscal policies imposed on highly indebted countries exert an influence on regional disparities, as was shown in the preceding section. In addition, weaker countries belonging to a monetary union inescapably act on international markets with an adverse exchange rate resulting from the strength of other countries' trade balances. In the case of the European Union, these conditions call for major macroeconomic readjustment in the direction of a federalist union granting more resources and more autonomy not just to countries but also to regions.

17.4 Competitiveness vs. Cohesion: A Traditional and Possibly Outdated Trade-Off

Social and economic cohesion (in other words, 'equity', as it was called in previous decades) is one of the main political goals of any society, and it was authoritatively assumed as one of the founding principles of the European Union. Recently, however, another goal, namely 'efficiency' or aggregate 'competitiveness', has become increasingly prominent, as a consequence of increasing global integration and tight limits on public fiscal policies and debts. Yet the relationship between the two goals has never been explored in depth: a clear trade-off has often been hypothesized and the positioning on this equity/efficiency trade-off has been felt to be the main task of the political sphere. But further theoretical reflections have questioned the very existence of this trade-off, emphasizing both the aggregate development effects of sound spatial development policies and, on the other hand, the economic and social costs of an unbalanced development process, as illustrated in the previous section (OECD 2001, Chap. 1; Camagni 2001b). Many of these reflections could be worth reconsidering: if regional policy finds a strong rationale and justification not on equity grounds alone, its relation with, and the widely

assumed opposition to, economic development policy should be carefully reconsidered.

The trade-off between competitiveness and cohesion, or between efficiency and equity, is by no means a new theme; in fact, it has always characterized the European scientific and policy debate, leading to opposite views on the best policy strategy (Armstrong and Taylor 2000; Capello 2007). A strategy favouring the highest returns on investments in core and 'champion' areas, in order to achieve the highest aggregate growth rates and obtain the highest fiscal revenues on which redistributive policies can rely, has often been conceptualized as the most appropriate one, especially in periods of general crisis (Sapir 2003; World Bank 2009). The opposite strategy, oriented towards support for lagging regions, was traditionally advocated mainly for social equity and cohesion reasons, but more recently also on the grounds of its contribution to growth, when the competitiveness of these regions has been taken as its main target (EC 2005, 2008, 2009; Barca 2009).

The key driver of the crucial turn ("a new economic policy paradigm?": OECD 2011, p. 15) was the concept of territorial capital, intended as the ensemble of geographical (accessibility, agglomeration economies, natural resources), economic (factor endowments, competences), cognitive (knowledge, human capital, cooperation networks), social (solidarity, trust, associationism), and cultural assets ("understandings, customs and informal rules that enable economic agents to work together under conditions of uncertainty" (OECD 2011, p. 15) that represent the competitive potential of places (Camagni 1991, 2009). "This territorial capital generates a higher return for certain kinds of investments than for others, since they are better suited to the area and use its assets and potential more effectively" (ibid., p. 16), a sentence replicated by the *Scoping Document and Summary of Political Messages* of the European Commission, approved under the Luxembourg Presidency in 2005. The document concludes that "Territorial development policies (policies with a territorial approach to development) should first and foremost help areas to develop their territorial capital" (European Commission 2005, p. 1).

That modern spatial development policies should be designed so as to maximize the collective returns to public investments is an idea both correct and widely shared. However, this goal is not necessarily reached through investments in strong areas, but rather through the ability of individual policies to mobilize geographically dispersed, previously 'untapped' assets of territorial capital, and use them in the most efficient ways possible. The aggregate development effects will in this way be maximized, and at the same time the economic and social costs of an unbalanced development process kept under control.

Centralized, top-down development strategies which overlook regional specificities explicitly forego supporting and exploiting the strategic capabilities of the intermediate institutional bodies, both public and private, that are present in dispersed manner in all territories—repeating in a different context the limits of centralized planning habits stigmatized by Friedrich von Hayek (1978). These decentralized bodies are the best fit for interpreting the potential assets present in each territory and for generating, through a bottom-up 'discovery' process, the agreement on necessarily differentiated and 'place-based' development strategies

(provided that the right incentives, rules and control systems are delivered from the centre) (Coffano and Foray 2014).

