

Roberta Capello, Andrea Caragliu
Politecnico di Milano
ABC Department

After crisis scenarios for Europe: Alternative evolutions of structural adjustments¹

Abstract

Over the last few years, the world economy has undergone a period of severe economic downturn, the worst since the end of WWII. While the significant impact of the crisis is an established result, less common-knowledge is the fact that the crisis has already induced responses in the economic systems, which translate into structural changes.

The aim of this paper is to build after-crisis scenarios for Europe on the basis of alternative evolutions of structural adjustments induced by the crisis. A first scenario is defined ‘a place-based competitiveness scenario’: in this scenario, competitiveness is obtained through the exploitation of local excellence and untapped local resources. The second alternative scenario is defined ‘social cohesion’ scenario: this scenario is built around the idea of limiting the social costs stemming from the crisis.

The development of one of the two alternative scenarios can be justified on the basis of rational criteria; as a consequence, both scenarios have the same legitimization to be supported by policy-makers. The results of the simulation exercise are obtained by running a macroeconomic regional growth forecasting model called MASST3, developed by the authors.

Results unexpectedly show that the place-based competitiveness scenario achieves both the highest aggregate GDP growth rates as well as the lowest increase in regional disparities. In other words, and contrary to general beliefs, the social cohesion scenario is less effective than the place-based competitiveness scenario in reducing regional disparities. These results offer useful insight into how future cohesion policies may reinforce local excellences and tap the untapped resources.

Keywords: Economic crisis, structural changes, regional growth, quantitative foresight

JEL classification codes: R11, R15

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