

# EU-wide income inequality and regional development

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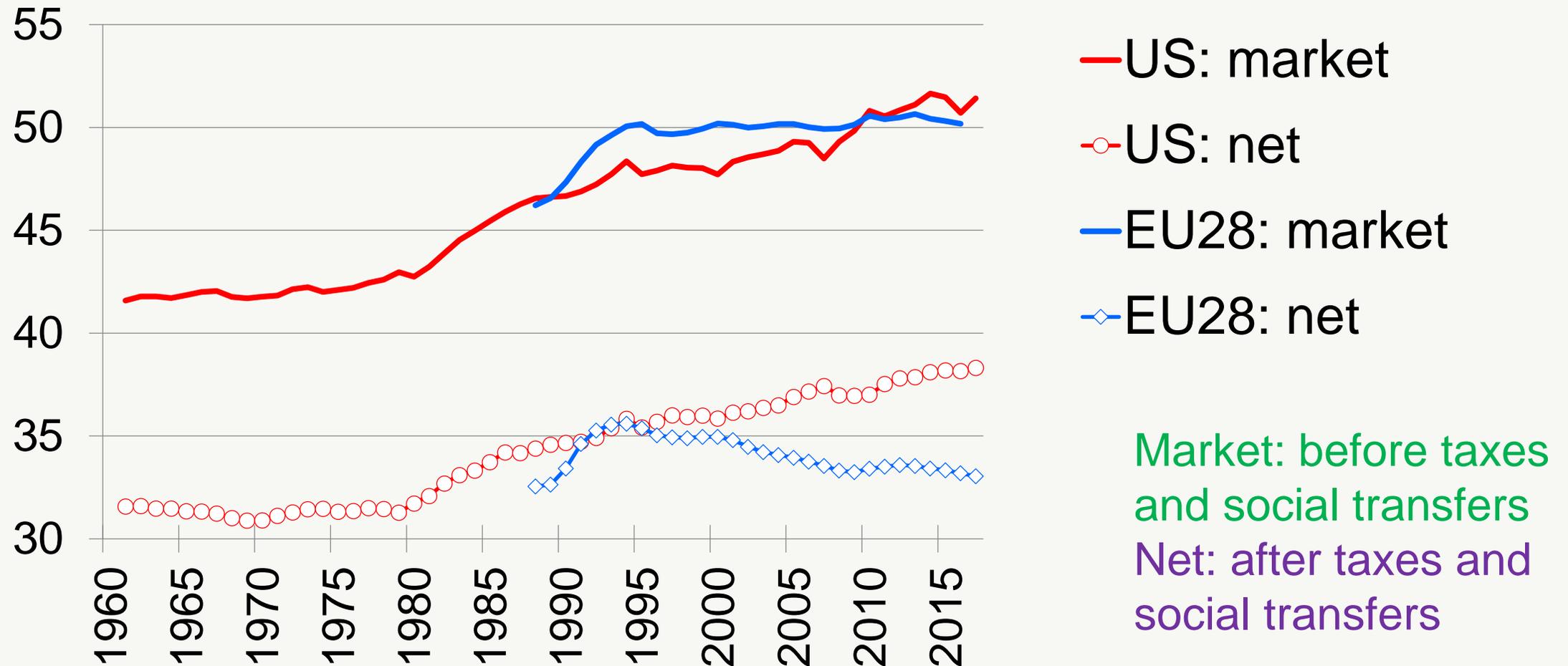
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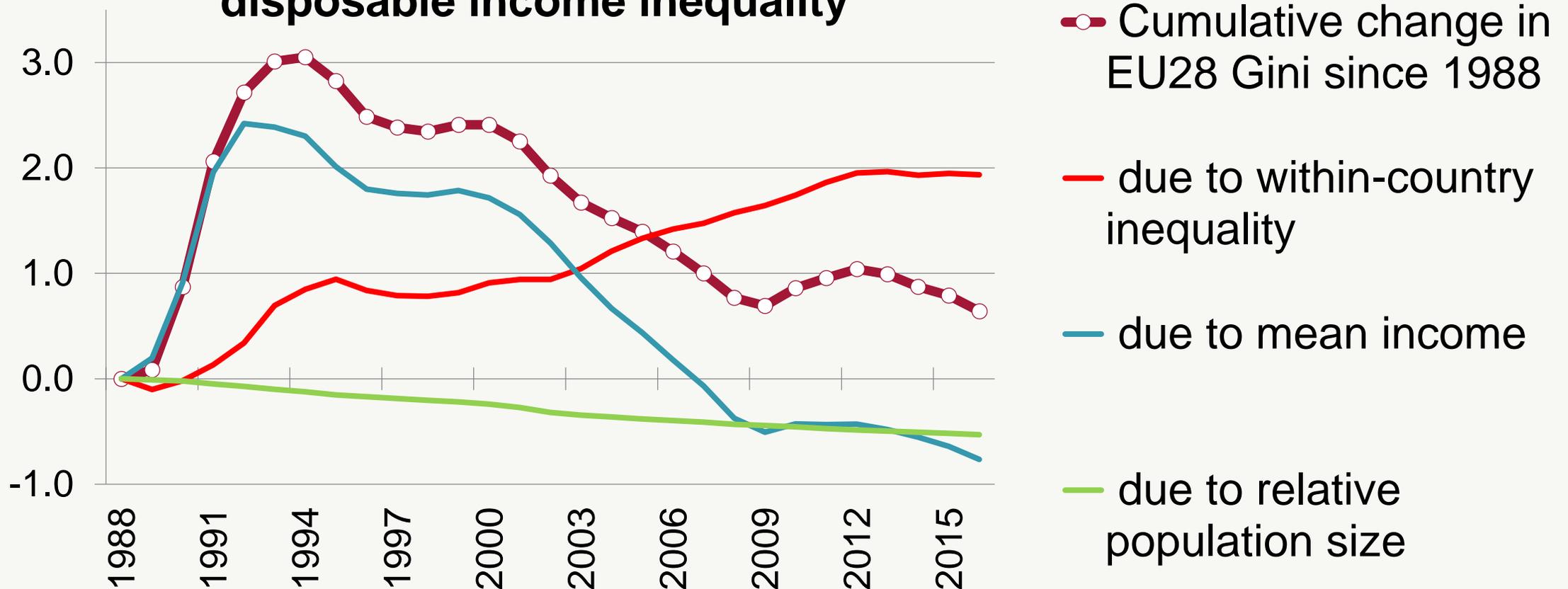
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# EU-wide income inequality is falling



