Place-Based Policies of the European Union: Contrasts and Similarities to the US Experience

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Abstract

The European place-based policy framework, established through the European Treaties and commanding a current budget of $60-70 billion annually, addresses three fundamental territorial challenges: supporting traditionally lagging regions in their development efforts, assisting contemporary distressed regions (including those facing structural challenges from the energy transition), and managing the challenge of spreading prosperity amid strong agglomeration effects in technological clusters. We analyze the place-based features of EU Cohesion Policy and identify similarities and differences with place-based policies in the United States. While there is evidence of reduced disparities and regional reconversion as a result of place-based policies on both continents, there are also many instances of ongoing stagnation and distress. These limits relate to how well policy is designed with respect to economic geography fundamentals as well as political economy and organizational problems in policy design, implementation, and governance. The paper concludes by drawing general lessons on the design of place-based policies and examines issues that are

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particularly relevant for Europe. We find that EU policy to enhance long-term convergence has had broadly positive effects, and that the EU is performing better than the US at aiding its distressed regions. The EU is taking a much more forward-looking and comprehensive approach than the US to the place-based effects of climate change and supporting a transition away from fossil fuels. In both continents, there is considerable effort to spread high-tech clusters, regional innovation systems, and high-tech manufacturing that are potential sources of local growth and prosperity. In this area, the EU has significant lags compared to the US but is actively engaged in trying to upgrade its technological performance. Common challenges to successful policy implementation across both continents include excessive complexity, principal-agent problems, and the need for better ways of setting priorities and assessing whether policy can reshape spatial economic fundamentals in a positive and durable manner.

1. Integration with Convergence: The Motivation for EU Place-Based Policies

The original justification for creating the institutions that would become the European Union (EU) was to achieve continent-wide economic integration through the free movement of goods and people via the institutional and legal completion of a single European market. Even in the original group of six high-income countries in north-western Europe, there were long-standing lagging regions, such as southern Italy. The founding Treaty of Rome (1957) contained a commitment to policies to reduce such inter-regional disparities, including both those inherited from the past and those that were likely to be generated by further integration.

Unlike the US, the EU is still working to achieve a single market, while integrating new Member States. Since the 1970s, the EU has enlarged from six members to twenty-eight (and then twenty-seven). While inter-state per capita income differences in the US were reduced in the 20th century to the order of 1:1.5, in Europe the gap between the poorest Member States and the highest income is about 1:2.2. Ukraine, Moldova, and six relatively low-income countries in the Western Balkans are now candidates for membership, which would widen the gap. Moreover, because the

larger and more dynamic sub-national (mostly large metropolitan) regions of Member States are favored by the continental single market, and those regions are unevenly distributed within and between Member States, further integration is likely a mix of divergence through reinforced agglomeration economies, and convergence as comparative advantage relocates certain trade-able activities to lower cost areas of the Union (Petrakos et al., 2005; Kramar, 2015).

In response to these challenges, the EU has incrementally developed a wide set of place-based policies, known collectively as the Cohesion Policy (CP) framework. The Single European Act in 1986 and the subsequent Single European Act formally introduced the concept of economic and social cohesion to address regional inequalities or shocks linked to integration, such as those from sorting according to comparative advantage, firm-level economies of scale, and increased agglomeration economies. The 1992 Treaty on European Union (Maastricht Treaty) then enshrined the objectives for CP in EU law, namely promoting integration while reducing regional disparities.

According to the World Bank, since its foundation more than 60 years ago, the EU has become the world's greatest "convergence machine," assisting several poorer and newer Member States to become high-income economies. It has achieved this while delivering to its citizens some of the highest quality of life conditions and lowest levels of interpersonal income inequality in the world (Gill et al. 2012; World Bank, 2018a). The average GDP per capita in the Member States that joined the EU since 2004 has seen an increase in GDP from about half of the EU average in 2004 to nearly 80 percent in 2023 (Figures 1, 2).

Figure 1 here: Member State convergence in the European Union, adapted from Bisciari et al. (2020) using EC Ameco data.

Figure 2 here: Average annual growth of real GDP per head 2000-2003 in the EU (European Commission).

In this chapter, we provide a comprehensive review of EU place-based policies (PBP). Section 2 begins by providing additional background on the long-term context for EU policymaking, notably the EU's commitment to promoting long-term convergence of its territories. In Section 3, we describe

the place-based policy supply chain for Cohesion Policy, contrasting the more centralized and top-down EU process with decentralized US policymaking (Hanson et al. 2025). In Section 4, we dig into the substance of the three main types of policy and assess their effectiveness: alleviating regional distress; overcoming long-term lagging performance; and spreading innovation and its associated high-wage employment. We examine the "what, where and how" of each of the three main policy efforts (Freedman and Neumark, 2025). In the final sections, we conclude by observing that the different administrative and policy-making structures of the US and EU do matter for policy. In general, the EU has more integrated area-based and investment-based policies than the US, where policies are more oriented toward employment, and are more people-based. However, despite the different administrative and policymaking structures, there are also many similar challenges that face place-based policies in both the US and Europe, as discussed at length in section 5. Section 6 lists a few key takeaways from this comparison.

2. The Long-Term Context for EU Place-Based Policymaking

The motivations for EU place-based policy stem from specificities of the long-term European economic and geographical context. Three of these are particularly important: the tensions between integration and convergence; slower growth and lower innovation than the US in recent decades; and lower European tolerance for inequalities and redistribution compared to the US. These dimensions strongly influence the stated objectives and inputs to EU PBPs.

2.1 EU Commitment to Convergence

Promoting market integration while reducing regional disparities are explicit policy goals embedded in the EU Treaties. The EU is a young area for the free circulation of capital and labor, and a very young common currency area, compared to the two centuries that the US has had these features. American inter-state income gaps were reduced by orders of magnitude in the second half of the 20th century. The convergence process was driven by an epochal redistribution of American population

South and West – the Sunbelt – involving the urbanization of those regions, coupled to expansion of national over regional product markets and supply chains, and underpinned by infrastructural improvements to lower trade and transport costs. In the post-1945 period, the Sunbelt attracted tens of millions of migrants and redistributed the population by building out the American urban system. Small urban centers in the South became large metropolitan regions, from Florida to Texas to California.

At first glance, the evolution of Member State incomes in Europe today mirrors the American South in the post-1945 period, especially the catch-up trend in eastern European Member States. But when we look more closely, there are many levers of convergence in the US post-war Sunbelt experience that are not available to 21st century Europe. Starting during WWII and accelerating in the 1950s Cold War, there were many US federal investments such as NASA's space program centers in Florida, Texas, and Alabama. These strengthened integration by generating a higher skills base in the generally unskilled South, creating certain local pockets of high-skill development (Hooks and Getz, 1998; Gross and Sampat, 2023; Garin, 2025). By the 1960s, many of these initial conditions had come together into a powerful set of attractors of employers and households to certain regions of the South.

Figure 3 here: The end of regional convergence in the US 1960-2023, adapted from Martin (2021) using BEA Regional Data.

Figure 4 here: Theil index, GDP per head, NUTS 3 regions (Monfort, 2020).

Figure 5 here: Population change by growth group in European regions, 2000-2014 (European Commission).

Figure 6 here: Economic development levels across European regions (European Commission).

Also relevant for contemporary European efforts to generate convergence in the EU is the question of what kicked off the 20th century convergence process in the US. For the US case, one school of thought holds that diffusion of development from the Frostbelt to the Sunbelt was initially unleashed by "jobs moving to people, with people moving first." The classic Roback-Rosen-Glaeser-

Tobio papers argue that households kicked off the process by massively moving to the South in search of sunny climates, cheaper housing and a sprawling suburban lifestyle, or what they call amenities-driven migration (Glaeser and Tobio, 2007). They focus on population migration from the late 1950s through the 1960s. Another perspective holds that the sequence of causality is the opposite, kicked off by the movement of jobs to the South (Muth, 1971). In this alternative view of causality, the main process that set off Southern development and upward convergence was the movement of private sector jobs to the South, mostly in manufacturing, and mirrored by nascent deindustrialization of the North starting in the 1940s, pulling migrants out of the Northeast and Midwest. In the end, of course, the process became self-reinforcing as the tradable sector's incomes generated a growing non-tradable sector in services and land development, drawing in more migrants. In support of the latter view, in 1947 the US Congress published "Why Industry Moves South," attempting to understand the tidal wave of relocation of manufacturing from the North to the South occurring at that time (McLaughlin and Robock, 1949). The timing of this report is relevant to considering causality because it was published before the amenity conditions that the Roback-Rosen-Glaeser-Tobio cite as kicking off mass migration to the South had yet come into existence; the Interstate Highway System was not yet built, nor even planned; air conditioning was rare; and mass suburban housing construction not yet present. The first version has been used in the US to support place-based policies based on amenities and housing; the second supports place-based policies oriented toward spatial spreading or stimulation of employment. In any case, the EU does not have the kind of internal migration that the US had for much of its history and especially from 1945-80. Moreover, even in the US, long-distance internal migration has declined by about half since 1980 (Ganong and Shoag, 2017; Ferrie and Hatton, 2015). Today's migration has also become much more distinctly skill-directional, with the college educated moving up the hierarchy, and the non-college down it. Figures 5 and 6 show the same for the European context which group regions by total population change rates 2014-2020. Internal migration in the US thus seems to have switched from being a convergence mechanism to a cause of divergence. This picture strongly affects European thinking about PBP. Assuming that Europe will never develop the large-scale population redistribution of the 20th century US, EU convergence policies have instead concentrated on raising labor force participation, productivity and wages (investment, employment stimulation).

The American convergence experience also involved spreading of high-skilled development on a scale that has no modern equivalent in Europe. California emerged as a high-skill, high-income

second “core” of the American economy in the late 20th century, and more recently some Sunbelt metro areas have joined the very high-income club of American regions, all outside the US's former heartland in the Northeast. Its growth was not generated by employers looking for lower wages and land costs – as in the Deep South – but by investments in R&D and education, federal investments (space and defense), linked to an original in-migrant population that tended to be wealthier and more educated than the country in the first place, and culminating in the creation of a wide variety of cutting-edge innovative clusters outside of the Northeast core (Ceh and Gatrell, 2006).

Long-term convergence processes in both the US and the EU have recently experienced significant and similar shocks to their economies, reversing convergence. From about 1980 onward, a post-manufacturing economy, vernacularly known as the Third Industrial Revolution, has been characterized by occupational-wage polarization and spatial sorting of high-skill jobs toward larger agglomerations. Almost all of the post-1980 aggregate divergence in both the EU and the US comes from the best performing metro regions; for example, 25 commuting zones out of 722 in the US now concentrate 32 percent of the population and 42 percent of economic output (Kemeny and Storper, 2023). These regions are unevenly allocated across US states, and states have different urbanization levels, thus counteracting further inter-state convergence. This ongoing structural change was complemented by automation and an offshoring shock from globalization, especially the China Syndrome after 2000, which unevenly affected regions and drove divergence (Autor et al. 2013). In the EU there are falling disparities at NUTS2 level for the EU, combined with increasing disparities at national level in fast growing Member States, due to the aforementioned metropolitanization effect but also in some strongly centralized Member States such as France. (European Commission, 2024b).

Certain other EU place-based sources of divergence today are similar to the US. Both are dotted with certain traditionally lagging regions. In the US, these are low-income regions in the most rural parts of the South, as well as other historically lagging and remote regions such as Appalachia, the Tennessee Valley or the Upper Great Lakes (Kline and Moretti, 2014). In Europe, some regions such as parts of the Italian Mezzogiorno have long been resistant to full catch-up convergence, despite sustained, large-scale policy efforts on their behalf.

2.2 Inequality and Growth Tradeoffs: EU versus US

The US economy has several major differences compared to the EU, and these differences affect the goals and potential trade-offs of PBPs. The US has had higher real income growth than Europe for much of the current century. There are several components of this difference, but the big contributors are labor force participation and working time, both of which are much higher in the US than in most of Europe, such that the average PPP-adjusted income of the US is widening the gap compared to Europe, and even to most of high-income western Europe. Hourly labor productivity levels are broadly similar. Lower participation and time worked can be partially voluntary, reflecting different work-leisure preferences (International Monetary Fund, 2024.)

But they can also be involuntary, due to employment regulations and labor demand. A major difference in labor demand is the weaker first-mover innovation sector in Europe, as expressed in the much lower rate of disruptive patents, the dominance of legacy companies in patenting, the composition of exports in legacy industries, and the almost complete absence of major new European Third Industrial Revolution companies (Draghi, 2024; Hsieh, Klenow, Shimizu, 2022). The Draghi Report to the EU noted that "only four of the world's top tech companies are European and that Europe's share of global technological revenues dropped from 22 percent to 18 percent between 2013 and 2023, while the US share rose from 30 percent to 38 percent" (Draghi, 2024).

The US innovation sector generates a higher level of high-wage occupations than in Europe, thus contributing to higher average wages and incomes there. But, by the same token, it also appears to be linked to higher levels of wage and income inequality than in Europe (Chancel et al, 2023). In addition, as US high-wage leading innovation employment is also quite spatially concentrated, it contributes directly to spatial wage and income divergence, as reflected in the higher urban wage premiums in the USA as compared to the EU (Kemeny and Storper, 2023; Hoxie, Shoag and Veuger, 2023). the US tech sector is more concentrated in a smaller number of larger tech agglomerations that are more specialized than their European counterparts; the differential performance of the EU innovation sector may be related to such differences in spatial sorting and matching of resources, as well as wider institutional and financial differences (Crescenzi et al. 2007). On the ground, the EU has numerous innovation clusters, but they are smaller than those in the US and China, and less disruptive in their innovations (Draghi, 2024).

These differences in growth dynamics have major effects on the EU's PBP agenda. Europe aims to to reduce inter-place inequality, while raising growth contributions of as many places as possible and stimulating Europe's innovation sector. These objectives do not align neatly, as the innovation and growth agenda may require greater regional scale and specialization, while the equity agenda would ideally spread activity, innovation and stem depopulation, especially of the young and skilled.

