

ESF Exploratory Workshop on

**FISCAL POLICY AT THE REGIONAL LEVEL
AND INTERGOVERNMENTAL RELATIONS**

Barcelona (Spain), 15-18 April 2012

Convened by:
Juan González Alegre

SCIENTIFIC REPORT

1. Executive summary

The meeting took place in Barcelona and the scientific sessions were distributed among two days, April 16th (Monday) and 17th (Tuesday). The venue was generously provided by the “Institut Barcelona D’Estudis Internacionals”. They provided the organization with a meeting room and a lounge for coffee breaks in their headquarters, downtown in Barcelona. The location of the venue was extremely useful as it was easily reachable from any point of the city with public transport.

This first round of sessions started on Monday 16th in the morning, after the welcome speech and the Presentation of the European Science Foundation representative. Presentations were programmed in sessions of two presentations. Sessions were separated from each other either by a coffee or a lunch break. The time allocated for each presentation was of 50 minutes approximately, which left enough time for discussions over and after the presentation. In general, and despite the fact that the programme had been designed to allow flexibility in timing, timetables were reasonably respected and presentations and sessions remained mostly as forecasted.

The size of the workshop allowed for notable interaction among participants. Discussions over presentations were fruitful and abundant. The number of participants made it easy that everyone got to know each other quickly. All the participants got familiar with the format of the workshop easily and took place in discussions over the pieces of research presented during the workshop.

Lunch was organized at “Mamacafé” restaurant. The format of lunch and dinner meetings was always by sitting all participants along the same table, which also incentivized interaction and discussion. Discussions over lunch/dinner were generally based on more general topics such as professional issues, research networks, future research plans, etc.

The second round of sessions started on Tuesday 17th at 10:00. Lunch took place again at “Mamacafé” restaurant and the last session of Tuesday was reserved for discussion on future plans. In this respect, the discussion was basically focused on the disposition of the convenor to participate in the creation of an international research network (related to the topic of this Workshop) and most specifically, to his intention to apply to the next call of the “European Research Council Starting grants”. The convenor already applied to a previous call of these grants. This application, although it was given a fairly positive feedback from the ERC, was unsuccessful due to the short size of the research group and the short experience of the applicants. Given that the contacts during the workshop will probably add some more researchers to the group and taking into account that the previous members have also accumulated results in the meanwhile, the convenor expressed his optimism regarding future applications.

The convenor also invited the participants –following the interest expressed by some of them over the workshop- to get involved in a future meeting that would continued the path initiated with this workshop. Some participants expressed their interest in the view of the lack of research teams and meetings specialized on regional fiscal policy and intergovernmental relations. The convenor expressed also his interest in participating in the organization of the meeting putting at disposal of the experience accumulated during the organization of this Exploratory Workshop.

Dinner of Tuesday 17th took place in “En Ville” restaurant. The dinner served for the participants to discuss on future plans and synchronize research agendas.

This workshop counted with 16 participants from 8 European countries (Spain, Germany, Portugal, Switzerland, Italy, Sweden, The Netherlands and The United Kingdom), 7 of them were female and 9 male.

The aim of the workshop was to put together experts conducting research on fiscal policy at the regional level and intergovernmental relations in order to discuss results and methodologies, stimulate future cooperation and discovering new paths for research. To this effect, the workshop was relatively successful as the scientific discussion was extremely present during the sessions and some participants also showed interest in participating in future joint projects.

It should also be mentioned that many participants underlined the necessity of stressing cooperation in this line of research as the number of researchers devoted to regional fiscal policy is relatively small and the degree of dispersion in the area is notable. There is need for further coordination and this workshop has definitely represented a notable contribution in this respect.

2. Scientific content of the event

The first piece of work discussed during the Workshop was presented by Philipp Breidenbach and coauthored with Timo Mitze and Christoph Schmidt. This study assesses the impact of EU regional policy on economic convergence of Objective 1 regions, but introducing, as an improvement over previous studies, spatial spillover effects in a neoclassical convergence model. The results are not extremely optimistic about the impact of EU regional policy. Subsequent discussion versed about the accuracy of the results and the methodology used.

Ana Maria Dias presented her work on the impact of the EU Structural Funds on the Portuguese economy. Her work used two versions of the HERMIN model, the first one called MODEM which would be used to estimate regional impacts while the HERPOR model included supply side effects in addition to demand side effects. Discussion was focused on the assumptions over long-term relations assumed to obtain the results and the sensitiveness of them to these assumptions. The audience also was quite interested in this piece of work and it shows how the experts working for a Member State assess the effectiveness of the subsidies and estimate their impact in their economy.