# Income convergence drove down EU28 income inequality, while within-country inequality increased it till 2012

## Deconstruction of the change in EU28 disposable income inequality



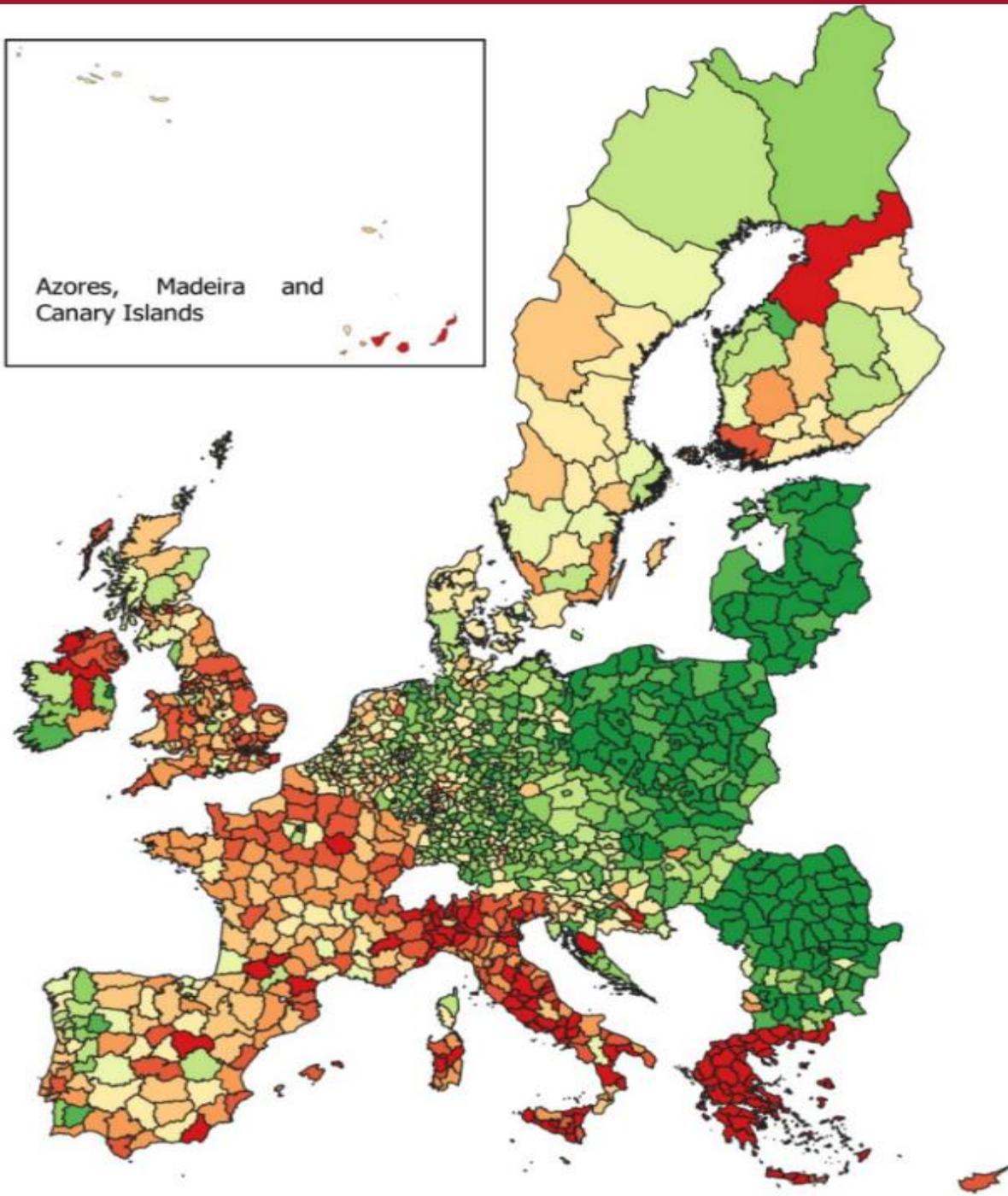
# Which EU regions grew and why?