The suggestion of policy design driven by the needs and based on the specificities of each territory is in line with recently-proposed new policy concepts like constructing regional advantage (European Commission 2006; Asheim et al. 2011), platform policies (Harmaakorpi 2006; Cooke 2007), place-based development (Barca 2009) and smart specialization (Foray et al. 2009, 2011; Morgan 2013). Although there are differences among these various policy concepts, they concur in pointing out that each region hides its own growth potential in its specific industrial and institutional past, its capital assets; and that it is the task of local stakeholders to build strategies and design appropriate projects to be supported by the EU regional policy (Boschma 2014).

The need for place-based policies is strongly felt in the field of innovation policies. Traditionally devoted to achieving a 'smart growth', and therefore inevitably investing mainly in strong areas, innovation policies have been recently forced to move away from the previous conceptualization in favour of a differentiated strategy tailored to regional specificities (Coffano and Foray 2014; McCann and Ortega-Argilés 2014).

More specifically, these specificities should be found in how the innovation process is implemented in each region, given that the preconditions for knowledge creation, for turning knowledge into innovation, and for turning innovation into growth are unevenly distributed in space and embedded in the differentiated cognitive cultures of regions (Capello and Lenzi 2013). This means that each region follows its own path in performing the various abstract phases of the innovation process depending on the context conditions: its own 'pattern of innovation' (Camagni and Capello 2013; Camagni et al. 2014b). If this is the case, two conceptual consequences ensue: first, a single overall strategy of support for R&D is unlikely to provide the right stimuli and incentives in the different contexts; and second, the aggregate growth rate is maximized when policies are tailored to local innovation patterns and not directed towards most promising 'scientific' regions alone.[5]

Inference analysis has shown that a substantial impact of R&D on GDP is achieved only in those clusters of regions where a critical mass of R&D activities is present; but also that other patterns of innovation, less intensive in local knowledge, may generate very successful innovation processes and high growth rates, even higher than those of many 'scientific' regions (Foddi et al. 2013).

[5]Europe is characterized by a large variety of innovation patterns that range from a purely 'imitative' innovation pattern to a 'science-based' pattern built on a strong local knowledge base, high R&D investments on general purpose technologies and a high degree of knowledge interactions with other complementary advanced regions. Identified in between these two extreme patterns have been an 'applied science' area with strong applied R&D activity and still intense external cooperation; and a 'smart technological application' area, with fast product innovation processes, a limited degree of local applied science and a high creativity and receptivity allowing the successful translation of external basic and applied science into innovation (Capello and Lenzi 2013).

These new research findings prove that even in the case of policies traditionally considered as 'excellence' ones, like R&D and innovation policies, investing only in core, already competitive regions may not be the best strategy for maximizing aggregate growth. If it is true that R&D support should be very selectively directed towards science-based regions, it appears also crucial that other innovation strategies be devised and supported in regions operating within other innovation 'patterns', e.g. enhancing inter-regional cooperation in knowledge applications or mobility of researchers, or favoring the utilization of more advanced technologies in traditional specializations. In this way, both growth and cohesion goals may be achieved.

The recent renewed delivery strategy of the EU regional policy embracing a place-based and smart specialization philosophy, and recognizing the differentiated potential development and innovation paths of European regions, implicitly recognizes the superseding of the hypothesized trade-off between efficiency and equity goals (European Commission 2008, 2009). All types of regions and urban systems can potentially contribute to aggregate economic growth whenever they are able to follow their most appropriate and specific development and innovation paths and properly exploit their territorial capital resources (Garcilazo et al. 2010; OECD 2011). "From this perspective, the economy as a whole can reach its total output frontier by developing places of different sizes and densities, because it is the performance of the urban and regional system as a whole which is critical, rather than just the cities at the top of the urban hierarchy" (Barca et al. 2012, p. 140).

