

Regional inequalities and economic crises: fiscal vs. cohesion policies

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ABSTRACT

The aim of this paper is to assess the role of fiscal and cohesion policies in affecting the change in regional inequalities in the aftermath of economic downturns.

To test our hypothesis we use an unbalanced panel of 17 European countries from 1990 to 2014, and we take into account the comparative role of fiscal and cohesion policy in shaping the response of regional disparities to economic downturns, by following the approach of Auerbach and Gorodnichenko (2013) and Abiad et al. (2015), that allow interaction between shocks and economic conditions. In detail, to establish the impact of shocks on regional inequalities we estimate Impulse Response Functions (IRFs) based on local projections of the effect of downturns on regional inequalities following Jorda (2005). For each future period k the change in regional inequality through time is regressed against a dummy variables that takes value 1 for the occurrence of an economic downturn in country I , an autoregressive component to capture persistence and a set of policy variables.

Results provide support for a key role played by fiscal policy since they suggest a long lasting decrease in regional inequalities in countries with higher primary balance, cyclically adjusted primary balance and larger share of intergovernmental transfers. Also, the paper provides tentative evidence of a larger reduction in inequality in countries with higher share of cohesion funds expenditure with a distinctive role for the European Social Fund (ESF) and the Cohesion Fund (CF).

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