XXX CONFERENZA ITALIANA DI SCIENZE REGIONALI

STRUCTURAL FUNDS, MULTILEVEL GOVERNANCE AND REGIONAL COLLECTIVE ACTION

The Effects of Decentralization and Politics on the Cycle 2000-06

Nicola Francesco DOTTI[1]

1 Politecnico di Milano, Piazza Leonardo da Vinci, 32, 20133, Milano.

SOMMARIO

The European Structural Funds (SF) were conceived to 'regional convergence, competitiveness and cooperation'. However, given the complexity of the European multi-level governance (MLG), the SF suffer an 'economic democratic paradox' because the allocation of resources depends dramatically from the capabilities of regional governments. For this reason, lagging regions might not receive funds proportionally to their 'needs'. Specifically, in a context of growing decentralization, regional governments become more relevant as channels to collect these funds and for regional collective action, as required by the EU Commission via the criteria of additionality, partnership and programming. In this dissertation, the context and the challenges of the MLG of the SF will be discussed, supporting the argument that regional governments provided with stronger constitutional and political legitimacy are able to attract more resources. This hypothesis will be tested in the EU-15 where there were elective regional governments for the Cycle 2000-06.

1 INTRODUCTION

"Poor conditions for development are, paradoxically,
not sufficient to be highly favoured by EU regional policy.
This is the economic democracy paradox of the structural fund system"
(Olsson, 2003, p. 291).

The Structural Funds (SF) policy of the European Union (EU) is conceived to support territorial development in lagging regions, promoting 'convergence, competitiveness and cooperation' (EU-DGRegio, 2008). However, the policy design and implementation of the SF are extremely complex, involving many tiers of government from the EU Commission to regional governments[1] via the agreement amongst national institutions. In comparison with the other main pillars of the EU, like the 'Common Agricultural Policy' (CAP) and the 'Single European Market' (SEM), the SF are the only policy in which governments have to coordinate themselves and play an active role, whereas for both the CAP and the SEM the EU Member States have just to define common rules and set up regulatory institutions. Clearly, the SF are not just a challenge for the institutional coordination, but also for regional development. Specifically, the amount of resources of the SF has grown significantly through the past two decades, mainly after the Reform of 1989. For lagging and peripheral regions, the SF may constitute a significant opportunity given the large amount of resources available. However, after two decades, the overall results of the SF are limited and controversial.

In order to analyse the results of the SF, many studies have been carried out considering both economic and political aspects (Boldrin & Canova, 2001; Cappelen, Castellacci, Fagerberg, & Verspagen, 2003; Ederveen, de Groot, & Nahuis, 2006; Midelfart-Knarvik & Overman, 2002; Rodriguez-Pose & Fratesi, 2004). According to mainstream scholars, the SF have limited impact on the reduction of regional disparities and the support of regional growth, except in some specific cases (e.g. Ireland). However, there are almost three main limits in the evaluations of the SF. Firstly, it is not clear if the amount of resources is proportional to the goals of the policy. Secondly, there is no counterfactual to show what would have happened without the SF. Thirdly, there is little attention paid to the link among the economic rationale of the SF, the policy expectations and the institutional constraints, in which this policy has been implemented. In this paper, the third problem will be discussed.

The EU regional policy has been influenced by the 'New Regionalism' (Amin, 1999), determining a general shift 'from the political economy of regions to regional political economy' (Agnew, 2000, p. 101). Furthermore, since the 1970s, there has been a significant

1 The definition of 'regional governments' could sound ambiguous because each country has its own institutional architecture. Nevertheless, this definition includes the tiers of government below national level and above local authorities, charged by the EU to implement the SF.

process of decentralization, changing dramatically the shape of states, whereas the effects for territorial development are still unclear (Rodriguez-Pose & Gill, 2003). However, in the field of regional studies, there is a general lack of attention to the effects of the institutional changes on regional development (Bennett, 1997). Given the fact that the SF are a regional policy implemented across contexts with significant differentiations in terms of institutions, the EU regional policy becomes a significant opportunity to test the effects of these differences for regional development.