The opposite view, according to which only megacities are drivers of growth—on the basis of a stylized and simplified model explaining the well-known existence of agglomeration economies, a model assumed as a key component of 'the new' location theory, too simple to be taken as the basis for spatial development policies—seems untenable. Once the "paradigm shift" from inter-regional compensation to growth and innovation-enhancement has been properly operationalized and cohesion/innovation policies have been carefully inspected and reoriented, the trade-off disappears and confirms its nature as an outmoded conceptual tool.[6] Doubts about the fact that "excessive equality may be detrimental for economic growth", about the "potential trade-off involved in pursuing goals of growth and innovation and those of convergence and equity" or "between aggregate efficiency and promoting convergence" (Farole et al. 2011, pp. 1095–1099) should be abandoned, and replaced by new reflections on the proper implementation of the new paradigm.[7]

[6]Perhaps, following Williamson (1965) we could accept that in early periods of integration into a wider pool of countries at differentiated development stages, for lagging countries could be wise to back and support natural concentration trends, e.g. providing new infrastructure in core regions and main cities. But very soon the contradictions of a too spatially concentrated pattern are due to manifest themselves, and the opportunity costs of leaving idle resources untapped will become evident.

[7]Stating that "objectives of addressing underdevelopment in a growth-enhancing way be sharply distinguished from convergence policies" (Farole et al. 2011, p. 1101) looks at odd with the illustrated paradigm shift advocated in this and other papers. Inter-regional convergence in Europe was always very difficult to achieve, but: (a) this does not mean that convergence should not be pursued, with the appropriate tools and strategies; (b) convergence is only one indicator among

Another evidence, coming from all successive enlargements of the EU towards relatively lagging countries, shows that allowing a huge and sudden concentration of development in just a few core areas is conducive to rising wage levels well beyond increases in productivity and consequently on prices—jeopardizing competitiveness of the entire countries, due to the role of these areas as main labour markets and goods markets: these were the experiences of Italy, Spain, Portugal, Eastern countries—and also risks to boost real estate bubbles—the Irish case after 2000s. This drawback in the long run may become a structural contradiction, as already mentioned in Sect. 17.3 (C).[8]

Direct, though not decisive, evidence that an appropriate and smart design of regional policies could overcome the dilemma between competitiveness and cohesion was reached in the already-mentioned ESPON project (ESPON ET2050 2013) concerning the construction, quantitative simulation and assessment of territorial scenarios for the EU. Three 'exploratory' scenarios were built, beyond a baseline one, namely:

- a 'Megas' scenario, a typical market-driven one implying a concentration of investments in European large cities, with a welfare system fully privatized and strict requirements on national public debts;
- a 'Cities' scenario, implying a concentration of investments on second and third-rank cities, the actual welfare system reinforced through increased taxation, lower requirements on public debts and a constant budget for cohesion policies;
- a 'Regions' scenario, in which public resources are mostly devoted to social and development policies in lagging, rural and peripheral regions, a strong public welfare system persists at the expense of public financial debts, slowly repaid, and the EU budget for cohesion policies is increased.

The first and the third scenarios can easily be interpreted respectively as rather extreme and traditional competitiveness and cohesion scenarios. The 'cities' scenario, instead, embraces the philosophy of supporting medium and medium-large cities, which are widespread in Europe and represent potentially productive areas rich in specific, not fully exploited territorial capital assets and unexploited agglomeration economies: it may be seen as an intermediate scenario, seeking at the same time to enlarge development beyond large cities in relatively advanced regions and to pick the relatively better structured areas, namely urban areas, in lagging regions.

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others concerning the achievements of the cohesion goal—economic, social and territorial (art. 3 of the Treaties)—, to be intended as a more equilibrated and equitable presence of diversified development trajectories across regions.

[8]These examples prove that governing these contradictions, both in the short-term and in the long-term, is rather difficult, and that even the availability of public resources for limiting the main drawbacks in core areas can reach only limited really effective results. Interventions in appropriate infrastructure in core areas are of course very important, but, in the opinion of the authors, they should be financed mainly through existing and expanding private resources (project finance) and local public resources, not through national/European resources.