- Actual growth (next slide) might not give a proper picture of 'growth performance'
- E.g. a poor Bulgarian region is expected to grow faster than the rich Luxembourg
- We therefore estimate a model that controls for initial conditions

# Actual economic growth

Classification of EU NUTS-3 regions according to per capita growth in 2003-2015 **without controlling for anything**

*Regions in dark green: fastest actual economic growth*  
*Regions in dark red: slowest*



# Controls

- Our cross-section estimate confirms the statistically significant influence on 2003-2015 growth of the following region-specific factors:
  - the initial level of GDP per capita in 2003,
  - the capital income ratio in 2003,
  - the percentage from 25-64 year olds with tertiary education in 2003,
  - R&D personnel in percentage of total employment in 2003,
  - the percentage of employment in the services sector in 2003,
  - the growth in population between 2000 and 2003,
  - population density in 2003,
  - quality of governance in 2010,
- The residual, that we call ‘unexplained economic growth’, could be an indicator of economic performance

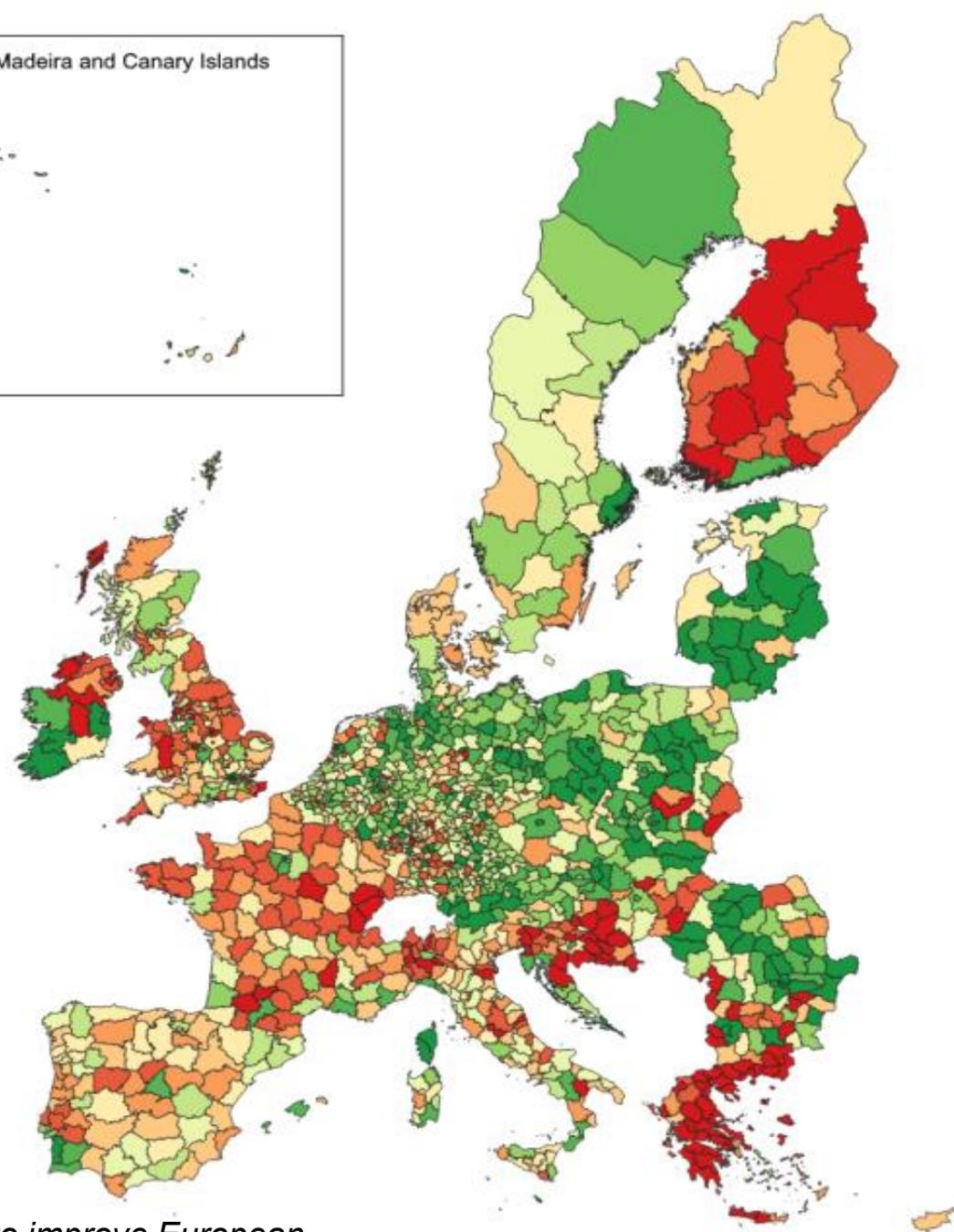
# Unexplained economic growth

Classification of EU NUTS-3 regions according to per capita growth in 2003-2015 **when controlling for various initial conditions**

*Regions in dark green: fastest unexplained economic growth*

*Regions in dark red: slowest*

Source: Darvas, Zsolt, Jan Mazza and Catarina Midos (2019) 'How to improve European Union cohesion policy for the next decade', Bruegel Policy Contribution 2019/8



# Good performance is spread across countries, bad performance is more concentrated

- Among the 1,337 regions: the top 10% of 133 regions comes from 21 countries → there are rather successful regions in many EU countries
