THE IMPACT OF THE ECONOMIC CRISIS ON SOCIAL, ECONOMIC AND TERRITORIAL COHESION

SUMMARY OF PRELIMINARY FINDINGS
**Context and Aim of the Study**

The impact of the economic and financial crisis is still being felt. It started as an acute crisis of the banking system, but then quickly affected the real economy, causing a deep slump in business investment, household demand and output. European Union economies were deeply affected: in 2009 the EU GDP fell by 4.1% and industrial production by 20%.

In November 2008, the European Commission launched a European Economic Recovery Plan (EERP) with a view to coordinate Member States’ action in response to the crisis. Among other things, the Plan stressed the importance of the role of cohesion policy in mitigating the effects of the crisis. Indeed, The Structural Funds, especially the European Social Funds proved to be a remarkably flexible instrument, and the speed with which its procedures allowed for a re-direction of the funds has been praised. Yet, its ability to adjust to widely diverse national and local contexts that have been hit differently by the effects of the crisis, and to support the different patterns of economic growth that will result from it, is yet to be seen.

**Conceptual Framework and Methodology**

The conceptual framework that guides our research draws on relatively recent literature that has studied how regional and local economies have been affected by, and responded to disasters, such as a major recession (Martin, 2012). The guiding question of this literature is why such macroeconomic shocks have a particular geography – i.e. why do they affect sub-national socio-economic spaces differently? The follow-up question is whether this geography has a discernible pattern, which is determined by certain economic features and political capacities.

There are three major transmission channels of the crisis to sub-national economies: (i) Credit availability and interest rates; (ii) Trade; (iii) Domestic/local demand. Once the crisis is transmitted from national to regional level, the diversity of sectors and economic activities is supposed to be an advantage. This is in the sense of raising resistance, as different sectors exhibit different sensitivities; say to interest rate shocks or a credit crunch. However, this may be counter-acted by sectoral inter-relatedness which increases the transmission of a shock in a particular sector to all others. Indeed, along with the transmission factors, a second set of factors that shape the national/regional ability to innovate, as well as adapt to shocks and change are the so called resilience factors. In particular three key (quantitative) dimensions are relevant with reference to regional resilience: (i) Regional sectoral specialisation / diversification patterns; (ii) Human capital and skills; (iii) Innovation efforts.

Under the constraint of data availability the quantitative analysis develops a broader picture of the link between the crisis and national and regional transmission, and resistance factors. Conversely, the case studies’ analysis draws a more accurate qualitative picture of all these processes. This is achieved by making use of both literature review and desk research, but enriching the general information with a more in-depth analysis through conducting interviews with key actors.
Main findings

Impact of economic crisis on regions

Italy provides an example for both the dynamics hypothesized in the conceptual framework of the Study. The crisis was driven respectively by both private debt and sovereign debt. However, the impact has been different between Northern regions (i.e. competitiveness and phasing-in regions) and Southern regions (i.e. convergence and phasing-out regions). Indeed on one hand, the crisis had a (temporary) equalising effect at the very beginning: richer regions characterised by more integration with the global economy and specialised in investment goods had been affected more severely than poorer regions. On the other hand, more recent developments of the crisis brought about changes in the opposite direction. Richer regions, where resilience factors are stronger, partially managed to reverse the trend, whereas the social and economic outlook kept worsening in Southern regions, where features in term of resilience and performance factors are very low. The Southern regions’ condition was also worsened by the austerity measures, which clearly reduced public spending.

In Germany, the crisis was transmitted through the trade channel. It had experienced the first wave of the global financial crisis primarily as a steep decline in exports in 2009 resulting in a decline in GDP. However, Germany was able to mount a strong recovery, which was to a large extent fuelled by trade with non-EU markets, primarily China. The recovery was also accelerated by strong resilience factors in Germany where innovation and human capital skills score above the EU average. This is confirmed in Bavaria and North Rhine-Westphalia.

Poland felt the crisis less and through different channels compared to developed economies such as Italy or Germany. Indeed, the financial institutions in Poland did not suffer from direct effects of the collapse of the mortgage market in the United States. Also, the Polish economy is less dependent on export markets having the largest internal market among all of the Central and Eastern European Countries. The reduction, in 2006, of pension contributions and taxes supported the domestic consumption. The resilience factors in the examined regions show a moderate score and resisted the crisis because of the limited exposure to transmission channels. Podłaskie was not affected by the crisis because of its specific economic structure, characterised by a relatively high level of agriculture and a lower level of manufacturing and market services. The main reason why Lower Silesia – one of the leading export regions in Poland – continued to grow after 2008, lies in the advantageous export terms created by the depreciation of the Polish zloty.

The Bulgarian economy’s performance is strongly interconnected with the performance of its trading partners and thus the crisis was channelled through the external (drop in exports and FDI) and real sectors (output contracted especially in construction, metallurgy, mechanical engineering, chemical and textile industries). In this respect, the transmission of the crisis has been in line with the expectations of the conceptual framework given the initial low level of development of the country and the structure of exports. However, the effect of the crisis has been to an extent limited due to the immaturity of its financial sector.
Responses of cohesion policy to counteract the crisis

The crisis has led to two main consequences that mainly affected the management of EU cohesion policy which changed in order to favour spending and absorption of funds. In this respect, the SFs, in the slowdown period, turned out to be effective as they helped maintain the level of investments in the private and public sectors, and implement some non-investment projects.

In convergence regions (such the two Italian regions as well as the two Polish regions), interviewees agreed that cohesion policy had a role in preventing an escalation of the social and economic consequences of the crisis.

The main constraints posed by the crisis – and determining a consequent adaptation of regional strategy – seem to be twofold:

(i) A shift away from long-term developmental objectives of the region in order to tackle the most immediate needs posed by the crisis;

(ii) Simplified measures and reduction of co-financing requests, due to the worsening financial situation of the beneficiaries, primarily enterprises and local government entities.

The case studies reviewed took advantage of the EERP amendment in order to speed up absorption and spending of funding.

A common trait in underdeveloped regions is that regions with wider contextual problems tend to have a more complex strategy with strategic goals which are wide-ranging. This can be imputed to the region’s considerable developmental backwardness and the need to design a “broad-based economic development” strategy. Such strategy tends to remain unchanged during the crisis, mainly because it already touches upon several alarming issues (this is the case in Campania, Podlaskie, SC and NW regions).

Conversely, cohesion policy in competitiveness regions (such as Bavaria) was less relevant in reacting to the crisis. Indeed, these regions seem to be equipped with strong resilience factors that have made the impact of the crisis milder. Also, in these regions, cohesion policy does not address large and long term problems, but rather, focuses on specific problems, which have not suffered from any change in strategies. This is a similarity that can also be found in more developed convergence regions (such as Dolnośląskie).