The results for the period 2012–2030—obtained through the estimation of a third version of the MASST macroeconometric regional growth model and the consequent simulations run in order to obtain "quantitative foresights" for the four scenarios—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 17.1); and
- also the most cohesive one, showing the least increase in overall regional disparities (Theil index: Fig. 17.3a), thanks to the best outcome in terms of reduction in between-countries disparities (catching up by lagging countries: Fig. 17.3b) and a limited relative increase in the within-country disparities (Fig. 17.3c).

As expected, the 'Megas' scenario is the least cohesive, but more expansionary with respect to the 'Regions' scenario—the extreme version of a traditional cohesion policy—while this latter is—almost by definition—the most cohesive in terms of within-countries disparities.

Evidently, an endeavour to extend 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 and potentials for endogenous development in the urban poles of lagging and peripheral regions.

17.5 Regional Development Policies: Acting on Territorial Capital Through 'Territorial Platforms'

Territories may be conceived as multi-dimensional spaces: each dimension represents the presence of stocks of single types of territorial capital: location, size, quality, internal and external interactions. Relationships of a functional, hierarchical or co-operative nature may take place within the single dimension (economic, social, environmental, cognitive, identitarian, . . .) or, more interestingly,

Table 17.1 Aggregate annual regional GDP growth rate 2012–2030 forecasted by scenarios

	Scenarios						
Macro-regions	Baseline				Megas	Cities	Regions
EU27	1.89	2.22	2.31	1.82	0.33	0.42	−0.06
Old15	1.88	2.22	2.32	1.81	0.34	0.44	−0.07
New12	1.93	2.22	2.23	1.98	0.29	0.30	0.05

Source: MASST3 results (ESPON ET2050 Project)