Maximilian Von Ehrlich presented his piece of research coauthored with Sascha Becker and Peter Egger in which they introduced the absorptive capacity as a key determinant of the effectiveness of European transfers. They also use a methodology similar to the “average treatment effect” as the eligibility to objective 1 European Funds is base on transparent and easily identified criteria. They associate the absorptive capacity to human capital, and the discussion after the presentation versed on the identification of absorptive capacity with human capital and on the indicators which were used in order to measure it. Some participants suggested that other variables might be tested as indicators of absorptive capacity.

Juan González Alegre presented his work on the relationship of Fiscal Autonomy with the effectiveness of EU Regional Policy. In contrast to most studies, effectiveness of EU Regional Policy is associated with its impact on the budget of the subsidized government and not to the final impact on economic growth. This piece of research analyzed the several categories of fiscal autonomy of assisted regions and how these could be related to the effectiveness of the Funds. Discussion was focused to the difficulty of finding an homogeneous measure of fiscal autonomy for all European Member states, as the traditional approach of defining fiscal autonomy as the relative size of the regional government to the whole public sector of the country presents numerous shortcomings.

After the lunch break, Emma Galli presented her joint work with Nadia Fiorino and Fabio Padovano analyzing the role of corruption in decentralizing countries. As the results support the existence of an impact of larger decentralization on lower corruption, the following discussion was focused to the necessity of controlling for endogeneity and reverse causality on the results. It was also discussed how the paper did properly address the problematic regarding the measure of government decentralization.

Marco Percoco presented a piece of research in which he estimates the economic impact of Malaria on some Italian regions during the XIX and XX centuries. He estimates the impact of the disease on productivity growth and human capital accumulation and the paper also develops the long-run implications by analyzing intergenerational spillover effects. The comments after the presentation showed general praise as this research project is in a mature stage and the methodology seems extremely accurate to the issue under discussion. Some participants expressed the opportunity of using this paper as a reference point to study the economic impact of other policy actions.

Wouter Vermeulen presented his research on agglomeration externalities and taxation of urban development. This study analyzes the role of fiscal coordination and centralization on the presence of economies of agglomeration. Although this particular study is focused on urban development, some parallelism may be identified with regional development processes and this was precisely the main point of discussion after the presentation.

The last presentation of the first day was due to Helene Lundqvist of a piece of work coauthored with Mats Dahlberg and Eva Mork. The issue under discussion was the effectiveness of public grants to local governments in order to boost public employment. The discussion after the presentation was quite dense and versed over the necessity or opportunity of setting such a public grants program. The study is based on a policy rule taken in Sweden in order to boost local public employment. The conclusion of the discussion was that the particularities of Sweden economic geography made these policies desirable, but that these conclusions were not extrapolable to other European States. However, some participants also mentioned the parallels with the case of European Regional Policy and some regions in the periphery.

The first presentation on Tuesday was made by Vilen Lipatov who presented his joint work with Alfons Weichenrieder. He presented a model of tax competition among two symmetric jurisdictions with asymmetric information about the skill of workers. The existence of competition increased the employment rate among less productive workers in comparison to a scenario with tax coordination. The following discussion put emphasis on the assumption of symmetric characteristics of both economies, as some participants suggested that the experiment would be more interesting assuming more sources of idiosyncratic differences among jurisdictions.

Following Vilen, Sebastian Watzka presented a piece of research coauthored with Sebastian Jauch. They estimate the link between financial development and personal income distribution for a panel of 138 countries. They find results that contradict some theoretical predictions, and conclude that financial development could enhance income inequality. The subsequent discussion was focused on the endogenous behaviour of some variables and the proper strategy to address this endogeneity.

Luigi Marattin presented research conducted together with Paolo Paesani and Simone Salotti. They studied the consequences of accumulating public debt for long-term interest rates. The novelty of their results is that they show that this effect is not identical for every economy, as they obtain extremely heterogeneous results for the USA, Italy and Germany, and also they identify extremely significant cross-country linkages. These results are extremely interesting for the current economic situation in the EU. The discussion that followed the presentation was, therefore, focused to try to understand to which extent these results are able to explain current interest rates heterogeneity among EU countries and which policy actions should be advised on the view of these results.