There is also concern in Europe that attaining higher levels of innovation would bring higher interpersonal inequality of rents and wages (Chancel et al. 2023). Such higher interpersonal inequalities would have strong territorial effects in Europe, since high-skilled high-income occupations are spatially concentrated in the US. Some of these sorting effects are already visible in many of the most innovative urban centers in Europe such as Paris, Stockholm, or Copenhagen.

3. The EU Place-Based Policy Supply Chain

In this section we examine the supply chain for EU place-based policies, focusing on funding sources; priorities for funding; and the relationship between people and place targets (see Hanson et al. 2025).

3.1 The Financial Inputs to EU Place-Based Policy

There are four main programmatic funding sources that make up the bulk of EU place-based policy:

European Social Fund (ESF): Established in 1957, the ESF's main goal is to improve employment opportunities, to increase geographical and occupational mobility within the Union, and to facilitate adaptation to industrial change and to changes in production systems, including fostering

social integration and combating discrimination. It covers a wide range of employment and social inclusion objectives. It is generally implemented through a range of national schemes and "people in places" policies, targeting specific areas and social groups.

European Regional Development Fund (ERDF): Established in 1973, the ERDF supports regions with low incomes and structural problems such as low labor force participation (lagging and distressed regions). It primarily finances investments aimed at strengthening the competitiveness of SMEs, innovation, digitization, energy efficiency, environment, energy, climate and education and social infrastructure. It thus encompasses a wide variety of programs aimed at stimulating innovation and spreading it. It has a strong place-based logic.

Cohesion Fund: Established in 1995, the Cohesion Fund provides support for environmental goals and infrastructure, especially Trans-European Transport Networks. It is restricted to EU countries whose per capita income is below 90 per cent of the EU average and operates at the national level.

Just Transition Fund: Established in 2021, the JTF helps regions and individuals to address the social, employment, economic and environmental impacts of the transition towards the Union's 2030 targets for energy and climate and a climate-neutral economy of the Union by 2050. It supports all types of investment and is strongly geographically targeted.

For the 2021-2027 period approximately 59 percent of the Cohesion Policy budget is allocated to the ERDF, 29 percent to the ESF, 9 percent to the Cohesion Fund and 5 percent to the JTF.

3.2 A Brief History of EU PBP goals

Throughout the development of its place-based policies, the EU has pursued a range of objectives, under the broad umbrella of inter-territorial convergence, sometimes referred to vernacularly as "balanced spatial development." Yet the goals of specific instruments and policies have evolved over time with EU enlargement, external shocks, and feedback from experience with policies (Figure 7). Most importantly, as the EU has grown territorially and expanded in its reach,

territorial policies have had to be integrated with broader EU goals in an ongoing process of adjustment.

Figure 7 here: Timeline of Major Innovations in EU place-based policy.

Since the early 2000s, Cohesion Policy has become increasingly integrated with other EU policies. It has been tasked with delivering key European policy objectives for the environment, transport and R&D, under the heading of "synergies." Figure 8 presents the relationship between the inputs from funds and the evolving policy objectives, both Europe wide and territorial, for the 2021-2027 period.

In contrast to the relative stability of EU goals, those of American place-based action have shifted repeatedly over the past century. The New Deal's TVA aimed above all at modernizing the poverty-stricken Tennessee Valley with flood controls, navigation, cheap power, and new industries. Wartime procurement policies aimed to disperse defense production nationwide for security, not redistribution, but did end up having spatially redistributive effects (Garin, in this volume). From the mid-1960s Washington's focus moved to explicit regional catch-up and, soon after, to short-run labor-market relief: EDA public-works grants and 1980s enterprise-zone tax incentives were designed chiefly to create jobs in newly distressed areas; this focus on employment has been persistent since. Most recently, in 2021, legislation such as the CHIPS and Science Act and Inflation Reduction Act re-purposed place-based tools to advance national competitiveness, clean energy and supply-chain resilience – objectives that reach far beyond poverty relief (Reynolds, 2024). These objectives are further evolving and changing in the Trump administration.

Figure 8 here: Planned EU Cohesion Policy financing (2021-2027) by country, fund, and thematic priorities.

Both the EU and US have broadened their place-based policy ambitions beyond a restricted focus on lagging regions. The EU now asks Cohesion Policy to accelerate the green-digital transition in every region, not just the poorest. Under President Biden, the US layered explicit spatial criteria

onto an industrial strategy aimed at stimulating American semiconductors, clean energy, and advanced manufacturing firms. Looking ahead to the next EU programming cycle and to potential policy revisions under future US administrations, the common thread is a shift from where growth happens to also include strategically important growth. Europe continues to embed those aims inside a unified convergence mandate, while America relies on a looser constellation of territorial justifications.

3.3 EU Policy Budgeting: Long-Term and Rules-Based

Cohesion Policy currently represents close to a third of the EU budget, it is therefore an essential part of redistribution between Member States and negotiation of the Multiannual Financial Framework every seven years. On the revenue side, the EU budget is largely financed through the "national contributions," which are based on Gross National Income (GNI). As a result, the more developed EU economies contribute relatively more to the EU budget, and hence to the financing of Cohesion Policy, than the less developed Member States, and less developed Member States and regions of the Union receive more from Cohesion Policy (Figure 9).

Figure 9 here: Cohesion Policy share (% of GNI) and GNI per capita, averages 2007-2021 (European Commission).

Turning to the subnational scale, the method used to determine the distribution of EU Cohesion Policy resources is based on calculating amounts at NUTS2 level regions (244 regions with populations of 800,000 to 3,000,000). The method's main indicator is the region's level of GDP per capita. Less developed regions are defined as those with a GDP per capita of less than 75 percent of the EU average; "transition" regions have a GDP per capita between 75 percent and 90 percent (2014-2020) or 100 percent (2021-2027) of the EU average, and more developed regions have a GDP per capita above 90 percent (2014-2020) or 100 percent (2021-2027). In broad terms, the prosperity gap for each region is calculated using the GDP/head (in PPS) as an indicator of regional prosperity.

Figure 10 here: NUTS 2 regions eligible to the three categories for the 2021-2027 period (European Commission).

Several additional indicators are then used to fine-tune the allocation according to the context of each region. These indicators reflect socio-economic, environmental, and demographic challenges: unemployment, youth unemployment, low levels of education, greenhouse gas emissions, external migration. There are additional amounts for certain types of area and situation (Outermost Regions, Northern Sparsely Populated areas, Just Transition Plan areas etc.).

Each Member State's allocation is the sum of the allocations for its individual eligible regions. The final allocation of a Member State can be capped to respect a predetermined percentage of its total GDP (to ensure that the allocated EU funds can be adequately absorbed by the Member State). This ranges from 2.3 percent of GDP for regions below 68 percent of the EU average GNI per capita in PPS to 1.5 percent for those below 55 percent of the EU average GNI per capita in PPP. Member States then have a degree of choice in how these national allocations are organized into programs which can be at national or regional level depending on the institutional arrangements in each.

The US approach to place-based funding is very different; unlike the EU's systematic reliance on GDP-based thresholds for standardized regions and predetermined caps tied to national development indicators, US allocations are more discretionary, relying on Congress appropriating funds to cabinet departments, which then channel resources down vertical program silos. Funding distribution relies on competitive grant processes, formulas based on measures of local economic distress, project feasibility, or alignment with specific federal priorities. Funding in the US is also directed toward a wider variety of territorial units – ranging from commuting zones and counties to metropolitan statistical areas, tribal lands, or specific neighborhoods. These grants often include variable matching-funds requirement, thus requiring applicants to secure additional resources from state, local, or private sources, whereas such matching requirements are standardized in the EU. In the EU, programs are generally negotiated for a period of seven years with an additional three years to complete expenditure. In contrast, for the American case, short term political priorities are woven into industrial and place-based policy and are often reversed with changing administrations. This creates greater volatility than in the EU case (Reynolds, 2024).

Since the EU framework is based on long-term redistribution from richer to poorer Member States, such support comes with strings attached ("conditionalities"), enforcing Member State respect for broad European priorities and rules, such as the EU's limits on national deficits (Stability and Growth Pact). The EU Council of Ministers can suspend payments from Cohesion Policy when a Member State fails to respect conditionalities. 2014-2020 reforms introduced a broad range of ex-ante conditionalities which must be respected before payments are made by the Commission. These include having mechanisms to ensure effective implementation of state aid and public procurement rules, respecting the EU Charter of Fundamental Rights, the effective application of EU legislation for water and waste, and development of regional innovation (smart specialization) and transport strategies.

3.4 Governance and Management of the EU Place-Based Policy

Though the allocation process described above may seem quite rigid, in practice Cohesion Policy is implemented through a rules-bound process of negotiation between the EU and Member States (Figure 11). Once the Member State has agreed the overall structure of place-based policy measures, it then negotiates the conditions under which the European budget will reimburse expenditure, as well as which national governments or authorities will manage implementation. This can be a national or regional ministry, but implementation responsibilities can also be delegated to intermediate bodies.

Figure 11 here: The EU place-based policy supply chain.

Depending on the institutional structure of the Member State, Cohesion Policy programs can be implemented at national or regional levels or a combination of both. There are four main such arrangements (European Commission, 2024b):

1. Single ministry: management responsibilities are assumed by a single government ministry at national level managing a single or small number of programs and program management has little or no regional dimension (Cyprus, Malta, Estonia and Luxembourg).
2. Centralized delegation: management responsibilities are delegated to other national bodies with strong central coordination. Under this approach, separate managing authorities operate

for programs but with strong central coordination or supervision. Examples of this are Czechia, Bulgaria and Slovakia, where responsibilities are delegated to national ministries. This also includes responsibility for a single 'regional' operational program, as opposed to having separate regional operational programs managed at regional level.

3. Sub-national delegation with national oversight: management responsibilities are delegated to sub-national levels but within a system where the national level retains supervision and coordination authority, as in Poland.
4. Fully regionalized federal model: in federal states, such as Germany, Austria, and Belgium, regional governments have substantial legal authority and significant budgetary and fiscal powers, a fully regionalized model has generally been adopted, with management responsibilities largely in the hands of regional authorities.

Overall, of the 414 programs in the EU in the 2014-2020 period, 126 were administered at national level and 288 were administered at regional level. All Cohesion Fund programs were managed nationally, while roughly three quarters of ERDF and ESF programs were managed at regional level. Roughly 40-45 percent of total resources are allocated through sub-national regional programs. In addition, most Member States made use of intermediate bodies with around 700 bodies for the ERDF and Cohesion Fund (European Commission, 2024b).

The US also has a complex and multi-level management structure for its place-based policies, but coordination across the policy supply chain is much more limited than in Europe, nominally falling to the EDA (Hanson et al. 2025). The EDA's role as a coordinating body has been inconsistent, and it often operates as a grant-distributing agency rather than a comprehensive planner across federal, state, and local levels. Federal agencies such as the EDA, the Department of Labor, the Department of Housing and Urban Development, and the Small Business Administration oversee distinct policy domains, often working in vertical silos with limited horizontal collaboration. Implementation frequently depends on intermediary organizations like Economic Development Organizations (EDOs), which can be public, quasi-public, or nonprofit entities. These organizations bridge federal funding and local implementation, often tailoring strategies to specific regional needs. State and local governments also play prominent roles, with varying levels of coordination and capacity. This decentralized structure fosters adaptability but also leads to significant disparities in resource allocation and administrative effectiveness, which is the case in Europe as well, where the

Commission attempts to upgrade administrative capacities where they are considered to be inadequate.

All in all, even though the EU's system is guided from the top, while the American place-based policy is more flexible and decentralized, both end up carrying out policy with transaction intensive and variable ways of tailoring policy to many local circumstances. In both, there is a high level of complexity, negotiation, and variable geometry of actors in both formulation and implementation.

4. Three Main European Place-Based Policy Treatments: Underdevelopment, Distress, and Spreading Innovation

There are three main substantive priorities for Cohesion Policy: aiding long-term underdeveloped or lagging regions; seeking reconversion of economies of distressed regions, negatively affected by technological and globalization shocks; and attempting to spread contemporary technology-knowledge-based activity, including innovative firms and technology clusters. These three efforts are combinations of what Freedman and Neumark (2025) label the "what and where," of policy, with the "how" adapting the use of the funds and mechanisms described in the previous sections in a pragmatic manner to the specific dimensions of each (Table 1). We assess each of these below.

Table 1 here: The Three Place-Based Policy Areas.

4.1 Policies for Long-Term Lagging Regions: Can Policy Stimulate Catch-Up?

A key objective of EU place-based policies is to generate catch-up in traditionally backward regions, and CP dedicates the largest share of its resources to such lagging regions. In 1998, a reform

of Cohesion Policy defined eligible or "Objective 1" regions as those with less than 75 percent of Europe's GDP per head (PPP) in the three years preceding the allocation decision. This has generally covered 25-30 percent of the EU total population, with aid levels in these regions typically 5-10 times higher than in others. In practice, such regions include three scales: a few entire Member States; one large lagging region in otherwise prosperous countries, such as southern Italy and former east Germany; and small poor regions in high-income Member States, such as Corsica and the outermost regions in France, Highlands and Islands and Cornwall in the UK.

The enlargement in the 2000s to central and southeastern Europe added many new lagging regions to the Cohesion Policy. The post-Soviet transition of the 1990s generated negative shocks for many rural, mono-industrial, and eastern border regions (Bachtler et al. 2014). Much of the infrastructure was from the Soviet era, with its legacy of environmental damage, poor connection to international markets. There was little knowledge of modern managerial practices and technologies. Slovenia and the Czech Republic had GDP per capita levels of around 60 percent of the pre-existing EU15 countries, while Slovakia, Hungary, Poland, Romania and Bulgaria were closer to a third of EU levels and outside capital cities, income levels were far lower and with some regions at only 15 percent of the EU average. The potential future accession of Ukraine, Moldova and the Western Balkans in the longer term would add still more regions with low incomes, often complicated by ethnic divisions and disputed borders.

The focus of EU expenditure on lagging regions is on infrastructure and connectivity, support for the modernization of companies and the workforce, and moving workers out of agriculture. This echoes the US experience in the TVA in the 1930s (Kline, Moretti, 2014; Lawhorn, 2025). In Europe, these are important efforts, with ERDF and CF jointly providing 40 percent of total public investment in their countries.