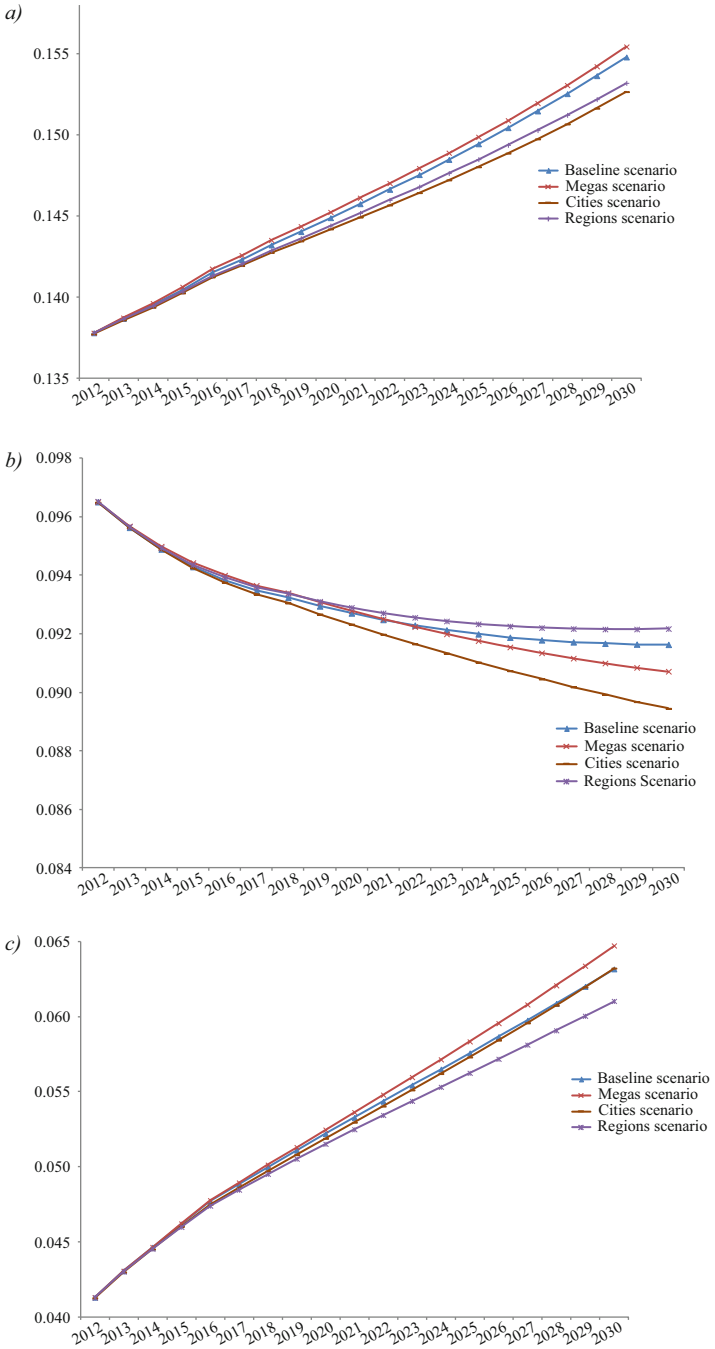

Fig. 17.3 Expected regional disparities in the EU: Theil index on overall, between-countries and within-countries disparities, 2012–2030. Source: MASST3 results (ESPON ET2050 Project)

among the different dimensions, generating huge and diversified cross-externalities and synergy effects.

The conceptual breakthrough allowed by the relatively new concept of territorial capital (OECD 2001; EC 2005; Camagni 2009) consists in the almost infinite widening of the structural and functional relationships that are assumed to determine the growth potential of single places/regions, along the scientific trajectory of the last 70 years in the direction of an ideal place-based production function with heterogeneous capital assets. At the beginning, this trajectory was epitomized by Solow's simplified and stylized model with only two explicit arguments, namely capital and labour, and a third black box encompassing a large residual called 'technical progress' (Solow 1957). Since the 1980s, Solow's production function has been enriched by the consideration of infrastructure and energy inputs (Biehl 1986) and later of different labour typologies (Romer 1986), elements of social capital (Putnam 1993), information (Capello 1994) and knowledge (Paci and Marrocu 2013). In this pathway, the 'quasi-production function' loses its capacity to interpret distributive shares, but maintains the logical link with single, total and cross-factor productivity, ideally reducing the width of the residual unexplained element in regional development.

The full spectrum of territorial capital types may be considered and included, provided that good measures or proxies are available, ranging from material natural and cultural heritage to non-material human and cognitive capital, from artificial public goods to private capital goods, from the structure of the urban system to identitarian capital, from club goods—like private networks—or impure public goods—subject to congestion effects and opportunistic behaviour—to social or relational capital.[9]

Regional policy interventions following a place-based philosophy should first of all recognize the multi-dimensional nature of development processes and the multi-layered nature of the territorial realm. This means:

– re-visiting the early literature on the 'balanced' nature of economic development (Young 1928; Rosenstein-Rodan 1943) and the structural characteristics of the historical 'stages of development' (Rostow 1960), as well as the literature on the 'localised' and path-dependent trajectory of innovation (and consequently of innovating territories) (Nelson and Winter 1982; Malerba and Orsenigo 1997; Dosi 1982);

[9]Justifying the importance of these assets, measuring them and including them in a regional development econometric model is the challenge and the scientific programme undertaken by the Milan team of regional and urban economists (Roberto Camagni, Roberta Capello, Ugo Fratesi, Camilla Lenzi, Andrea Caragliu, Giovanni Perrucca, in decreasing age order), with the construction of the MASST model and the related analyses on synergetic vs. idiosyncratic relations among different types of territorial capital. See: Camagni (2009), Capello et al. (2011a), Perucca (2014).

