



# The elusive quest for the holy grail of an impact of EU funds on regional growth

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*Virtual Conference on Sustainable development, firm performance and competitiveness policies in small open economies, CompNet and National Bank of Slovakia,*

*23 June 2020*

# Summary

- Main goal of Structural Funds is convergence (not solidarity per se as put forward in the paper)
  - Evidence that Structural Funds foster convergence is a powerful argument in favour of Cohesion Policy
- Paper analyses the impact of SF on economic growth in European regions, taking into account endogeneity and inter-regional spillovers
- In spirit of MRW, Islam: Panel data regressions with the usual explanatory variables plus SF and World Governance Indicators
- Endogeneity: Presence of Natura 2000 sites in each region, capturing extent of environmental protection
- Inter-regional spillovers: Spatial Durbin Model
- Estimated coefficient of SF about four times larger than with OLS

# Comments on methodology

- Use of Nature 2000 is a bit odd as an instrument
  - It is not clear why it correlates with Structural Funds and therefore we do not have a priori a reason to think that it is less correlated to the error term than the original regressor
  - Results in table 4 seem to point in that direction but you could explain further
- Way in which distance is incorporated looks rather restrictive
- Human capital not included; Composite indicator for government quality
- Annual data:
  - In your equation (1) the lag of income seems to be the only control for the initial level of income
  - In classical growth regressions we take the initial level of income and link it with the growth rate over a long period of time; Are we capturing the same with this lag?
  - Noise leading to downward bias of estimated coefficients?

# Comments on results

- Key result: “our findings suggest that most of the impact of Cohesion Policy takes place in nearby regions rather than in the recipient region”
  - Runs against intuition
  - What does it imply for SF policy?
- MRW structure: coefficient on savings should be related with production elasticity of capital/labour
  - Coefficients in this paper look much lower (0.024 in Table 4 against 0.5)
- Strong heterogeneity in regional aid effect
  - The quest for the holy grail continues..