Jan Schnellenbach presented his joint work with Thushyanthan Baskaran and Lars Feld. They analyze the role of institutions in a natural experiment regarding three regions with almost identical economic specialization and geographically concentrated that developed different strategies regarding a common shock to their economies. The discussion was focused to the fact these three European regions belong to different Member States which makes difficult to discriminate the public strategy designed to face the shock from other country-specific institutional factors.

Raquel Ortega-Argiles presented a piece of work that derived an alternative to the current design of EU Regional Policy that could be implemented in the future. The so-called specialization strategies would replace the current system of isolated analysis of every investment project. The presentation and the discussion were properly placed at this stage of the workshop in which most of the debilities and alternatives to the current scenario of EU intergovernmental grants had been identified. The alternative presented in this paper was controversial, as some of the participants mentioned that too much public design of growth policies is not always the best path to economic development.

Finally, Rosella Nicolini presented a compendium of methodologies, main results, controversies and challenges regarding research on fiscal policy at the regional level and intergovernmental relations. This presentation provided an overview of methodological strategies and applied contributions that have shed light to the problems under consideration in this workshop and also underlined the current challenges that this strand of the literature must face in the coming years. The presentation and posterior discussion served to identify which are the main topics to take care of in the future and which direction should our own research agendas follow.

3. Assessment of the results, contribution to the future direction of the field, outcome

The first contribution of this workshop, and probably the direct goal of any workshop, has been the discussion over the pieces of research presented and multiple benefits that this discussion has for both the presenter and the audience.

But we have also tried to discover new paths for future research. We have put together recent research on the impact of EU Regional Policy and related with other studies that present solid and important results affecting regional fiscal policies. By doing so, we have put into discussion the necessity of introducing other aspects when assessing the effectiveness of intergovernmental grants. Economies of agglomeration, fiscal competition, geographical conditions, institutional factors do indeed play a key role in the economy of European regions and cannot be ignore when assessing the effectiveness of European policies. This workshop has provided interesting information about these new aspects to be taken into account in subsequent research.

Some of the attendees showed also certain interest in the continuation of the workshop in the future. During the time reserved for discussion at the end of the Workshop, the convenor expressed his support to this idea and offered assistance and experience in case the idea is finally put forward.

The participants underlined the difficult situation of economic research under current economic circumstances and agreed that the projects in a multinational European dimension were a priority given lack of financing of national programmes at the moment. The convenor showed interest in preparing a research group that would apply to one of the European Research Council programmes and invited the participants to express their interest in leading or participating in such a project. He also invited the participants to interact in order to coordinate future actions. As many of the participants in this workshop were in a junior stage of their careers, there is remarkable potential for future cooperation.

The idea of organizing a conference of larger dimension on this same topic in the future is extremely tentative. The topic is definitely of growing interest and the participants agree that there is the need of creating a periodic meeting at the European level in which this research can be presented and discussed specifically, apart from doing so in larger conferences of general economic context. The participants, however, find also two main shortcomings to the idea: the first of one is the lack of economic resources in the light of the current economic crisis that would difficult the success of such an event; and the second one is the necessity of counting with more senior researchers with more experience and resources to run a conference.

As there are some small research teams along Europe, working with no or little coordination among them on regional fiscal policy and European Intergovernmental relations, the participants also underlined the necessity of putting some coordination among these teams in order to gain efficiency in research. This workshop served to initiate some contacts in this respect, but further work in coordination is definitely needed.

4. Final programme

Sunday, 15 April 2012

18.00 *Get-together, social event: Walking tour through the city-center (meeting point: plaça Catalunya, in front of "Hard Rock Café")*

Monday, 16 April 2012

09.30-09.40 **Welcome by Convenor**

09.40-10.00 **Presentation of the European Science Foundation (ESF)**
Etienne Franchineau (Standing Committee for Social Sciences -SCSS)

10.00-11.45 Morning Session1: The European Cohesion Policy

10.00-10.50 **"Evaluating EU Regional Policy: many empirical specifications, one (unpleasant) result"**
Philipp Breidenback (RWIW, Essen, Germany)

10.55-11.45 **"The Macroeconomic impact of EU Structural Funds on the Portuguese Economy"**
Ana Maria Dias (Ministerio do Ambiente e do Ordenamento, Lisbon, Portugal)