First of all, the starting point of this dissertation is the necessity to consider economic and politico-institutional factors together because the complexity of EU decision making affects dramatically the allocation of the resources. Specifically, it is necessary to identify the critical knots of the Multi-Level Governance (MLG), as it has been designed for the SF, taking into account that this mechanism provides support for lagging regions only if they have the capabilities to carry out development policies. For this reason, resources are not allocated just in proportion to the 'needs' of lagging regions: this is the so-called 'economic democratic paradox' of the Structural Funds (Olsson, 2003). If this assumption is confirmed, it will be necessary to conceive a different mechanism of governance to empower regional governments in lagging areas.

From a theoretical perspective, the mechanism of the SF makes explicit the capability of regional governments to overcome the limits of 'collective action' (Cheshire & Gordon, 1996; Olson, 1965), designing adequate development policies and lobbying decision makers to access these funds. This regional capability of coordination constitutes an 'asset' for territorial development, specifically in the light of the recent studies about the 'territorial capital' (Camagni, 2007). These arguments will be tested on the Cycle 2000-06 using a model of two simultaneous equations on a sample of regions of the EU-15 where regional governments are electives.

In section 2, the rationale and the main results of the SF are presented, starting from the rise in importance of territories for economic development and the new context of decentralization. In section 3, the challenges of the Multi Level Governance (MLG) are discussed, considering the theories of the 'joint-decision trap' (Scharpf, 1988) and the empirical evidences for the Cycle 2000-06. In section 4, the regional collective action will be presented and discussed, using an empirical model. Finally, in the last section there are conclusions and remarks for further developments.

2 THE REGIONAL EUROPE

2.1 The rise of the 'New Regionalism' and the decentralization of public powers

In the last decades, there has been a significant rise in interest for local economic development (cf. Pike, Rodriguez-Pose, & Tomaney, 2006). The so-called 'New Regionalism' (Amin, 1999) has been developed since the 1980s, starting from the first studies on the Industrial Districts of the 'Third Italy' (Piore & Sabel, 1984; Trigilia, 1992) and the 'Silicon Valley' in the US (Saxenian, 1994), determining a large interest for the spatial agglomeration of economic activities (Krugman, 1991; Ottaviano & Puga, 1998) and then for cluster policies (Porter, 1990). Specifically, geographical proximity (Boschma, 2005) facilitates the management of the most uncertain activities, like innovation, access to information, research and development, inter-organization coordination, and management of externalities (Storper, 1997a, 1997b; Storper & Venables, 2004).

Given the enlarged context of competition, flexibility and coordination have become more relevant to manage uncertainty. Furthermore, under the influence of the New Regionalism, there has been a shift in the development policies from sectoral to territorial approaches (Martin, 2000), involving also many aspects not strictly linked with the economic paradigm, like institutions or social capital (Aron, 2000; Boix & Posner, 1998; Fukuyama, 2000; Heydemann, 2008). Finally, there is also a trend towards decentralization of powers in favour of sub-national governments, supported specifically also by the EU regional policy.

Drawing from the rise in interest for local economic development policies since the 1970s there is a general trend of decentralization of powers from national to sub-national governments, which implies almost three different types of reforms (Donahue, 1997). The most relevant of them is the 'devolution', which is a transfer of public powers and legitimacy from a tier of government to another one, generally lower; whilst, the 'deconcentration' is just a spatial relocation of public functions far from the capital city, and the 'delegation' is the transfer of competences toward lower agencies dependent on the same central government. Nevertheless, the decentralization of powers, resources and legitimacy may be not implemented at the same time (Rodriguez-Pose & Gill, 2003, 2004, 2005).

Recently, the arguments in favour of decentralization have shifted from 'identitarian' to 'economic' reasons (Rodriguez-Pose & Sandall, 2008): "the main argument put forward is that there is a growing need for strategic planning at the regional level and that regional government would deliver accountability and democracy to regional governance" (Hulst, 2005, p. 99). Accordingly, lower tiers of government are assumed to be more able to tailor public policies, adapting them to local needs (Oates, 1999; Tiebout, 1956). From a political

point of view, lower tiers of government should have easier access to local information, mobilize local resources, and generally be ‘more democratic’, as Tocqueville (1836) suggested since the XIX century. All these arguments suggest the idea that an ‘economic dividend’ of decentralization exists (Rodriguez-Pose & Gill, 2005).