- recognizing the necessity of an integrated and intersectoral approach to policy delivery, as perfectly demonstrated by the huge, pervasive and unexpected success of the well-designed Urban Initiative;
- tailoring each policy tool to the structural, institutional and territorial specificities of each place, interpreting its 'stage of development', its socio-economic structure, its knowledge endowment and learning capability, its typical 'innovation pattern' (as seen above);
- forcing actions addressed to achieving specific goals to interact synergetically with other policy goals: accessibility with environmental equilibrium; exploitation of natural and cultural heritage with the requirements of the identitarian evolution of places; knowledge creation with local production 'vocations' and entrepreneurial enhancement;
- addressing the conservation, completion, improvement and best use of the various types of territorial capital, selecting the excellent and most promising ones and combining those which seem crucial for pursuing the most appropriate development strategy devised from-below. This means the harmonious merging of material and non-material elements, functional and relational assets, economic, social and environmental aspects; the creation of new cooperation networks among local actors, and between them, policy-makers and external bodies, through renovated, willing and cohesive local communities; and support for innovation through synergetic behaviour, internally but also in cooperation with external actors (Camagni and Maillat 2006; Camagni et al. 2014a).

This integrated strategy can be synthesised in the concept of 'territorial platforms', a concept depicting a 'territorialisation' philosophy and close matching and full integration—in functional, physical, economic, social and aesthetic terms—between new development projects and the local realm, at the same time mobilizing multiple local resources over a wide area in synergy with public action (Camagni 2011).[10]

Four kinds of territorial platforms may be conceived:

- 'knowledge platforms', enlarging the scope of R&D and innovation policies beyond the geographical limits of development poles, involving competences, human capital and mobility/education services on a wider geographical space (corridors, valleys, metropolitan areas, networks of cooperating cities);
- 'identity platforms', integrating the conservation and wise exploitation of natural, cultural and landscape resources with complementary activities not only of tourism receptivity but also of research (environment and culture), education and training, advanced services provision (wellness and health services for new retired residents);

[10]The term 'platform' has also been recently utilized with a slightly different meaning by the Italian government in its infrastructure plan and by Phil Cooke with regard to innovation policies (Cooke et al. 2010).

– 'infrastructure platforms', allowing the best integration of new infrastructure into the local environment, landscape and physical networks, considering feedback effects from the new accessibilities provided on the locational decisions of companies and real estate developments;
– 'urban platforms', enlarging development potential from single cities to city networks—metropolitan urban systems, second-rank cities interlinked and co-operating on 'synergy' or 'complementarity networks' (Camagni 1994), city-regions organised on nodes, corridors and green networks—mainly operating on transport, communication and information infrastructure.

17.6 New Challenges for Central and Eastern European Countries[11]

In Western European countries, regional development strategies and policies must necessarily be different from those addressed to, and developed by, Central and Eastern countries (CEECs), which are now facing different challenges and difficulties in carrying out their transition phase (European Bank for Reconstruction and Development 2013). Moreover, CEECs are no longer a single and homogenous area: they are nowadays characterized by a clear eastern periphery and are showing differentiated patterns of growth, based on different assets and territorial structures.

The main economic and spatial challenges, requiring appropriate policy answers, may be indicated as follows.

The first challenge refers to the macro-economic sphere: the necessity—shared with those European countries, mainly Southern ones, exhibiting difficulties in this same field—of carefully monitoring the trend of external competitiveness synthesized by the trend of unit labour costs, or better, of the real effective exchange rates, keeping wage increases in line with productivity increases.[12] Empirical evidence shown in Fig. 17.4 suggests that the initial cost competitiveness of all CEECs was rapidly reduced from 1994 to 2009, and that only a few countries, such as Poland, Slovakia (Fig. 17.4a) and Slovenia (Fig. 17.4b), and, to a lesser extent, Hungary (Fig. 17.4a) succeeded in maintaining their 2004 level of competitiveness afterwards.

This challenge should not be met by relying on currency devaluations, a tool that may be useful in very critical circumstances but provides only short term advantages. Elements that should be strictly monitored are the transfer of high monetary wages from the modern sectors (and regions) to traditional sectors (and regions);

[11]This section builds upon the highly fruitfull scientific interactions engaged inside the Grincoh Project (see footnote 2).

[12]This was the essence of the Irish miracle, from accession to the early 2000 years, subsequently jeopardized by the real estate bubble, in its turn fuelled by an excessive concentration of development on the capital city area. At the end of the last decade Dublin had become (one of) the most expensive city(es) in Europe!