Kline and Moretti (2014) show that the TVA's mid-century 'big push' in infrastructure raised local productivity and incomes through direct cost-reducing assets Evaluations of the regional commissions find that when these dollars are concentrated and locally directed, they still deliver respectable 'bang for buck' (Isserman & Rephann 1995; Morin & Partridge, 2021). In Europe, the results are heterogeneous. Positive catch up experiencers are more common in the lagging regions of the eastern European recent member countries than in the long-term lagging regions of older

Member States, mostly in southern Europe (Ramajo et al. 2008; Esposti and Bussoletti, 2008; Mohl and Hagen, 2010; Tomova et al. 2013; De Dominicis, 2014; Rodríguez-Pose and Fratesi, 2004; Dall'erba and Le Gallo, 2008: World Bank, 2018b). The latter cases resemble the stubborn cases of Appalachia and the Deep South. Evaluation research found that a key feature of the stubborn underdevelopment of the southern European lagging regions is poor institutions and quality of government. Corruption and tribalism are a key feature of such regions. Policy was adjusted to focus on this problem in the South (Ederveen et al. 2006; Beugelsdijk and Eijffinger, 2005; Rodríguez-Pose and Garcilazo, 2015; Albanese et al. 2021).

4.2 Policies for Contemporary Distressed Regions: Can Policy Generate a Comeback?

In both the EU and US, economic distress is principally found in deindustrializing formerly prosperous regions. In the US, this began long ago with the post-war relocation of industry to the South, but massive loss of employment came from the twin shocks of automation and import competition, especially the post-2000 China shock (Acemoglu and Restrepo, 2020). The Brexit vote and Trump election in 2016 triggered a renewed EU concern with so-called 'left behind places' (Dijkstra et al. 2020). In Europe, similar regions include northern France, the Ruhr and Belgium, and northern England.

In both the US and EU distressed areas have some combination of: net out-migration, especially of the young and the skilled; and low per capita income; low employment or labor force participation. In the US, the language of 'distressed areas' is used more liberally than in the EU, with measures of unemployment receiving the most consistent focus. This reflects the wide-ranging social and economic costs of joblessness, including poorer health, increased crime and substance abuse, family instability, and lower educational attainment (Austin et al 2018; Bartik, 2020). Nonetheless, in the US, at least 29 definitions are used across 25 federal bodies, with variation in the indicators (unemployment rates, poverty rates, educational attainment etc.), geography (counties, census tracts,

or ZIP codes), and data sources relied upon (Pipa et al. 2022). Europe's ver consists of policy reforms in 1988 and 1993 that added many new versions of distress to the policy effort, from the original Objective 1 regions (25 percent of the EU) to industrial areas in decline (Objective 2), rural areas with structural difficulties (Objective 5b) and a list of additional specific problems (Communities Initiatives). Areas dependent on coal, steel, textile, and defense industries, were added (known by their acronyms RECHAR, RESIDER, RETEX and KONVER). Finally, the initiative URBAN targeted urban regeneration in cities with high levels of unemployment and social exclusion. In the face of this proliferation of criteria, Europe has been making an ongoing effort to refine and simplify definitions. Three objectives were consolidated into one distressed areas definition for the 2000-2006 period. A further simplification took place in the 2007-2013 period, when all regions became eligible for support, and the choice of distressed areas was delegated to Member States.

In the US, federal place-based policy for distressed areas can be grouped into two broad buckets; the first is enterprise-zone–style programs, which try to attract firms and jobs to distressed neighborhoods (Freedman and Neumark, 2025). A second branch of federal support consists of direct public outlays that local officials can steer toward infrastructure, housing, or business-support projects, often combined with competitive local matching of federal funds. Both differ from 'big-push' interventions such as the TVA or the Appalachian Regional Commission, whose large, multi-year budgets are channeled into a single region under a relatively unified development strategy; the grant programs disperse much smaller sums nationwide through project competitions in specific areas.

Table 2 here: Examples of eligible distressed ("Objective 2" and "Objective 5b") regions in the EU.

In evaluating the US approaches to distressed areas, Bartik (2020) recommends concentrating on growing high-multiplier sectors, avoiding bias toward large firms, strengthening local infrastructure and business inputs, coordinating policy packages tailored to local needs, and quantitative evaluation. These principles closely mirror the 2014–2020 reforms of EU Cohesion Policy (McCann, 2023). It appears that the Europe has done better than the US in reviving Rust Belt communities (Gagliardi et al. 2023). Initiatives such as the Future Initiative for Coal and Steel Regions established in 1987 for the Ruhr valley, increased industrial competitiveness, invested in public

infrastructure and strengthened higher education institutions (Galgóczi, 2014). A combination of early retirement and retraining was offered to workers. Similar initiatives were pursued across Europe over the coming years supporting regeneration and employment creation in places such as Rotterdam, Bilbao, Lille, Manchester, Limburg, East London, and Catalonia, often built around strategies to strengthen universities and support a shift into the service sector (OECD, 2019; Custers and Willems, 2024; Audretsch, 2015; Frick et al. 2023). However, rebound is concentrated in the urban cores of these regions, and is weaker in the rest of their territories. Thus, while they are positive examples of place-based policies for distressed areas but leave open as to how to extend the rebound to their hinterlands of smaller towns and villages.

4.2.1 Entrenched Distress and Spatialized Poverty: A Growing Problem

Despite the successes referred to above, in both the US and Europe, there are many regions where distress is becoming entrenched and threatens to become transformed into long term underdevelopment. Connor et al. (2024) illustrate this in Figure 12. This regional scale problem of entrenched underdevelopment and high poverty is, of course, mirrored at neighborhood scale in both Europe and the US, and the neighborhood scale is a warning that it is difficult to overcome long-term distress. In the US, since 1980, only about 14 percent of neighborhoods that had poverty rates over 30 percent have reduced that rate by more than 5 percent, whereas many of them have gone in the opposite direction, from high poverty to high extreme poverty (Sampson, 2013).

Figure 12 here: Distressed areas in the US over time (Connor et al. 2024)

Unlike the US, where long-term stagnation is concentrated in low-income and high poverty areas, in Europe, long-term continent-wide economic stagnation has spread to regions at higher income levels. Thus, many European middle-income regions (with a GDP per head between 75 percent and 100 percent of the EU average), particularly in more developed Member States, seem

stuck in a "development trap," meaning long-term income and employment creation stagnation (Diemer et al. 2022). In both continents, the problem of preventing entrenchment of distress is high on the policy agenda.

4.2.2 Combating Distress from the Energy Transition

Both the EU and the US face significant and unevenly distributed social and economic costs when shifting to new energy sources. Job losses in the coal industry have become a major political issue, reflecting concerns that cleaner-energy initiatives resemble earlier industrial disruptions, which led to prolonged unemployment, wage stagnation, and poverty (Hanson, 2023; Black et al. 2005; Charles et al. 2019).

At the EU level, the principal mechanism to address the economic and social costs of the energy transition in the most affected areas is the Just Transition Fund, with a budget of almost EUR 20 billion from 2021-2027. The resources are geographically targeted to a much higher degree than in mainstream Cohesion Policy programs. Figure 13 shows the 70 areas selected for support.

Figure 13 here: Territories eligible for JTF support (Source: European Commission)

Support from the fund is obtained via analysis of the specific local challenges for each territory. In the case of fossil-fuel extraction (coal, oil, shale oil, peat), processing and power plant closures, the grants focus on economic diversification, investments in SMEs, job creation, upskilling and reskilling of workers and job seekers, community infrastructure as well as land/brownfield regeneration, decontamination, and developing sustainable alternative energy industries. In areas specialized in carbon-intensive industries (such as steel, cement or chemicals), grants are made for new technologies and the associated retraining of staff, as well as addressing the impact of capital-intensive investment that can lead to job losses.

In contrast, place-based policy for distressed energy transition areas in the US is fragmented. The EDA, along with some other federal agencies direct funds for communities suffering from the closure of coal mines – for example the Assistance to Coal Communities fund, or the Abandoned Mine Land Economic Revitalization Program. While there are limited academic studies reviewing these quantitatively, Roemer and Haggerty (2021) conduct expert interviews and find that while helpful they are too fragmented to comprehensively support energy-dependent regions. As of this writing, the Trump administration seems to have reversed course of previous administrations, emphasizing energy independence through making fossil fuel production easier again.

4.3 Spreading Prosperity: Spatial Innovation Policy in the EU

As discussed in section 2, Europe has an innovation deficit compared to the US, in the sense that it is not a leader in the technologies of the Third Industrial Revolution, especially lagging in IT and biotechnology. Its innovations tend to be second-mover adaptations of fundamental new technologies and are overwhelmingly carried out by legacy firms. EU policy has thus been concerned both to stimulate innovation excellence in Europe, and to spread it across territories, attempting to join the two through the idea that making more regions innovative would raise the overall European level of innovation.

4.3.1 Can Innovation Be Spread Out by Policy?

For clusters of basic innovators/first mover commercialization, Duranton (2011) points out that the three key recognized features of agglomeration – sharing, matching, and learning – interact and have two-way causality. This makes them difficult to reproduce via policy, since policy cannot realistically influence them all so that they interact in the right ways at the right time. Extending this logic, Duranton and Venables (2018) argue that these features of clusters are collective action

phenomena that can lead to spatial lock-in. If policy attempts to spread innovation out or create more clusters in more places, existing positive spatial externalities of being in the best clusters make firms and individuals reluctant to lead the way to change. As such, innovation may over concentrate and not achieve an optimal spatial allocation across regions. This suggests that policy may be necessary to break the collective action logjam.

In addition, the "new agglomeration" literature (e.g. Delgado et al. 2016) finds that agglomerations in leading tech-oriented industries today are more based on clustering of specific functions, rather than vertical supply chains. Hence, they are more multi cross-sectoral than the single-industry agglomerations of the mechanical age. This in turn generates bigger agglomerations than in the mechanical age, and network monopoly effects may add still more concentration.

Europe's starting point is an inherited urban system with more middle-sized cities than the US, such that more of the population lives in urban areas of medium size than in the US. This is in turn reflected in its innovation geography: Europe has innovation cluster landscape where, for a given type of innovative activity, there are more clusters, and they tend to be redundant to one another (Crescenzi, et al, 2007). European innovation clusters are hence smaller than their American counterparts. This probably explains why they have such difficulty competing with innovativeness and commercialization speed of firms in the major American clusters (Draghi, 2024).

European policymakers are caught between a desire to push Europe to become a leading innovation economy, which may require more spatial concentration and specialization, and the desire to help lagging and distressed regions, by stimulating innovation in them. For both Europe and the US there is an underlying question for policy design of whether the geography of innovation is a potentially causal channel for increasing economy-wide innovation or a consequence, or at least how the causal channels might be intertwined.

In the US, place-based federal programs have historically shapd the American geography of innovation. Gross and Sampat (2023) document that counties swept up in the WWII OSRD research surge or awarded government-financed big plants later generated 40-50 percent more patents, sustained high-tech start-ups, and double-digit growth in manufacturing jobs and incomes – despite little additional federal money after 1945. Kantor and Whalley (2023) trace a similar, if more modest,

decentralizing boost to the NASA center placements and Apollo-era contracting, which seeded specialized aerospace clusters far beyond the traditional coastal hubs.

4.3.2 EU Research and Innovation Policies and Their Spatial Dimension

In 2000, the EU adopted the "Lisbon Strategy," pledging to become "the most competitive and dynamic knowledge-based economy in the world" by 2010. A prominent report commissioned by the EU warned that Europe was falling behind and argued for reorienting the EU budget towards a knowledge-based economy, helping trigger the 2005 relaunch of the strategy (Sapir et al. 2004; Berkowitz, 2021). In 2010, the Lisbon Agenda was superseded by Europe 2020, under which the EU created Horizon 2020, the fund to support world-class research and innovation, allocating €76.4 billion for 2014–2020 . Its three objectives objectives consisted of (a) raising the level of excellence in the science base and supporting a steady stream of world-class research; (b) building leadership in enabling and industrial technologies, access to risk finance and support for innovative SMEs; and (c) mitigating negative social impacts of technological change, such as health, demography, food security, sustainable agriculture and forestry, the marine environment, the bioeconomy, energy, transport, climate and the environment.

In practice, Horizon promotes spatial concentration. Bidding for funds is competitive, so that regions with high-income levels overwhelmingly prevail, with 25 percent of European regions receiving 90 percent of the Horizon Europe budget. Furthermore, 15 NUTS 3 regions out of more than 1000 received 30 percent of the budget. Only one of these (Stuttgart) was not a capital city (Morollón and Fernández-García, 2023). The Member States that joined the European Union after 2004 have received only 5 percent of the available funds (European Commission, 2024a). To put this in context, however, EU R&D budgets are small compared to those of Member States, only EUR 6 billion per year from 2014-2020 compared to overall expenditure of EUR 311 billion in the EU (European Commission, 2024c).

Figure 14 here: Ratio of Horizon 2020 funds to Cohesion Policy funds (the R&I part of ERDF funding) across EU NUTS2 regions, 2014-2020 (Molica and Marques Santos, 2024)

4.3.3 Excellence or Spatial Spread?

The excellence agenda described above is in tension with the convergence goals of Cohesion Policy. The EU framework has attempted to reconcile these goals by adopting a theory of innovation that justifies building regional innovation capacities in as many places as possible (Landabaso and Youds, 1999). The intellectual origin of this focus is a 2009 academic paper arguing that excellence and spatial spread could be reconciled through "smart specialization" (Foray et al. 2009). Smart specialization consists of the idea that innovation comes from a local entrepreneurial discovery process that builds on existing technological skills and adapts them incrementally to new products and processes. Instead of American-style disruption from science-based innovation, pragmatic incrementalism was proposed, and this lines up nicely with traditional European specializations (Foray et al. 2009; McCann and Varga, 2015).

