Unpacking Endogeneity: Growth, Discontent and Cohesion Policy in the EU Regions

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Extended Abstract

Over the past two decades, the European Union (EU) has confronted a set of intertwined challenges that sit at the heart of debates on regional growth, competitiveness and convergence: persistently weak aggregate growth relative to global competitors, widening territorial disparities, and rising political discontent that can undermine the legitimacy of integration and the stability of growth regimes. For large segments of the population, the EU no longer embodies an unequivocal promise of opportunity and upward convergence. Instead, the prevailing economic framework appears increasingly unable to deliver adequate growth and employment in the places that need it most, while successive shocks and structural transitions have heightened uncertainty and exposed long-standing vulnerabilities across regions.

Although the European model is theoretically grounded in the principle of deepening integration and the expectation that integration fosters convergence across countries and regions (Armstrong, 1995; Cuadrado-Roura, 2001; Neven and Gouymte, 1995), a substantial body of evidence indicates that its benefits have been distributed unevenly (Monastiriotis et al., 2017; Petrakos et al., 2012; Rodríguez-Pose, 2012). The institutional and spatial architecture of integration has often reinforced pre-existing structural asymmetries, amplifying inequalities between Member States and within them (EC, 2022). Regions marginalised in the EU's growth trajectory, or experiencing heightened insecurity amid rapid economic and social transformations, have become especially vulnerable to anti-EU narratives, challenging convergence and cohesion and testing the integrity and inclusiveness of the Single Market (Petrakos and Sotiriou, 2021). Alarmingly, discontent has gained ground even in historically pro-European societies, signalling that the political economy of regional development is now central to EU competitiveness and resilience. If left unaddressed, this dissatisfaction can

reshape the institutional foundations of the European project, rendering EU policy choices—and potentially the integration process itself—an endogenous outcome shaped by internal socio-political dynamics rather than an axiomatic doctrine.

This interplay motivates a central hypothesis: the current process of integration based on open markets, common currency and the prevailing policy mix may be at risk of becoming self-undermining. By generating the very economic conditions (heightened inequalities) and political dynamics (rising discontent) that erode support for integration, it risks calling its own sustainability into question. In this view, the mechanisms intended to strengthen unity and prosperity may inadvertently foster conditions that threaten the long-term stability and legitimacy of the European project, by widening the geography of winners and losers and weakening confidence in the institutions that govern the common market.

Against this backdrop, the paper investigates the reciprocal relationships between regional economic growth, public discontent and the EU's policy framework, with Cohesion Policy (CP) as the principal compensatory mechanism. We conceptualise growth, discontent and policy as a tightly interconnected system in which uneven integration-driven growth trajectories shape regional disparities; disparities and insecurity translate into discontent; and discontent feeds back into economic performance by eroding confidence and increasing instability, thereby weakening competitiveness and convergence prospects. CP is expected to mitigate these dynamics by addressing regional "needs", yet its allocation and effectiveness may themselves be shaped by administrative capacity, institutional quality, political constraints and negotiations (Petrakos et al., 2026). Where compensatory mechanisms remain inadequate, or are perceived as misaligned with regional vulnerabilities, growth and discontent may become mutually reinforcing, creating feedback loops that intensify divergence and undermine the legitimacy that stable growth regimes require.

The contribution of this study is twofold. First, it adopts a systems-based approach that models the interdependent nature of the relationships between regional growth, discontent and policy using a system of simultaneous equations, allowing the analysis to capture both direct and indirect effects. This matters for regional growth modelling because competitiveness and convergence are not merely outcomes of fundamentals and market access; they are also conditioned by political sentiment and by policy responsiveness, which can act as either stabilisers or amplifiers of regional trajectories. Second, to the best of our knowledge, the paper offers the first empirical attempt to examine the triadic relationship between regional growth, political discontent and Cohesion Policy responses within a unified framework. This provides a core novelty: rather than analysing growth, attitudes and policy as separate outcomes, the paper treats them as mutually determined components of regional development trajectories. By adopting a holistic perspective, the study connects distinct strands of research on integration, regional inequality and political disaffection, and provides new insights into the territorial and political dynamics shaping integration outcomes. On this basis, the paper formulates policy-relevant implications aimed at recalibrating cohesion strategy, improving institutional responsiveness and strengthening the EU's ability to manage the combined challenges of inequality and political fragmentation.

