

19-21 de Octubre 2022 | Granada

## INTERNATIONAL CONFERENCE ON REGIONAL SCIENCE

*Challenges, policies and governance of the territories in the post-covid era*

Desafíos, políticas y gobernanza de los territorios en la era post-covid

XLVII REUNIÓN DE ESTUDIOS REGIONALES  
XIV CONGRESO AACR



### EXTENDED ABSTRACT

**Title:** The Impact of the European Social Funds on Education and Employment: Evidence from European Regions.

**Authors and e-mail of all:** Stefano Fusaro ([sfn.fusaro@gmail.com](mailto:sfn.fusaro@gmail.com)), Rosario Scandurra ([rosario.scandurra@uab.cat](mailto:rosario.scandurra@uab.cat))

**Department:** Department of Sociology

**University:** Universitat Autònoma de Barcelona

**Subject area:** Governance and impact of territorial policies.

**Abstract:** (*minimum 1500 words*)

From an economic standpoint, one of the main objectives of the European Union is to reduce the economic disparities across regions of the member states, to promote an “overall harmonious development” and to foster “economic, social and territorial Cohesion” (see art. 174-78 of the Treaty of the European Union). To achieve these goals, the European policy makers implemented the so-called Cohesion Policy, which is the most important investment Policy of the European Union.

Since its implementation in the 1970s, the Cohesion Policies represents an important portion of the total European budget (around one third). The ultimate aim of Cohesion Policy is to induce a sustainable economic growth, and to reduce the existing socio-economic disparities between the different regions of the EU Member States. This policy is designed to directly finance the regions (NUTS2) of the different Member States, and is typically targeted towards those regions that are characterized by low levels of (relative) per capita GDP, high and persistent unemployment rates, low levels of density of economic activity and, finally, low value-added industries.

The idea of the reduction of the existing differences in economic performance across regions was not a priority in the early years after the foundation of European Union. However, this gradually changed and European policy makers started to think about the better way to intervene. To this extent, they decide to adopt a policy that had the objective of improving the economic performance of more disadvantaged regions, also to avoid large migration flows from poorer to thriving regions. At the basis of the EU cohesion policy there is the fact that, if left alone, the single market appears to bring greater advantages to the already richer European core, further increasing the already sharp differences in economic performances. Therefore, the main objective of the European commission is to take action in this sense and a large amount of resources were devoted to poorer regions (that is, those regions whose per capita GDP in purchasing power standards - PPS - is lower than the 75% of the EU average) in order to help them to catch-up with the more productive ones.

In order to reach this objective, the EU policy-makers implemented the so-called Cohesion Policy, which represents the most important investment policy of the European Union. Its broad objective is to improve the quality of life of European citizen by promoting economic growth and job creation, and by favouring competitiveness between different businesses, always keeping a sustainable model of development. In every programming period around one third of the total EU budget is devoted to the Cohesion Policy. Importantly, this policy consists in different funds, with different goals. These are: (i) the European Regional Development Fund (ERDF), whose objective is to modernise the local economic structures in order to strengthen the economic development; (ii) the Youth Employment Initiative (YEI) which is designed to support Member States to address the issue of youth unemployment and consists in a set of initiatives directed to foster the labour market integration of young people not in employment, education or training; (iii) the European Agricultural Fund for Rural Development (EAFRD), whose goal is to improving the agricultural competitiveness of EU rural areas, by promoting a sustainable management of natural resources; (iv) the European Social Fund (ESF), which has two main objectives, namely to improve education and training of young people and to improve the job opportunities of European citizens; (v) the Cohesion Fund (CF) which is particularly targeted towards those Member States with a gross national income (GNI) lower than 90% of the EU average and consists in a set of interventions aimed at improving the trans-European transport networks; and finally (vi) the European Maritime & Fisheries Fund, which is a financial instrument aims at assisting the implementation of the EU Integrated Maritime Policy (IMP).