Smart specialization emerged from gradualist evolutionary thinking with respect to technological and regional economic change. This gradualist thinking is based on the notion of "related variety," which posits that a regional economy diversifies into products or technologies that are closely related to its existing technological competencies ("related diversification"). Thus, new technologies emerge from technologically related industries and innovation areas (Frenken et al. 2007; Boschma and Iammarino, 2009; Aarstad et al. 2016; Lengyel and Szakálné Kanó, 2013). A key argument advanced in favor of this gradualist approach is that major regional technological jumps to new, unrelated technologies are extremely rare. Such incremental and legacy-based innovation is clearly present in Europe.

Smart specialization was introduced into Cohesion Policy in 2014. National and regional authorities were required to develop smart specialization strategies for research and innovation. The aim was to encourage all European regions to identify their specific competitive advantages, as a basis for prioritizing research and innovation investment under cohesion policy in 2014-2020. To make

these principles operational, the development and implementation of smart specialization strategy was made a "conditionality" applied to research and innovation investments under Cohesion Policy in the 2014-2020 period. Over 180 smart specialization strategies were approved (Figure 15).

Figure 15 here: Smart Specialization Innovation Strategies in the EU: coverage of smart specialization strategies (Source: European Commission).

4.3.4 Back to Excellence: Place-Based Implementation of Industrial Policy

In recent years, policymakers in both the US and EU have shown renewed interest in industrial policy; a focus framed by climate mandates, great-power rivalry, supply-chain fragility and technological sovereignty (Juhász et al. 2024; Sullivan, 2023). Both continents have endorsed targeting regions as the platforms for implementing such policy, with the idea that two goals – industrial policy and place-based policy – could be achieved with one framework (Rodik, 2023). In the US these ideas found expression in the Bidenomics agenda (Gansauer, 2024). Chatterji and Murray (2025) show how such 'geo-strategic industrial policy' is re-engineering innovation systems: government seeks to control the direction of R&D, the participants allowed access, and the scale-up of production in semiconductors, batteries, and other 'deep-tech' sectors.

The EU has historically been reluctant to embrace industrial policy, because achieving a single European market required that Member States limit their competitive national champion policies. In recent years, however, Europe-wide industrial policies are gaining acceptance, in part due to the disruption of supply chains during COVID, awareness of defense-related weaknesses in the face of the Russian invasion of Ukraine in 20223, and as a response to US and Chinese industrial and trade policies (Dullien, 2024). Thus, a new category of policy intervention was created, known as the EU Important Projects of Common European Interest. Under this umbrella, the European Chips Act (2022) aims to strengthen the semiconductor ecosystem; the Critical Raw Materials Act and the Net-Zero Industry Act address supply chain weaknesses by increasing domestic production and refining of key materials and promoting clean technologies. The recently adopted Strategic Technologies for Europe Platform (STEP) initiative targets investments in digital technologies and deep-tech

innovation, clean and resource-efficient technologies, and biotechnologies. A key difference when compared to recent US industrial policy efforts is that in the latter, (in the Biden administration), national industrial policy was targeted for implementation in underperforming regions, in Europe place-based innovation and business support policies are being targeted to EU-wide industrial objectives. This is a paradoxical reversal of roles, with the EU this time being more guided from the bottom-up and the US from the top down.

European place-based innovation policies have thus focused on creating a bottom-up process involving researchers, public and private actors, and often lost sight of the type of innovation to be promoted. Some regions prioritized unspecialized or unrelated sectors, thus not rigorously promoting related technological diversification (Marrocu et al., 2022; European Commission, 2021). The goal of promoting technological excellence also tended to get lost, as links between Horizon Europe and Cohesion Policy remained weak, with both policies focusing on their primary objectives. Overall, there is little evidence that smart specialization in Cohesion Policy programs has contributed to the broader goal of raising the EU's overall innovation capacity or narrowing the innovation gap with the USA (European Commission, 2025). The smart specialization concept does not distinguish between world-class or first-mover technological excellence and innovation in general. In practice, its emphasis on gradual evolution allows policy to reinforce legacy firms, industries and technologies, and thus probably comes at the expense of first-mover excellence (Bathelt and Storper, 2023).

As highlighted by the Draghi report, the EU's innovation and industrial policy efforts have been disappointing. Europe's share of world-leading disruptive technologies, such as AI, is small, and the capitalization of its technology-based firms is a small share of American counterparts, and the gap is widening. The roots of these problems go much further than EU policies for smart specialisation and reflect the weaknesses of the framework for innovation in Europe: an inability to turn fundamental research into commercialisable products, a fragmentation of research and industrial capacity along national lines, and the lock-in of innovation activities to traditional industrial sectors.

5: Conclusion: key similarities and differences in EU and US PBPs

The EU's emphasis on integrated, investment-based regional strategies reflects its unique challenge of achieving integration while promoting convergence in a context of limited labor mobility. The US focus on employment measures and competitive funding mechanisms reflects different federal structures and higher historical population mobility. Europe could learn more from the US focus on employment; but as comparative Rust Belt conversion evidence illustrates, the US could learn from Europe's more comprehensive place-based approaches to distress. The spreading problem of low employment in the US mirrors the longer-term low labor force participation problems found in parts of Europe and the relative lack of success in dealing with it in both cases.

5.1 The Agency Problem: Moral hazards, complexity, information impactedness

Despite structural differences, both systems struggle with remarkably similar implementation problems: managing complexity, fragmentation, and information impactedness, preventing rent-seeking by intermediaries, evaluating long-term impacts and sticking to objectives. These challenges appear to be at least partially inherent to place-based policy rather than products of specific institutional arrangements. Europe, despite its centralization, could benefit from simplification; the US could benefit from some of the standardized practices and systematic learning and policy scaling approaches that are being developed by the EU.

Cohesion Policy is implemented through matching grants, as is frequently the case in the US. Unlike the US, in Europe the matching (or co-financing) takes place at the programmatic rather than project level, leaving flexibility to Member States and regions to determine the level of support to individual projects. In most Member States, the co-financing comes from national or regional sources. Increasingly, public expenditure is being replaced by private expenditure as a source of co-financing in business development and innovation. Co-financing rates are modulated according to the level of development of a program area and agreed at program approval. Expenditure is reimbursed at 75

percent, rising to a maximum of 85 percent in the poorest regions, and falling to 35 percent in the richest. For certain investment priorities, parts of programs can rise to 100 percent.

Co-financing in both the US and EU may be necessary to measure and achieve local commitment, but it also creates obvious agency problems (Mendez and Bachtler, 2022). In Europe, it also tends to favor bigger, wealthier regions that have better administrative capacity. To address this asymmetry Cohesion Policy offers technical assistance and capacity building. Up to four percent of the resources allocated can be used by Member States and regions to support the implementation of programs, carry out audit, communication and evaluation activities. As a result, many Member States have set up dedicated departments at national or regional level responsible for the implementation of the policy.

Table 3 about here: Finance, implementation, and governance compared.

This in turn creates moral hazards stemming from information asymmetries and high transaction costs. In the EU, centralization was intended to generate clear goals, legal frameworks and procedures, but this can be lost on the ground, where a dizzying mix of actors, agencies, interest groups, at different geographical and institutional scales is operating. Low-capacity regions are disadvantaged, and regulation and sanctions can create a culture of risk aversion which slows initiative and implementation, often in the weakest areas where the funds are needed most. Well-meaning attempts to tailor interventions to local contexts can make them less visible and too complex to fully understand, compare and assess (Hanson et al. 2025).

The EU attempts to deal with these risks with a single legal framework and long-term budgeting, detailed eligibility rules, and a unified assessment procedure. In practice, it creates significant administrative burden for beneficiaries, stimulating demand for specialist consultants to navigate application and payment processes.

5.2 Rent-Earning and Capture: The Rise of Non-Governmental Ecosystems and Contractors

The complexity described above has generated large ecosystems of private sector intermediaries responsible for the provision of services and consultancy, in both the US and the EU. In the US, much of this is oriented toward winning competitive grants; in Europe it is more about navigating the complex obligations of the legal framework. Consultants are often employed by project beneficiaries to help navigate the application process, as well as how to conform to relevant EU and national legislation on environmental quality, public procurement and state aid. Many public authorities have developed extension services to help applicant SMEs, often located in development agencies. However, there is an increasing use of vouchers to encourage a market for business advice.

In the US, there is also a large private-sector and NGO consulting business, including in some cases university-based applied research contractors, who are called in by local governments – including some large cities and states – to respond to federal competitions. This differs from the more systematic approach taken under, for example, the Clean Air Act, which resembles the European approach with its clear regulatory standards and long-term horizons, and where governments generally build up considerable internal technical capacity to prepare regional clean air plans. Though they may have recourse to consultants for technical issues, the core of the work has been done in-house by stable public bureaucracies, although this may be changing with the Trump administration. In any event, in the type of place-based policies considered here, that is generally not the case because of short-time horizons and volatile priorities.

As a result, in both Europe and the US there is a risk of capture of both federal policy and local responses by these intermediaries (whether private or public), who can exhibit rent-seeking behavior all along the policy cycle and have become lobbies for continuing their work.

5.3 People or Places? Employment or Investment?

In the US many policies consist of "place-based people strategies" targeting specific geographic areas with the goal of benefiting disadvantaged residents through employment creation and workforce training. Enterprise Zones exemplify this approach, aiming to create job opportunities for low-income individuals in target areas. Some of these, such as the recent Opportunity Zone policies, subsidize private real estate investments in low-income places, with unclear links as to how they might benefit poor residents. Bartik (2020) finds that employment-based spatially targeted policies have better outcomes than investment-based policies, enterprise zones have had better people-based results than opportunity zones are likely to have (Freedman and Neumark, 2025; Corinth et al., 2025).

The EU has no consistent guidelines for how people and place-based policies interact. There is widespread consensus in the EU that the two are inexorably intertwined in mutual and interactive causal relationships, and this is not unreasonable in the EU, where internal migration is historically much lower than in the US. EU policies thus often use a language of "multi-pronged integrated regional strategies," which allows policy to include labor market reform, housing access, better governance, more education and training, and the overall provision of public goods. In this respect, they echo the scholarship on cumulative spatial disadvantage at the neighborhood scale, which call for a multi-pronged treatment of the sources of spatial disadvantage (Sampson, 2013). While this may be a reasonable starting point, there is insufficient rigorous consideration of place-versus people-based policies in the European evaluation research, especially when compared to the American evaluation literature. In addition, the inclusion of so many possible levers of policy action can cause policy to lose focus and justify almost any kind of intervention.

5.4 Innovation and convergence are in tension

The EU has not figured out how to reconcile innovation excellence with territorial spread. Smart specialization in Cohesion Policy, while raising levels of innovation capacity and promoting

Technological upgrading in many parts of Europe, has had little effect in terms of Europe's broader innovation goals. In the US, the social and spatial inequality consequences of being the world innovation leader – consisting of the distancing of Superstar metros from the rest of the economy -- have not been smoothed by PBP, leading to a strong political tension around "left behind regions."

5.5 Policy Evaluation: Concepts, Indicators and Unknowns

From its inception, Cohesion Policy has required strong monitoring and evaluation focus. This has led to very robust system of monitoring financial, output and production of common indicators that are published on an Open Data website (Table 4).

The substance of impact assessment is guided by models used directly by Commission staff or by researchers working with the Commission. In the last 15 years counterfactual approaches have been increasingly used. Due to data limitations this work has focused on GDP and employment outcomes at regional and aggregate levels. This has meant that little work has been done on instrument design and effects at more granular levels. A particular challenge is collecting beneficiary data at European level. The last five years have seen a significant increase in the number of academic studies at national level looking at specific schemes based on matched data from programs and national sources such as statistical offices, tax authorities or company registers. However, the availability of harmonized data is a long way behind the US. As a result, an extensive literature on conditioning factors has emerged, but less on the institutional features and effectiveness of specific instruments. Paradoxically, since policy is rather homogeneous and for long time periods, there are few natural experiments to assess. Both the Directorates General for Regional Policy and Employment Directorate of the European Commission (equivalent to US federal government departments) are currently launching pilots on randomized experiments.

Table 4 about here: Monitoring, Evaluation, and Assessment compared

Academic policy evaluation research in the EU faces several challenges. The first relates to the definition of the treatment. Cohesion Policy, as we have seen, is a complex mix of different instruments combining different types of investment in each region. As a result, policy is often modeled as a uniform budgetary transfer to a given region, while in fact there is great heterogeneity in investment types across different regions. Secondly, there are significant problems of endogeneity as the support provided by Cohesion Policy is largely calculated based on regional GDP per capita levels. Accordingly, there is a strong negative relationship between the magnitude of policy funds and GDP per capita. Third, in many regions funding has been continuous for many years making it hard to identify control groups. Fourth, the beneficiaries of the policy are often supported by similar national policies, in richer regions where the EU contribution is lower. Finally, the existence of spatial spillovers implies that the growth rate in each country or region is affected by interventions implemented in other places, especially through trade and FDI channels as Member States have been integrated into the EU Single Market (Berkowitz et al. 2020).

Empirical findings are mixed, but many studies show that cohesion policy has a positive impact on regional GDP growth, and moderate impacts on regional employment and productivity. Most such impacts are conditional on starting points for human capital or institutional quality (OECD, 2025). Appendix A summarizes these findings in more detail. The future focus of evaluation research in the EU is to consider a mix of hard factors (investment) and soft factors (institutions, learning, governmental quality and administrative capacity) , with larger samples, and longer time horizons.

5.6 Better long-term policy guidance – the Spatial Allocation Challenge

As both continents face new challenges from technological change, climate transition, and geopolitical competition, all with significant spatial effects and high costs for policy that attempts to shape them, overall guidance will become increasingly important. Success will require not just choosing appropriate policies but designing implementation systems that maintain focus on medium-

and long-term territorial development objectives. Spatial allocation academic research centers on whether an economy can avoid "too much concentration" and "not enough concentration" of development (e.g. Duranton and Puga, 2023; Fajgelbaum and Gaubert, 2020, 2025). A principal justification for place-based policies is the possibility of moving from a lower-level to a higher-level spatial output or income equilibrium in lagging and distressed regions (Venables, 2024). Economy-wide spatial allocation issues considerations are often considered separately from approaches to specific kinds of place-problems.