Empirically, we operationalise this systems perspective using EU28 panel data at the regional level (NUTS2), covering 2010–2018. This interval spans much of the sovereign debt crisis and its aftermath, a period marked by uneven adjustment and recovery across regions and by the growing political salience of economic grievances—dynamics that polycrisis conditions have since amplified. We specify a simultaneous system of three equations: an economic-growth function, a discontent function and a policy function. Each equation models one key outcome while treating the other two as endogenous regressors, alongside a set of predetermined controls.

The growth equation relates regional output growth to public discontent, CP intensity and a set of growth fundamentals capturing productive capacity and market. The discontent equation models citizens' mistrust in the EU as a function of regional economic performance, policy exposure and the wider socio-economic context. The policy equation models CP intensity as a function of regional "needs", by including measures of economic and structural disparities and contextual factors that shape absorption and allocation capacity. This structure aligns closely with the logic of growth models and convergence analysis: regional performance and competitiveness conditions affect social outcomes, social outcomes feed back into performance, and policy is both a response to and a driver of these trajectories. To address simultaneity and recover direct and indirect effects, we estimate the system using Three-Stage Least Squares (3SLS), As a full-information estimator, 3SLS exploits cross-equation correlations in disturbances and can deliver efficiency gains relative to single-equation

IV/2SLS when interdependencies are strong—precisely the setting in which growth, discontent and policy are mutually causally linked and simple single-equation approaches risk missing important feedbacks.

The results reveal feedback dynamics that matter for understanding regional growth models and convergence. First, weaker regional growth is associated with higher political discontent, and rising discontent significantly undermines subsequent growth by eroding confidence in the economy. Discontent therefore emerges not only as a consequence of underperformance but also as a mechanism that constrains regional competitiveness and can lock territories into low-growth trajectories. This is particularly salient in a polycrisis context: as repeated shocks and uncertainty heighten perceived risk, the confidence channel becomes a critical driver of investment and regional performance, amplifying divergence.

Second, CP effectiveness is found to be uneven and highly context-dependent, reinforcing the view that "place-blind" interventions are unlikely to deliver sustained convergence. While CP is generally more intensive in slower-growing regions—consistent with a needs-based logic—it is not consistently allocated in response to higher discontent, which is often treated as a political risk rather than as a symptom of structural vulnerabilities requiring support. Moreover, CP's focus on conventional "needs" indicators can leave deeper structural bottlenecks—such as inadequate infrastructure and persistently low investment—insufficiently addressed, limiting long-term convergence and increasing the risk of entrenching underdevelopment. These patterns are consistent with the idea that allocation processes and administrative frameworks, including centralised decision-making and absorption constraints, can weaken responsiveness to the drivers of disaffection.

Taken together, the evidence highlights the "double pressure" of European integration for regional growth. While trade and market integration can support aggregate growth, they may also intensify core–periphery asymmetries and widen the geography of winners and losers, feeding dissatisfaction in vulnerable regions. In a polycrisis setting, these feedback loops can erode convergence by pairing widening regional gaps with political fragmentation and by making discontent an internal constraint on competitiveness. More broadly, the results suggest that growth models in integrated economies cannot be understood solely in economic terms, since their stability is associated with performance outcomes, perceived fairness, and the perceived credibility of place-sensitive policy responses.

These insights point to the need for a holistic approach to policy design. Competitiveness and convergence cannot be pursued in isolation from distributive outcomes and political sentiment. Policymakers should therefore recognise these interdependencies and develop strategies that are adaptive to the EU's spatial and social heterogeneity. Such an approach is vital not only for promoting inclusive growth, but also for safeguarding the legitimacy and cohesion of the European project.

Beyond the EU, the analysis speaks to other integrated economies and emerging regional trade blocs worldwide. As economic integration deepens in various parts of the world, the core questions addressed in this analysis are likely to gain increasing importance on a broader geographical scale in the years ahead.

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