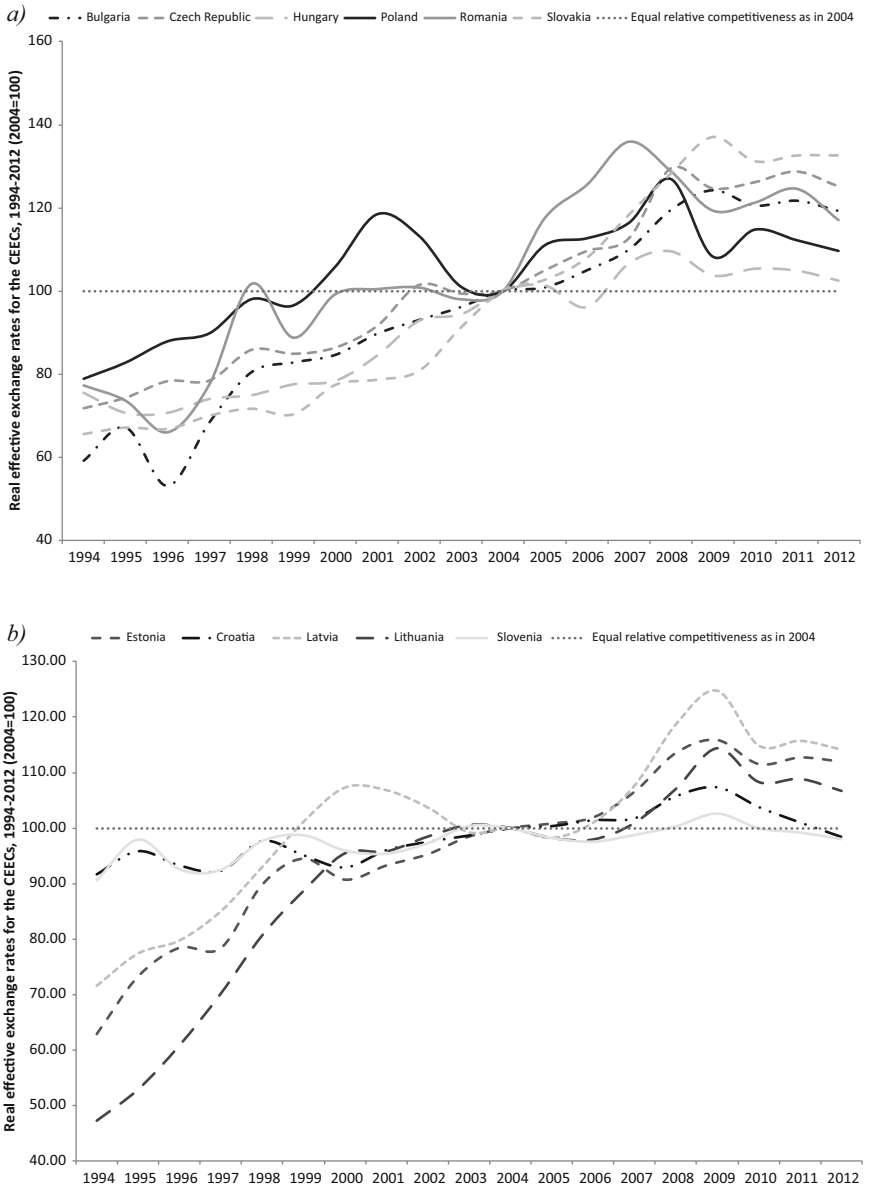

Fig. 17.4 Theil Index by Scenario: Regional Disparities. (**a**) Total disparities, (**b**) between countries disparities, (**c**) within countries disparities. Source: MASST3 results (ESPON ET2050 Project)

real estate bubbles due to excessive concentration of growth in a few urban areas; process and product innovation; productivity/wages equilibrium.

The second challenge, of an industrial nature, refers to the need to move towards a new and different stage of development, relying less on FDI and more on

endogenous investments, taking advantage of technological multipliers and technological spillovers from MNCs into the local fabric. Also crucial is enhancing local entrepreneurship by relying on existing industrial relations and existing skills, competencies and specializations.