The American economy has a very different overall spatial pattern compared to the EU, with bigger more specialized metropolitan areas and, even with the recent slowdown in migration, more long-distance matching of factors of production. As noted throughout this chapter, the EU is committed to promoting convergence in the context of further integration but cannot realistically count on the long-distance labor and household mobility and sorting that has defined the American experience of convergence. It therefore relies substantially on place-targeted investment policies, whose objective is to spread fundamentals of productivity to support catch-up development, including infrastructure, capital mobility, education, entrepreneurship, and modernization of governance. But, as we have noted at several points in this chapter, cohesion policy has not systematically considered the issues raised by spatial allocation models in a general equilibrium framework in the design and interaction of its many policies.

Ideally, future efforts in spatial economics and allied disciplines could help policymakers better frame their policies in terms of three fundamental issues. First, whether and how policy could shape an alternative spatial allocation for Europe, a "goldilocks zone" of spatial inequalities consisting of spatial allocations that are "close enough" to aggregate output efficiency at any given time, while avoiding negative societal externalities and dynamic effects of inequalities on people (e.g. inter-generational spatialized social mobility traps; see Chetty et al. 2014; Connor and Storper, 2020). Second, whether many regions outside the innovation core can participate in a world-class continental innovation economy, where there are many middle-sized centers of excellence, hence reconciling excellence with convergence. Third, the economic properties of a Single Market, in terms of income and employment, in relation to benchmarks of lesser integration.

As pointed out in the introduction to this volume, place-based policies do not need to be held to a standard of achieving first-best on these dimensions (Gaubert et al. 2025). If spatial allocation approaches were used to better identify tradeoffs, EU place-based policies in the future could be pushed toward better long-term performance, a better second-best future compared to the current pathway of change. That would be a very significant achievement.

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Appendix A: Synthesis of select evaluations of Cohesion Policy

Study	Approach	Findings
Heterogeneity and regional characteristics		
Becker et al. (2013)	RDD at the 75% GDP cut-off; heterogeneity by regional absorptive capacity.	Objective 1 funds lift growth and investment only where capacity is high. Mean effects mask large heterogeneity.
Fratesi and Perucca (2019)	Cluster regions on seven territorial-capital assets; spatial-error growth regressions.	Most effective when financing assets complementary to those already abundant; diminishing returns on already-strong assets; weakest gains in poorly endowed rural regions.
Gagliardi and Percoco (2017)	RDD at the 75% GDP cut-off; contrasting urban, intermediate, rural-near-city and remote rural areas.	Growth gains from funds come almost entirely from rural districts adjacent to big cities, while urban, intermediate and peripheral rural regions see little or no impact.
Cappelen et al. (2003)	Pooled 1980-97 growth regressions.	Growth significantly slower in agriculture-heavy region; 10-percentage-point higher farm-employment share reduces annual growth by about 0.3 percentage-points. Growth higher in manufacturing regions.
Percoco (2017)	RDD at the 75% GDP eligibility cut-off; heterogeneous treatment effects.	Effect of funds shrinks where services dominate GVA, while regions with a comparatively small service sector gain most.
Albanese et al. (2021)	LASSO double-selection cross-section regressions; spatial RDD at the Objective 1 border.	On average TFP is unresponsive to ERDF funds; only infrastructure spending shows a modest positive effect. Impacts appear where institutional quality and population density are higher.
Transport and infrastructure		
Crescenzi and Rodriguez-Pose (2012)	Two-way FE and GMM-diff panel growth regressions.	Motorway endowments don't matter for growth, while R&D capacity, high quality institutions, and migration do.
Crescenzi et al. (2016)	Panel fixed-effects growth regressions.	Motorways don't raise growth, while secondary roads and maintenance do only where government quality is high.
Bo and Florio (2012)	Cobb-Douglas with TLC/transport/accessibility infrastructure, using OLS/2SLS plus a spatial Durbin model.	TLC and accessibility measures yield the largest positive elasticities, traditional road/rail effects are positive but smaller, 'time to market' and congestion hurt GDP, spillovers are often negative.
Support for Firms		
European Commission (2016)	Multi-package ex post evaluation – indicators, case studies,	In 20% of cases ERDF was among the main causes of project implementation. In 50% of cases, ERDF support was

	counterfactuals, and macro models.	successful in inducing changes in corporate behavior. In 30% of cases ERDF support had little influence on the behavior of large enterprises.
Bachtrögler et al. (2020)	Estimate firm-level treatment effects for manufacturing beneficiaries versus controls, interact them with territorial capital indicators.	Grants raise value added and employment but barely affect productivity, with impacts strongest in poorer/low-territorial-capital regions; productivity gains appear mainly where territorial capital is high.
Crescenzi and Giua (2020)	Spatial RDD at Objective 1 borders.	Funds boost growth and jobs EU-wide, but unevenly across different countries.
Banai et al. (2020)	PSM plus firm fixed-effect DiD on Hungarian SMEs' first EU development subsidy; explicitly comparing grants with refundable financial instruments.	Subsidies raise employment, sales and value added but not labour productivity, and grants are no more effective than financial instruments.
Beńkovskis et al. (2019)	PSM plus firm fixed-effects DiD on Latvian firms, after a probit selection model.	ERDF support boosts employment, turnover and capital per worker immediately, while productivity improves only about two years later – especially for initially less productive, larger, less capital-intensive and more leveraged firms.
World Bank (2019)	Portfolio mapping; functional analysis; firm-level PSM-DiD impact evaluation of Polish SMEs receiving funding.	Positive impacts on firm employment, sales, value-added, and exports. Mixed evidence about the impacts on productivity and R&D, depending on the measure used.
Workforce training and skills		
Pompili et al. (2023)	Counterfactual impact evaluations.	Participants had a higher likelihood of being in employment afterwards than comparable non-participants, amounting to 6-8 percent.
Giua et al. (2022)	Staggered DiD on Italian data.	Projects cut the native-immigrant wage gap; effects driven by employment/mobility measures. No short-run impact from education.
Fusaro and Scandurra (2023)	IV panel fixed-effects; heterogeneity test by high-skill sector specialisation.	Positive impact on employment, but such results are strongly influenced by local specialisation in high-skilled activities.
Crescenzi et al. (2016)	Evaluate Sardinia's ESF grants on skill matching using admin/survey data, an IV and PSM to correct self-selection.	Learning mobility programs can reinforce skill matching only if problems of beneficiary self-selection can be addressed.
Biedka et al. (2022)	Spatial GMM/Manski-type panel looking at Polish data. Heterogeneity by 4 regional types.	Human Capital funds raise local own revenues – more than other Cohesion Policy aids – but has no significant effect on migration, with negative spillovers in

		rural areas; impacts are strongest in structurally burdened regions.

Appendix B: Full history of EU Cohesion Policy

Period	Objectives	Geographical Coverage
1988-1993	Promoting development and adjustment of lagging regions	< 75% EU gdp/per head
	Converting areas seriously affected by industrial decline	Industrial regions
	Combating long-term unemployment	All regions
	Facilitating the occupational integration of young people	All regions
	Speeding up the adjustment of agricultural structures	All regions
	Promoting the development of rural areas	Rural areas
	10 community initiatives	Targetted according to theme
1994-1999	Promoting development and adjustment of lagging regions	< 75% EU gdp/per head
	Converting areas seriously affected by industrial decline	Industrial regions
	Combating long-term unemployment and supporting (young) people into the labor market	All regions
	Facilitating the adaptation of workers to industrial changes and changes in production systems	All regions
	Speeding up the adjustment of agricultural structures (alongside reform of CAP)	All regions
	Facilitating the development and adjustment of rural areas	Rural areas
	12 community initiatives	Targetted according to theme
2000-2006	Promoting the development and adjustment of lagging regions	< 75% EU gdp/per head
	Supporting economic and social conversion of areas facing structural difficulties	Industrial , rural and urban areas
	Supporting the adaptation and modernisation of policies and systems of education, training and employment	All regions
	4 community initiatives	Targetted according to theme
2007-2013	Convergence: Speeding convergence of least-developed Member States and regions	< 75% EU gdp/per head
	Competitiveness and employment: Strengthening regions' competitiveness and attractiveness as well as employment	All developed regions > 75% EU gdp/per head
	Territorial cooperation: Strengthening cross-border cooperation, transnational and interregional cooperation and exchange of experience at the appropriate territorial level	Border regions
2014-2020	Strengthening research, technological development and innovation	All regions
	Enhancing access to, and use and quality of, ICT	All regions
	Enhancing the competitiveness of SMEs	All regions
	Supporting the shift towards a low-carbon economy in all sectors	All regions
	Promoting climate change adaptation, risk prevention and management	All regions
	Preserving and the environment and promoting resource efficiency	All regions
	Sustainable transport and bottlenecks in key network infrastructures	All regions
	Sustainable and quality employment and supporting labour mobility	All regions
	Social inclusion, combating poverty and discrimination	All regions
	Investing in education, training and vocational training for skills and lifelong learning	All regions
	Enhancing institutional capacity of public authorities and stakeholders and efficient public administration	All regions
	European territorial cooperation	Border regions
2021-2027	Competitive and smarter Europe	All regions
	Greener, transitioning to net-zero economy, and resilient Europe	All regions
	More connected Europe	All regions
	More social and inclusive Europe	All regions
	Europe closer to citizens	All regions
	European territorial cooperation	Border regions
	Just transition	Regions dependent on fossil fuel production and energy intenstive industries

Tables

Table 1: The three place-based policy areas

Place-based policy area	EU	US
Lagging regions	Long-standing treaty objective Consumes the bulk of resources	Policies are typically localized Regional commissions at the federal level
Distressed areas	Strong focus in early years of policy Increasingly integrated into larger regional programs Dedicated program for just transition in fossil fuel and energy-intensive areas	Explicit objective of a range of programs Strong focus on employment measures Significant resources for private sector investment through tax credits
Spatial innovation	Strong focus on process within regional programs Covers all regions Main instruments are grants and loans	Combination of national schemes and local public and private resources Cluster and hub development in specific cities and regions Largely tax credits; grants and loans for sector specific funding

Table 2: Examples of eligible Objective 2 (distress) and Objective 5b (lagging)regions in the EU.

Objective	Region, Country	Description of regions included
Industrial Decline	Nord-Pas-de-Calais, France	Once heavily reliant on coal and steel deindustrialization.
	West Midlands, UK	Former manufacturing hub facing industrial restructuring and the decline of traditional industries.
Rural Decline	Ardennes, Belgium	Sparsely populated, struggling with outmigration and aging, dependent on declining agricultural activities.
	Western Ireland, Ireland	Low population density and limited opportunities outside of agriculture, facing significant demographic decline.
Urban Areas with Social and Economic Problems	Leipzig, Germany	High unemployment, deteriorating housing, and social exclusion, particularly in the aftermath of reunification and collapse of East German industries.
	Marseille, France	High unemployment, social exclusion, and crime, particularly in immigrant neighborhoods.
Fisheries-Dependent Areas	Galicia, Spain	Reliance on fishing, affected by declining fish stocks and EU regulations, requiring economic diversification and job creation.

	Cornwall, UK	Affected by the decline of fishing, seeking to diversify through tourism and renewable energy projects.

Table 3: Finance, implementation, and governance compared.

Area	EU	US
Legislative framework	Single legal framework	Patchwork of acts and initiatives
Center-local relationship	Contractualisation through programs negotiated between EU and MS or regional level	Variable by program
Management framework	Strongly constraining with control of expenditure by EU and MS level. Little scope for experimentation.	National and local public accounting rules. Significant scope for experimentation.
Conditionalities	Large number of fiduciary, economic governance, performance, and policy conditionalities	Lower level of conditionalities tied to specific programs; more focus on conditionalities in Biden Acts. Decentralised.
Governance & partnership	Centrally regulated and promoted	Decentralised
Capacity & technical assistance	Extensive technical assistance, dedicated platforms, and involvement of IFIs	Additional planning grants becoming the norm
Intermediaries	Generally public sector (regional and local government)	States and local government; NGOs and groups of stake-

	led. Ecosystem of private consultancies.	holders (universities, etc.). Ecosystem of private consultancies.

Table 4: Monitoring, evaluation, assessment compared.

Area	EU	US
Policy competence	Treaty objective	Local governments and states are the primary agents with less federal intervention.
Budget determination	EU and MS level. Tradition of fiscal equalization and regional policy in many MS. MS negotiation for MFF (*juste retour*).	Federal budget negotiations.
Revenue	Largely funded through EU or national budgets. Cofinanced with national and regional public and private expenditure.	Federal funding and cofinancing. Local taxes.
Time-horizon	Multiannual investment programs.	Tied to time-limited policy initiatives.
Allocation mechanisms	Objective criteria for regional support; targeted at regional level (NUTs II).	Emphasis on local and regional competition. Different detailed targeting mechanisms.
Relation to other policies	Links with other EU policy in goal setting and implementation. EU-level regional state aid framework.	Little federal regulation of investment incentives.
Policy mix	Focus on integrated program-	Largely sectoral.

	ming. Interventions reflect level of development. Range of territorial approaches.

Figures

Figure 1: Member State convergence in the European Union, adapted from Bisciari et al. (2020) using EC Ameco data.