- The bottom 10% with the worst economic performance, is from 14 countries → greater concentration
- 36 of the 52 Greek regions are in the bottom decile; 8 more sit in the second-worst decile and a further 4 in the third-worst decile → Greece as a country suffered massively after 2008

# Why are there such differences in 'unexplained economic growth' across regions?

- Hard question (perhaps with the exception of Greece where country-specific macro factors restrained all regions)
- Recall we control for quality of governance, initial GDP per capita, capital, labour, and many other initial conditions
- A particular question: can EU cohesion policy play a role and what are the characteristics of cohesion projects that are implemented in good performing regions?

# The best performing regions have on average EU cohesion projects with:

- longer durations,
- a greater concentration of priorities,
- more inter-regional focus,
- a higher proportion of non-research NGOs or academic or private sector entities among the beneficiary entities (as opposed to public sector beneficiaries),
- more national (as opposed to regional and local) management;
- a higher total funding (and per capita) from the Cohesion Fund.

# Summary

1. EU-wide income inequality is falling
2. Mostly driven by income convergence
3. When controlling for various initial conditions, good regional growth performance is spread across EU countries, while bad regional growth performance is more concentrated
4. Country-specific factors matter, yet there are great regional growth performances in most EU countries
5. EU cohesion policy projects should be focused and have longer durations, in line with long-term strategic planning, and have greater cross-border inter-regional focus

*Thank you for your attention*