In the present article we are particularly interested in the ESF which has a total annual budget of 10 billion euros and two broad objectives. The first is to improve the education of EU citizens. To this extent, the ESF provides funding to all EU Member States in order to support them to promote initiatives that, on the one hand, reduce the school drop-out rates and, on the other, improve education and training of their citizens in order to help them to acquire those skills that make them more competitive in an increasingly dynamic labour market. The second is instead to boost the employment prospects of EU citizens, which is of particular importance nowadays, given the current economic crisis that severely hits both employers and employees. To this extent, the ESF provides funding to both regional and national projects that aim at supporting EU citizens to find suitable job positions or to improve their current ones.

Importantly, the budget devoted to ESF corresponds to slightly less than the 20% of the total budget of Cohesion Policy.

In this context, the objective of this study is to empirically assess the impact (if any) that the ESF exert on two important aspects of the regional wellbeing, such as the human capital accumulation and the employment prospects of the regional populations. We focus in particular on the youth population (although we also provide evidence for the working-age population), since youths are one of the more disadvantaged demographic groups in terms of labour market performances and perspectives. In addition, they are characterized by higher unemployment and job-turnover rates, higher probability of having precarious and atypical forms of employment, and they are extremely sensitive to macroeconomic fluctuations, as well as those of the labour market. Moreover, they have been the first to lose their jobs and the last to re-enter the labour market during the two unprecedented shocks of the 2008 recession and the Covid-19 crisis. It is important to highlight that it is in the social interest of the entire European community to create conditions enabling them to smooth the transition to the labour market and start or regain a professional career.

The empirical analysis is conducted at the NUTS2 level for the full set of EU-27 countries plus the United Kingdom (UK), which guarantees us to increase the external

validity of the findings. This is because the degree of effectiveness of the policy is strongly related with both the political environment and the economic structure of the different regions. Moreover, we consider the period 2004-2018, which covers three programming periods of the Cohesion Policy: 2000-2006, 2007-2013 and 2014-2020. This is an important aspect of our analysis for two reasons. First, because it ensures that the results are not driven by some presence of unobserved heterogeneity associated with a specific programming period. Second, because it covers different phases of the business cycle, namely the pre-, during- and post-global financial crisis (GFC) periods, unlike most existing studies that typically consider periods of economic expansion,

In the first part of the paper, we assess the impact the the reception of ESF exert on both the decision to invest in education, and on the employment prospects of the local youth population. We do so by estimating a model that relates the per capita ESF to different age- and education-specific population shares and employment rates.

In the second part of the analysis, we investigate whether and to what extent the links between ESF and regional sectorial composition affect the schooling decisions and employment prospects of the youth population of EU regions. In other words, we consider the specialization in high-skilled sectors (that is, those that require a high amount of human capital). The rationale behind this is that, on the one hand, the effectiveness of Cohesion Policy is strongly correlated with the local productive structure and, on the other, the local specialization in high-skilled sectors is typically assumed to influence both the schooling decision and the employment prospects of the local population.

In order to address the endogeneity of the ESF with respect to the local economic condition, we apply an IV strategy that uses as instrument an average measure of funds that each region receives in the previous 5 years.

As for the impact on education, the results indicate that the reception of ESF is associated with a human capital polarization of the regional population. In other words, we identify a positive impact on the population shares with lower-secondary and tertiary education, and a contemporaneous negative impact on the share of people with upper-secondary education. In terms of employment, we identify a positive response for people in the 20-24 age cohort and with upper-secondary education. Conversely, we estimate a negative, albeit fairly small, employment response for people aged 20-24 with tertiary education.

Finally, the heterogeneity analysis performed based on the local specialization in high-skilled activities imply two interesting results. First of all, we find that the negative education responses of people with upper-secondary education are less pronounced in regions specialized in high-skilled sectors. Second, the local specialization in high-skilled sectors somehow offset the negative employment responses that we initially identified in the case of people aged 20-34 with tertiary education, and this positive response increases as long as the specialization in high-skilled sectors increases.

**Keywords:** Youth; Employment; Human Capital; European Social Funds; Cohesion Policy; European Regions.

**JEL codes:** H54; J21; J24; O18; R11