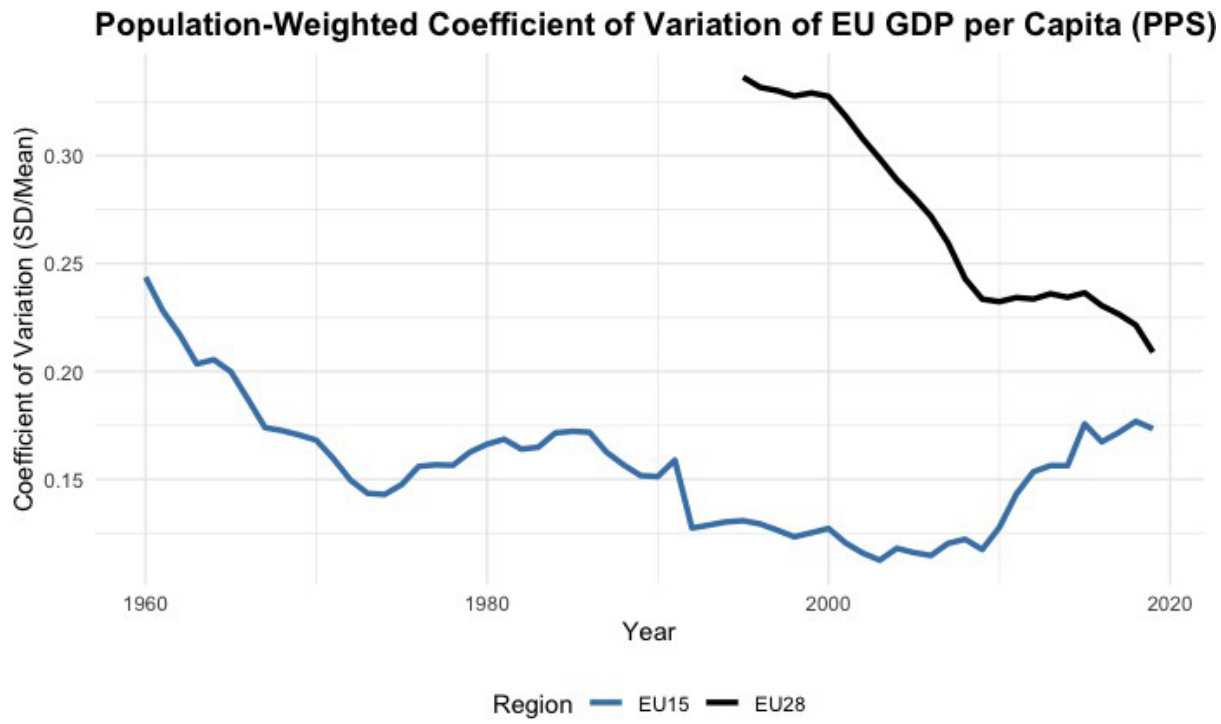


Figure 2: Average annual growth of real GDP per head 2000-2003 in the EU (Diemer et al, 2022).

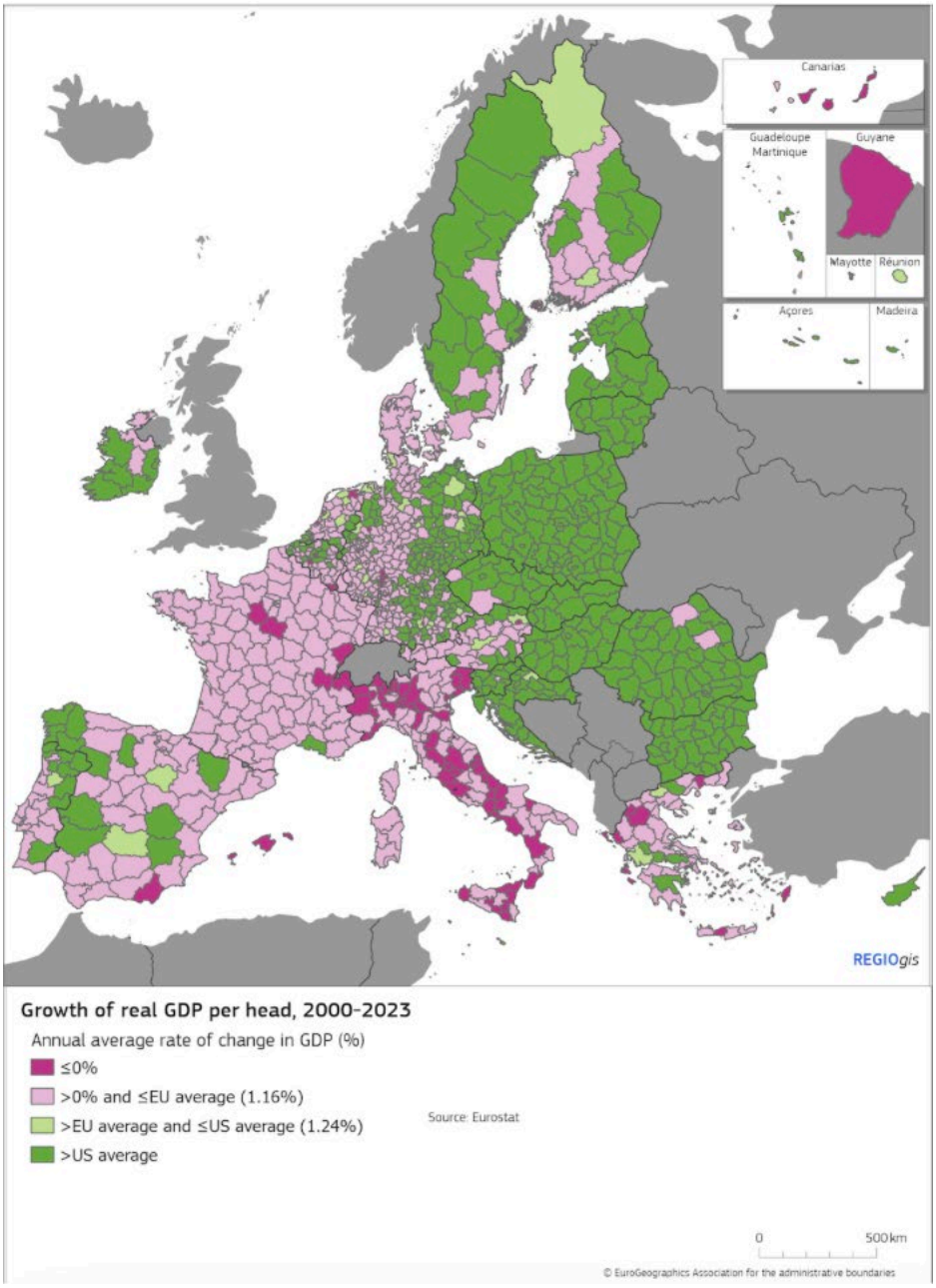


Figure 3: The end of regional convergence in the US 1960-2023, adapted from Martin (2021) using BEA Regional Data.

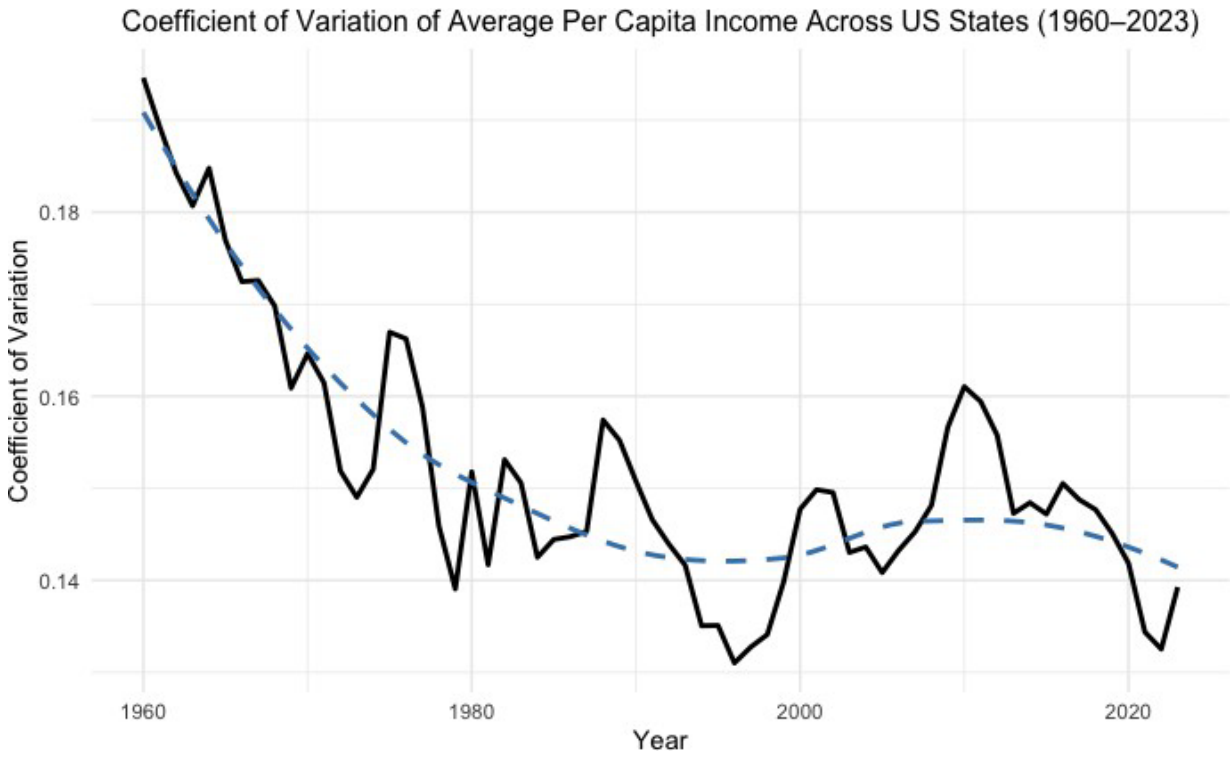


Figure 4: Theil index, GDP per head, NUTS 3 regions (Monfort, 2020).

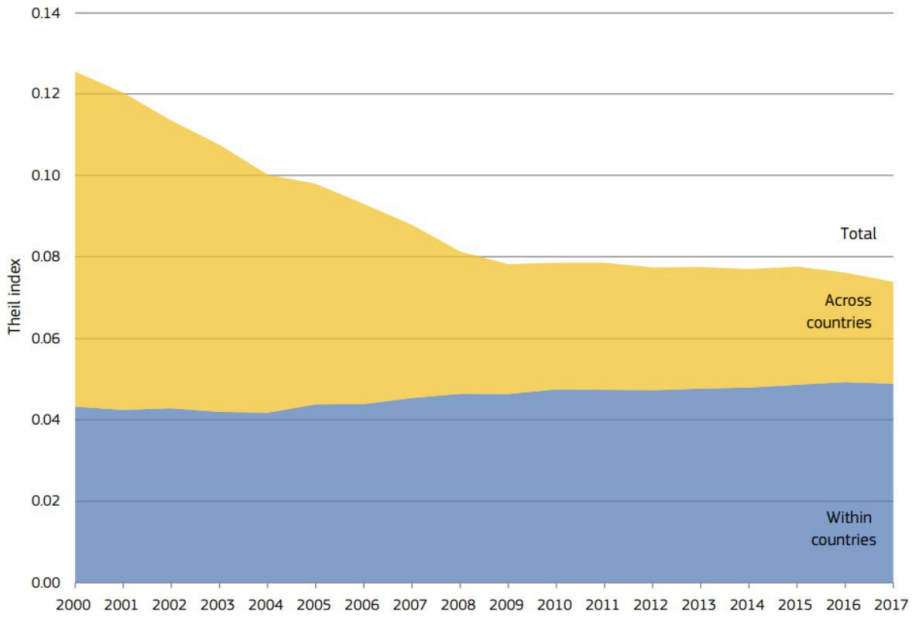


Figure 5: Population change by growth group in European regions, 2000-2014 (European Commission).

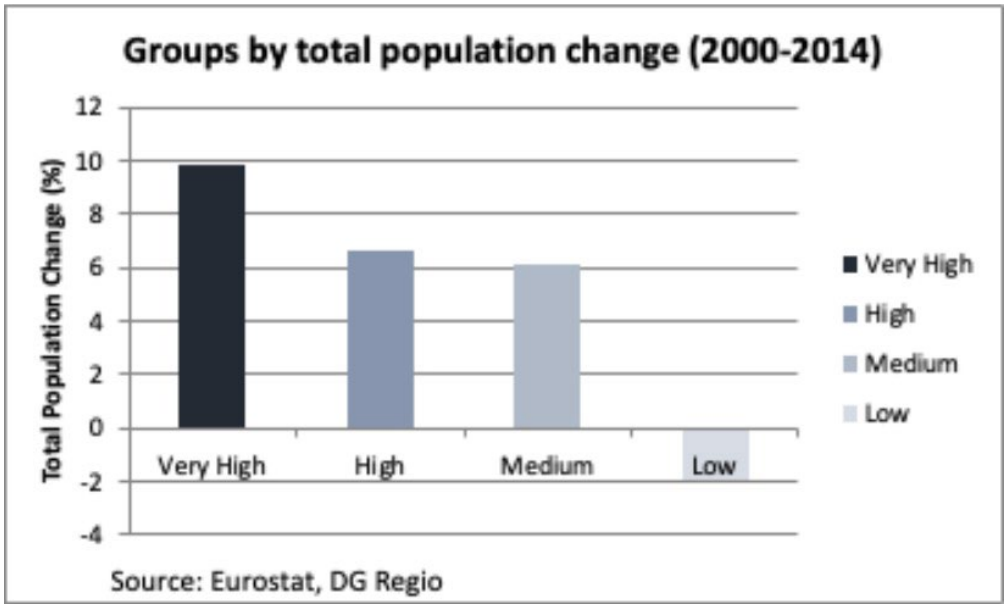


Figure 6: Economic development levels across European regions (European Commission).

