

Short and longer-term effects of European regional policy

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Abstract-

We quantify the system-wide impact of the European Structural Funds 2014–20 using a large-scale spatial general equilibrium model, calibrated for 89 regions in the EU and the UK. We find that policies that stimulate private and public investment have larger and longer-lasting effects than demand-side policies. In the latter case, the model shows a rapid adjustment to the post-policy equilibrium, which limits the legacy effects of the interventions. In addition, we show the importance of agents' expectations in assessing the impact of the interventions supported by the funds. A model with perfect foresight tends to predict smaller impacts than a model with myopic agents would imply. The regional distribution of the differences in GDP impact between the two variants of the model suggests that the largest deviations are recorded for net beneficiary regions, with interesting implications for perceived policy persistence, the nature of interventions, and their long-term effects.

Index Terms- Computable general equilibrium modelling; Regional economics; Cohesion policy

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