The third challenge refers to controlling rent increases and monopoly powers, in real estate and in commercial activities but also in industrial and financial ones. Rents erode personal disposable incomes and industrial profits, lowering the endogenous growth potential of countries. The counter-measures required to restore an acceptable equilibrium concern the fight against monopoly practices and corporatist limits on supply, anti-trust policies, discouragement of real estate speculation and strengthening of its taxation.

The fourth challenge, of a territorial nature, refers to the need to enlarge development areas beyond the small set of core areas (metropolises, capital regions) towards second (and third)-rank cities. This strategy reduces inflationary pressures, enlarges the economic base of countries, and allows better exploitation of existing, diffused territorial capital. This may be possible and highly desirable in larger countries, like Poland, or in a countries like the Czech Republic or Hungary; in others, it may be somehow more difficult, but worth to try.

The fifth challenge refers to governance. The imperative consists in improving national and local government activity in the promotion, financing and management of regional development projects: exploiting untapped local resources through local strategic and industrial plans, avoiding lock-in strategies reinforcing existing local monopolies, limiting rent-seeking behaviour by local stakeholders, fighting corruption. Priorities in this list of needed actions are country-specific and should be defined by the single countries.

The sixth challenge is a cognitive one, namely avoiding the risk of losing the strong potential advantage residing in the present scientific excellence of CEECs in many pure and applied science fields. In the absence of a tradition of cooperation with the local production fabric and of a market-oriented organizational capability, the scientific milieu of these countries may easily out-migrate to western countries.

The seventh challenge is methodological: regional development policies should act through integrated territorial projects and 'territorial platforms', bearing in mind the multi-dimensional nature of development and the necessity to leverage the specificities and potentials of territories.

17.7 Conclusions

The present long period of crisis and the related imperatives of tight fiscal policies in highly indebted countries has generated an impressive outcome in the EU space: an interruption of the long term, historical trend towards decreasing inter-regional disparities. The preceding trend was mainly fuelled by the vigorous catching-up process of many relatively weak countries that joined the Union at different times—Italy in the early founding years, and subsequently Spain, Ireland, to a lesser extent Portugal and Greece, and finally the new Eastern Member countries—while intra-

national disparities, especially in the early phases of integration, were constantly exhibited a rising, but less vigorous, trend. 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 our econometric forecasts indicate will not be easily overcome in the near future.

In these conditions, cohesion policies are now facing new, partly unexpected challenges, in that they must operate amid tight macroeconomic constraints, reduced public resources and increasingly pessimistic political attitudes. Furthermore, the need to be more selective in targeting public development resources generates the risk of a shift in policy priorities away from cohesion goals and towards short-term competitiveness goals that inevitably redirects attention—and resources—towards core areas, where returns on public and private investments seem faster and higher.

The paper has advocated a strengthening of cohesion policies by 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 and competences, present and dispersed in almost all regions, though a bottom-up 'discovery' process led by local élites and intermediate bodies in cooperation with external actors involved in industrial and knowledge production, tailored to the potentials and specificities of individual places.

Innovation policies, too, should renovate their intervention philosophy by 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. Operating inside the actual 'pattern' with renewed strategies may provide relevant development opportunities for regions of all kinds, with no necessary hierarchical ranking—as shown by the average recent economic performances of each innovation pattern in Europe, which are not at all correlated with the local knowledge content and R&D investment (Capello and Lenzi 2013; Camagni et al. 2014b). Trying to jump into new, more local knowledge-intensive patterns, 'jumping the technological queue' might be possible in some, not easily foreseeable, cases, but it would be too risky to commit public money to that specific goal in the absence of convincing projects and partnerships.

Recalling the 'balanced' nature of any long-term development process, policy interventions should pursue an integrated nature—acting on multiple dimensions—and match 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.

The paper has finally considered the case of Central and Eastern European Countries, focusing policy suggestions 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—have been 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 need 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.

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