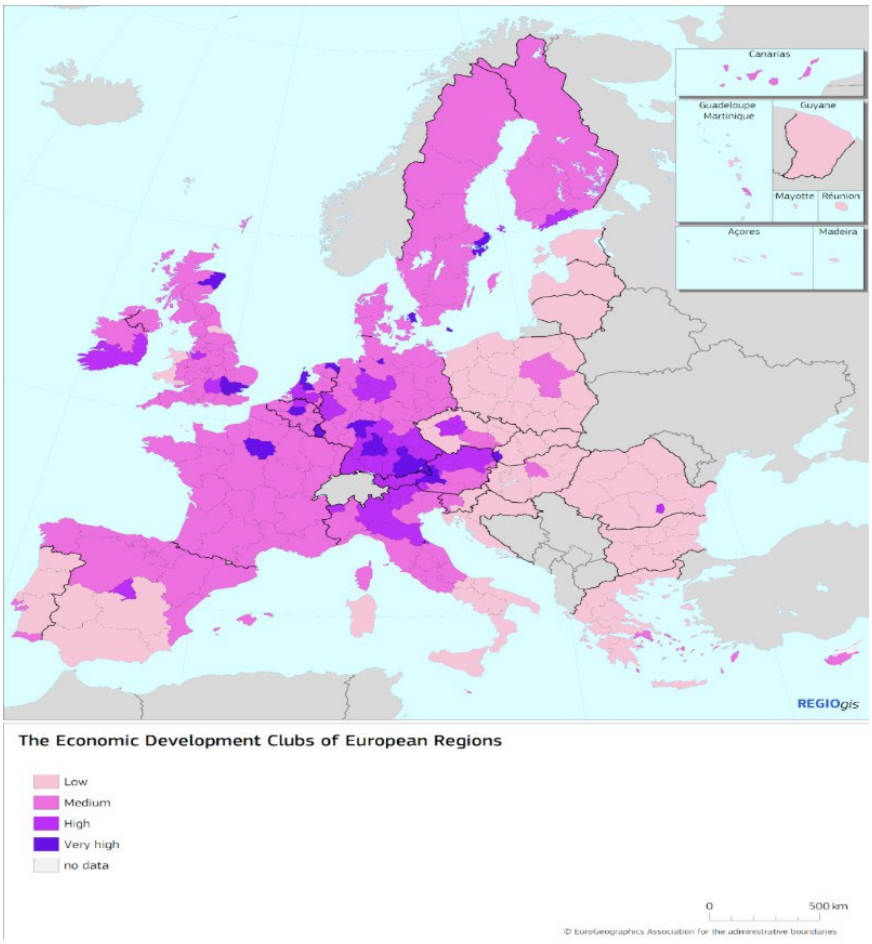


Figure 7: Timeline of Major Innovations in EU place-based policy.

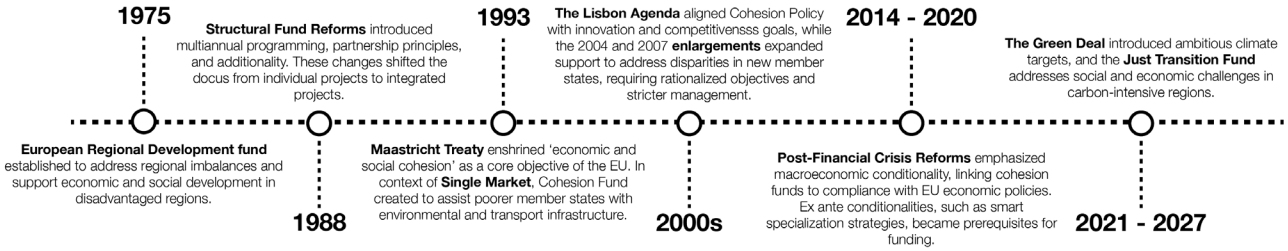


Figure 8: Planned EU Cohesion Policy financing (2021-2027) by country, fund, and thematic priorities.

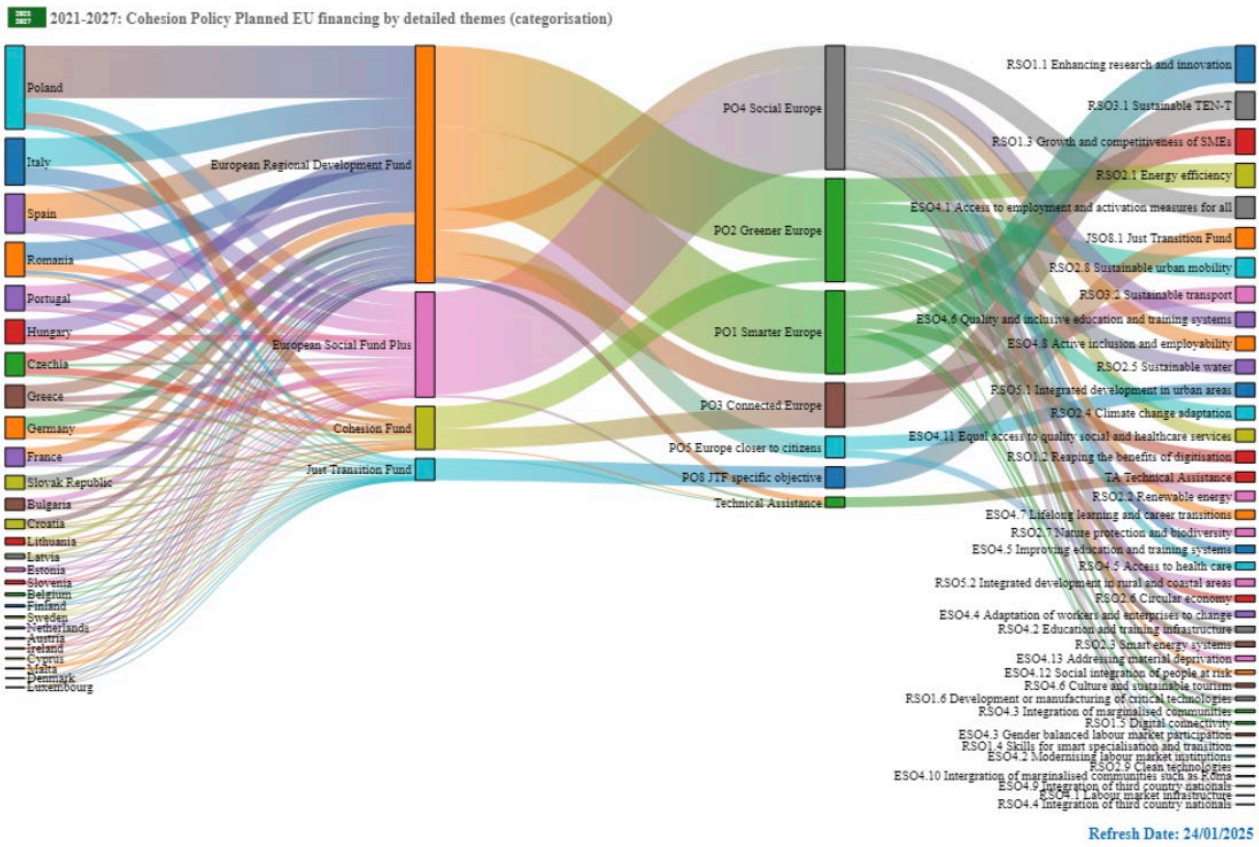


Figure 9: Cohesion Policy share (% of GNI) and GNI per capita, averages 2007-2021 (European Commission).

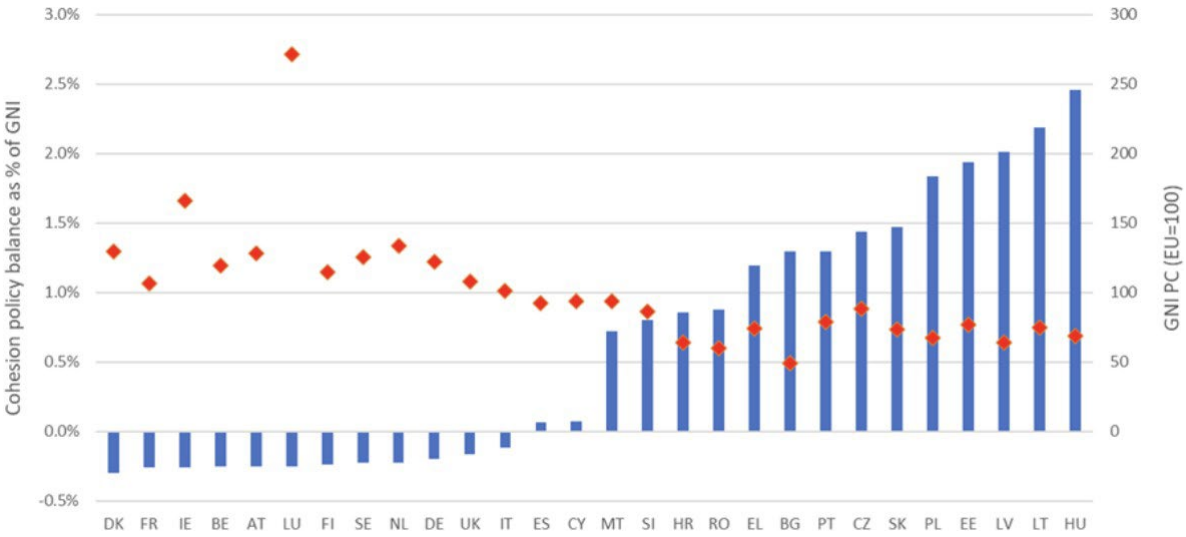


Figure 10: NUTS 2 regions eligible to the three categories for the 2021-2027 period (European Commission).

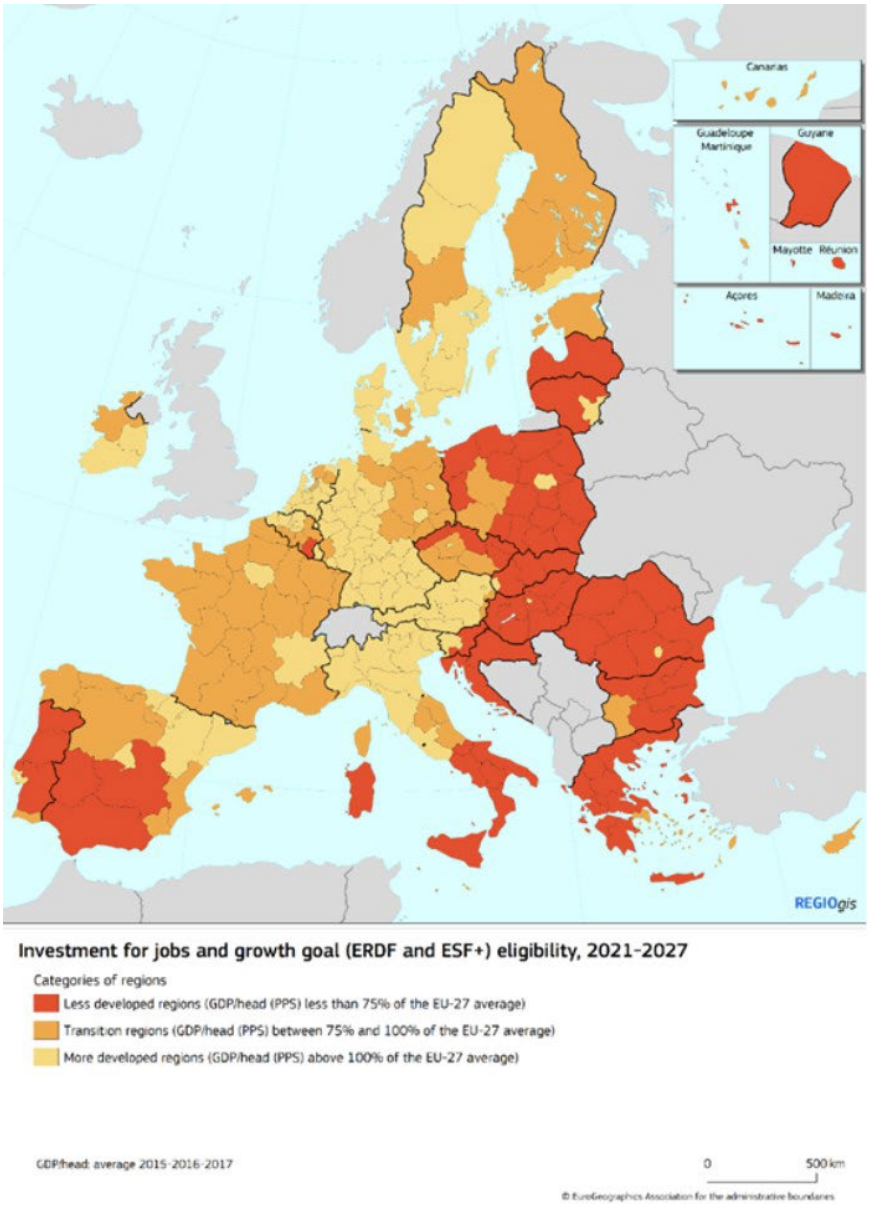


Figure 11: The EU place-based policy supply chain.

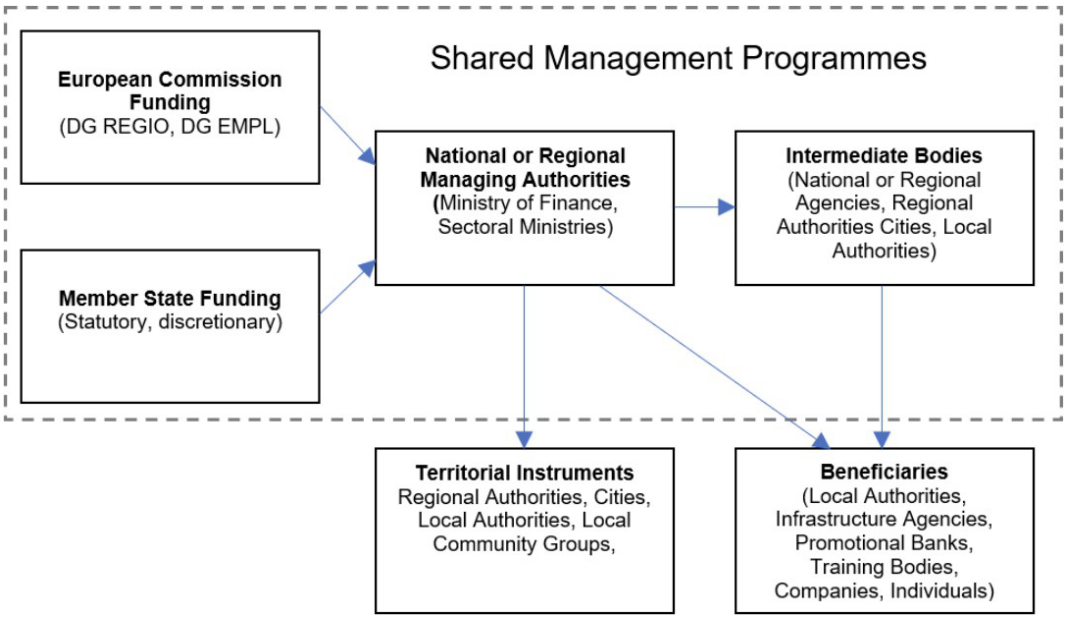


Figure 12: Distressed areas in the US over time (Connor et al. 2024)