11.45-12.00 *Coffee / Tea Break*

12.00-13.45 Morning Session2: Intergovernmental Grants

12.00-12.50 **"Absorptive Capacity and the Growth and Investment Effects of Regional Transfers - A Regression Discontinuity Design with Heterogeneous Treatment Effects"**
Maximilian von Ehrlich (ETH, Zurich, Switzerland)

12.55-13.45 **"Does fiscal decentralization affect the effectiveness of Intergovernmental grants? The European regional policy and Spanish Autonomous regions. "**
Juan Gonzalez Alegre (UAB, Barcelona, Spain)

Discussion

14.00-15.30 *Lunch*

15.30-17.15 Afternoon Session1: Human Capital

15.30-16.20 **"Government Decentralization and Corruption"**
Emma Galli (Università di Roma La Sapienza, Rome, Italy)

16.25-17.15 **"The fight against geography: Malaria and Economic Development in Italian Regions"**
Marco Percoco (DAIMAP, Bologna, Italy)

17.15-17.30 *Coffee / tea break*

17.30-19.15 Afternoon Session2: Urban Growth

17.30-18.20 **“Agglomeration externalities and urban growth controls”**
Wouter Vermeulen (SERC, London, United Kingdom)

18.25-19.15 **“Stimulating local public employment: Do general grants work?”**
Helene Lundqvist (IIES, Stockholm, Sweden)

Discussion

21.00 *Dinner*

Tuesday, 17 April 2012

10.00-11.45 Morning Session2: Taxation

10.00-10.50 **“Optimal income taxation with tax competition”**
Vilen Lipatov (Frankfurt University, Frankfurt, Germany)

10.55-11.45 **“Financial Development and Income Inequality: Evidence from a Panel Analysis”**
Sebastian Watzka (Ludwig-Maximilians-Universität, München, Germany)

11.45-12.00 *Coffee / Tea Break*

12.00-13.45 Morning Session2: Methodologies and future trends

12.00-12.50 **“Fiscal shocks, public debt, and long-term interest rate dynamics”**
Luigi Marattin (Università di Bologna, Bologna, Italy)

12.55-13.45 **“Fiscal policies and governmental issues: where do we stand?”**
Rosella Nicolini (UAB, Barcelona, Spain)

Discussion

14.00-15.30 *Lunch*

15.30-17.15 Afternoon Session: Economic Geography

15.30-16.20 **“Creative destruction and fiscal institutions: a long- run case study of three regions”**
Jan Schnellenbach (AWIE, Heidelberg, Germany)

16.25-17.15 **“Smart specialization strategies in some European regions”**
Raquel Ortega Argiles (University of Groningen, Groningen, The Netherlands)

Discussion

17.30-17.45 *Coffee / tea break*

17.45-19.00 Discussion on Future Plans

21.00 *Dinner*

5. Final list of participants

Convenor:

GONZALEZ ALEGRE, Juan
Universitat Autònoma de Barcelona
Spain

ESF Representative:

FRANCHINEAU, Etienne
ESF Exploratory Workshops Office
France

Participants:

ARESPA, Marta
Universitat de Barcelona
Spain

BREIDENBACH, Philipp
Rheinisch-Westfälisches Institut für Wirtschaft
Germany

DIAS, Ana Maria
Ministerio do Ambiente e do Ordenamento
Portugal

EHRlich, Maximilian VON
ETH Zurich
Switzerland

GALLI, Emma
Universita di Roma La Sapienza
Italy

HROMCOVÁ, Jana
Universitat Autònoma de Barcelona
Spain

LIPATOV, Vilen
Goethe Univ. Frankfurt
Germany

LUNDQVIST, Helene
Stockholm University
Sweden

MARATTIN, Luigi
Università di Bologna
Italy

NICOLINI, Rosella
Universitat Autònoma de Barcelona
Spain

ORTEGA-ARGILES, Raquel
University of Groningen
The Netherlands

PERCOCO, Marco
Università Boconi
Italy

SCHNELLENBACH, Jan
Heidelberg University
Germany

WATZKA, Sebastian
Ludwig-Maximilians-Universität
Germany

WERMEULEN, Wouter
SERC London School of Economics and Political Science
United Kingdom

6. Statistical information on participants

Gender

Male: 9

Female: 7

Affiliation

Germany: 4

Italy: 3

The Netherlands: 1

Portugal: 1

Spain: 4

Switzerland: 1

Sweeden: 1

United Kingdom: 1