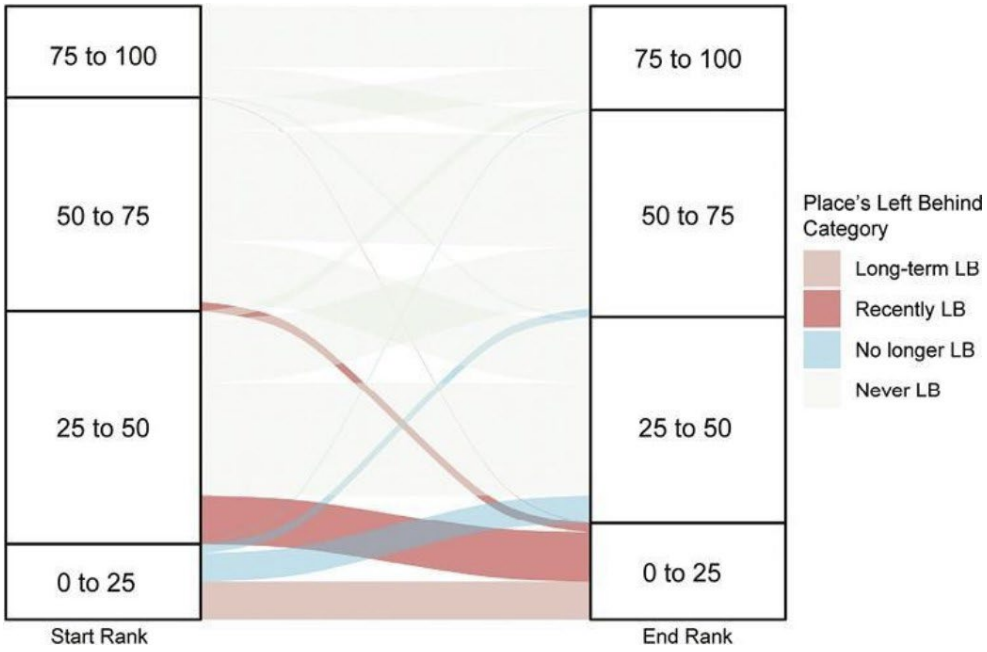


Figure 13: Territories eligible for JTF support (Source: European Commission)

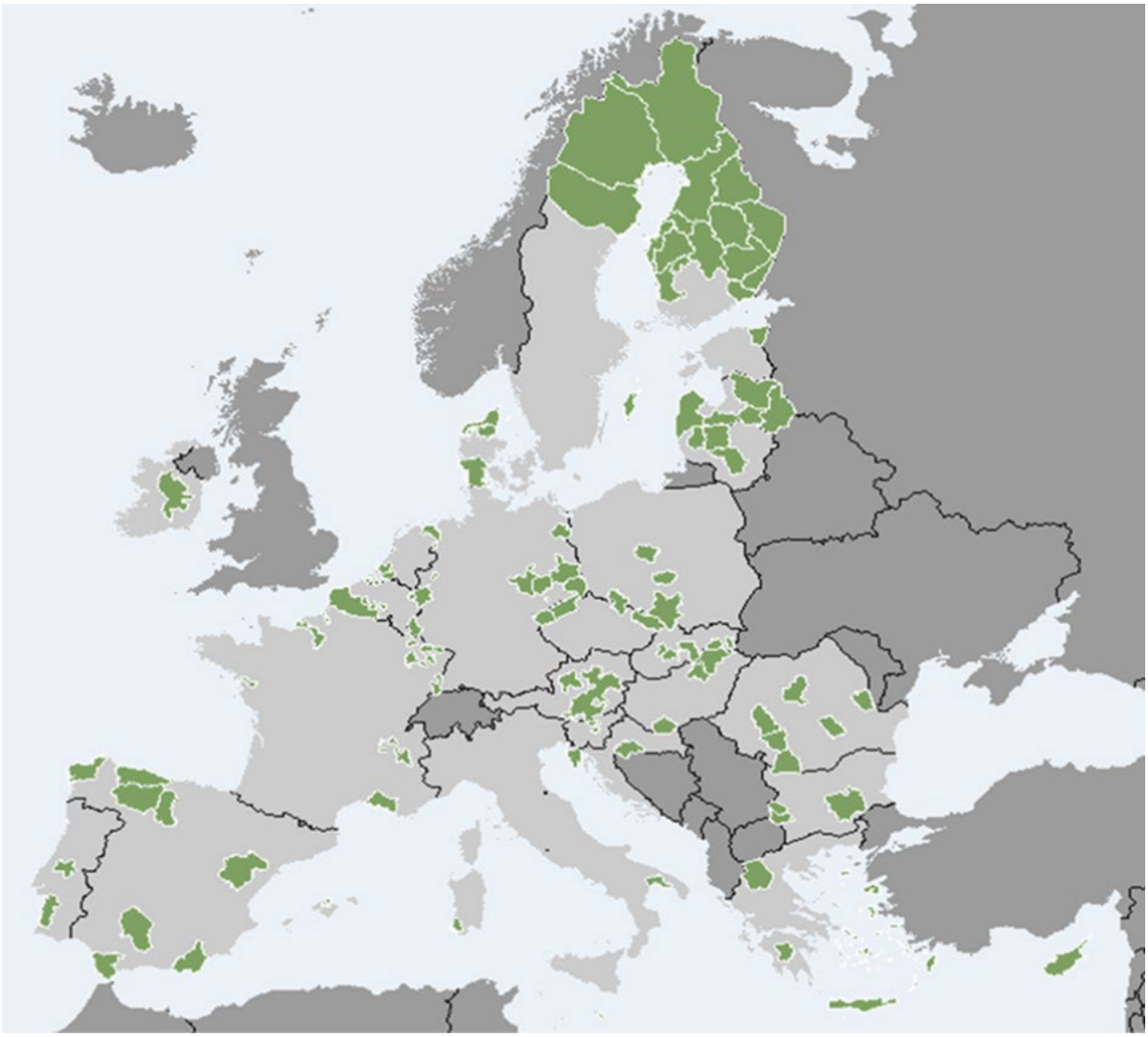


Figure 14: Ratio of Horizon 2020 funds to Cohesion Policy funds (the R&I part of ERDF funding) across EU NUTS2 regions, 2014-2020 (Molica and Marques Santos, 2024)

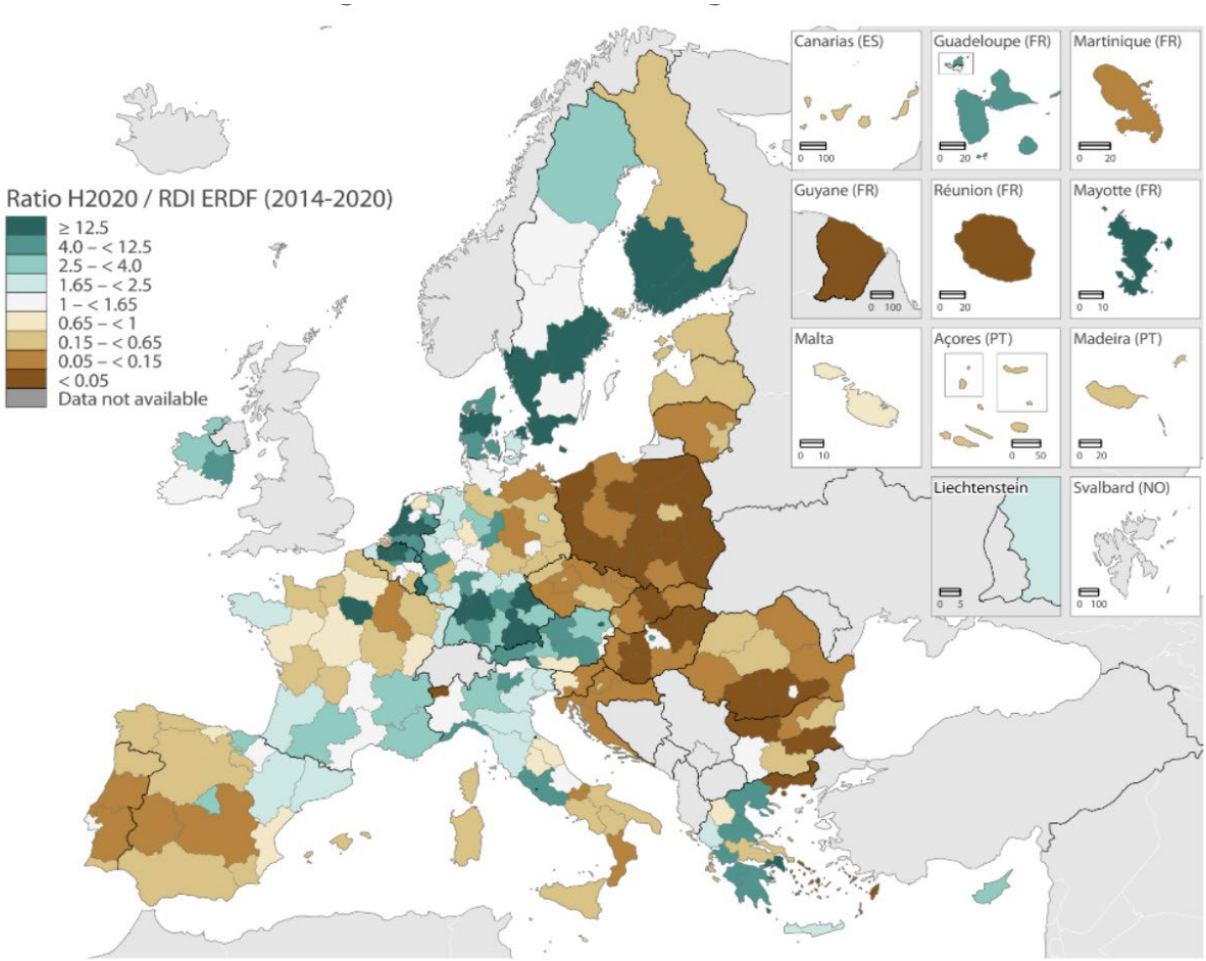
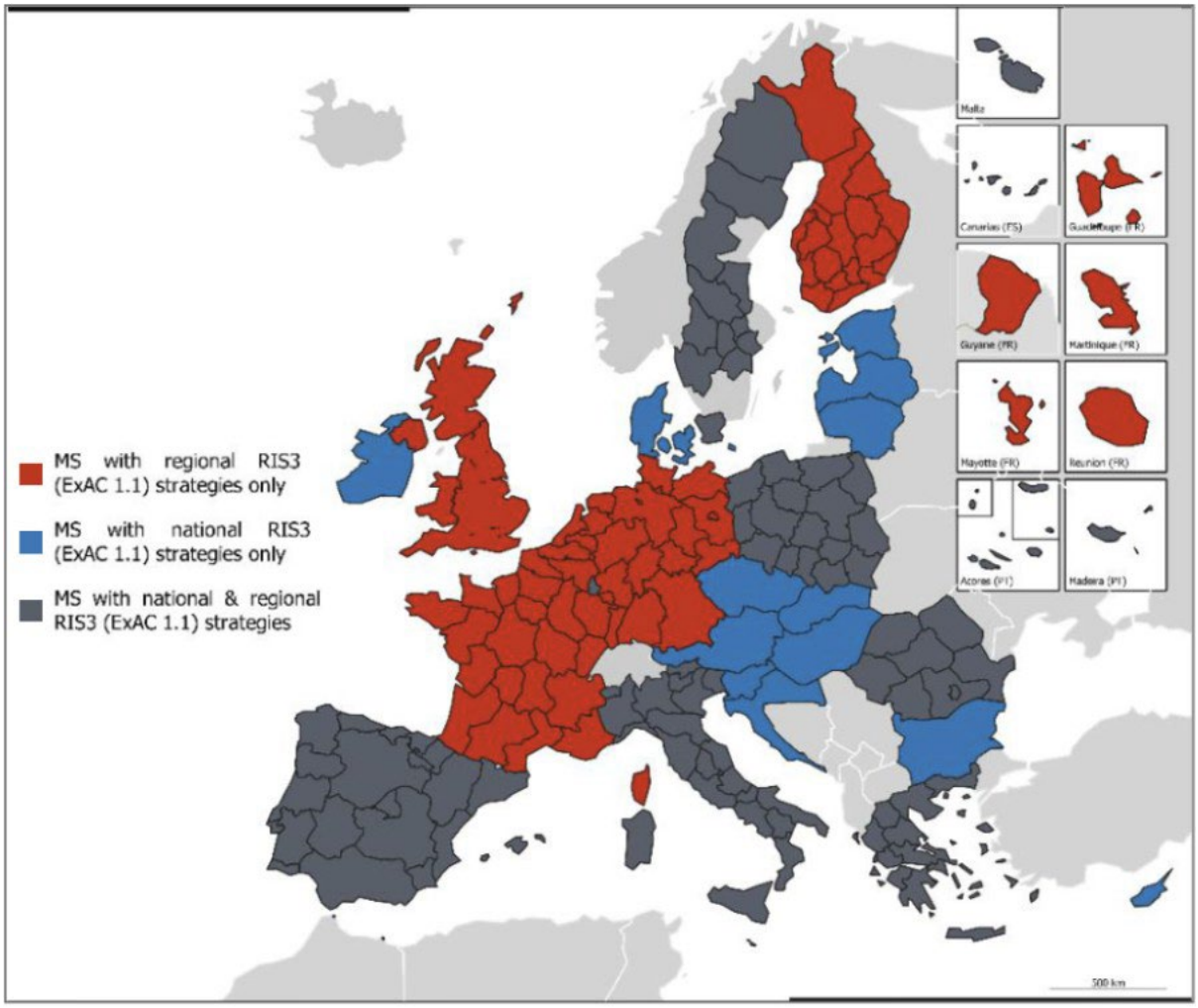


Figure 15: Smart Specialization Innovation Strategies in the EU: coverage of smart specialization strategies (Source: European Commission).



Source: Prognos / CSIL (2021). Note: the map refers to the latest available strategies