Against decentralization, the main argument is that “the central provision of public goods and services may be more efficient if economies of scale and/or economies of scope exist” (Rodriguez-Pose & Bwire, 2004, p. 1910). Specifically, the multiplication of governments constitutes a serious risk for the control of the public budget, ‘jeopardizing’ the macroeconomic stability of the country (Prud'homme, 1995). Furthermore, there is also the risk of a ‘hidden’ privatization because sub-national governments might not receive adequate resources to assure public services (Prud'homme, op. cit.). Furthermore, in terms of policy design, the lower tiers of government “may not have the skills and knowledge to manage large projects and budgets or to coordinate policy implementation” (Azfar, Kähkönen, Lanyi, Meagher, & Rutherford, 1999, p. 24). Finally, if resources and competences are decentralized, it becomes harder to provide redistributive policies across regions (Ezcurra & Pascual, 2008).

Considering the general impacts of decentralization across countries, the results of these changes are almost controversial (Calamai, 2008; Ezcurra & Pascual, 2008; Gil Canaleta, Pascual Arzoz, & Rapún Gárate, 2004; Martinez-Vazquez & McNab, 2003). From the point of view of the regional economic theory, the links amongst decentralization, territorial competition and regional convergence/divergence still seem unclear; while, from the perspective of the political sciences, the multiplication of tiers of government makes ambiguous their legitimacy (Putnam, 1988). However, in the field of regional studies the mainstream of scholars have generally paid little attention to these changes and their effects on territorial development (Bennett, 1997).

Furthermore, in the case of Europe, the process of decentralization has differentiated impacts given by the different conditions of the states, such as the ‘traditional’ dichotomy between the ‘centralized’ France and the ‘federal’ Germany. Moreover, European states are strongly differentiated in terms of population, size, and also in terms of socio-cultural heterogeneity, such as Flemish and Walloon communities in Belgium, or some specificities, such as the overseas departments of France. Nevertheless, this trend is common across European states, determining a certain degree of homogenization, via decentralization in favour of regional governments and the creation of the EU as a common supra-national institution. The result is a reshaping of the institutional framework through a decentralization in two directions.

2.2 The European regional policy

Under the influence of this context, the EU has established a common regional policy in order to support ‘convergence, competitiveness and cooperation’ across Europe (EU-DGRegio,

2008). The focus is mainly oriented to support underdeveloped regions, specifically where there is low income, high unemployment and socio-economic structural problems like ageing or limits imposed by geographical peripheral location (Armstrong, 2007). The European Regional Development Fund (ERDF) was introduced in 1975, while a significant reform has been realized in 1989 in order to upgrade the support for underdeveloped regions in Southern Europe, specifically the Italian Mezzogiorno and the new member states of the Mediterranean area: Spain, Portugal, and Greece. Subsequently, after the enlargement to central and eastern countries, regional disparities across the EU have become larger and highly heterogeneous, within a context of growing polarization of development (Brakman & van Marrewijk, 2008). Finally, the SF have been conceived also as a tool to promote integration and cooperation across states, balancing potential disparities introduced by other EU policies, like the CAP or the SEM (Scharpf, 1988, p. 241).

In the 'reformed' SF, resources were doubled in 1989 and afterwards progressively increased, becoming around half of the EU budget today. Furthermore, in 1989 four criteria have been introduced for the SF. Firstly, the European regional policy is now based on multi-annual programmes proposed by regions, with the support of their national governments and co-financed by the European funds, whereas before 1989 the EU regional policy was based just on financing projects. Secondly, national governments have to concentrate resources on specific types of regions, according to the 'Objectives' as defined at the EU level (Mendez, Wishlade, & Yuill, 2006, pp. 594-595). Thirdly, Member States must co-finance programmes to avoid the risk of an 'effect of substitution': the SF have to be conceived as reinforcement of development programmes, not as a substitute for existing investments. Finally, member states must involve other actors, specifically regional governments, in the design and implementation of the regional policy.

Since 1989, the criteria of programming, concentration, additionality and partnership have been substantially confirmed through the four different Cycles of the SF, while some minor changes have been introduced later in terms of amount of resources, eligibility criteria and budget management (Bachtler & Mendez, 2007; Marks, 1995). In 1999, a common framework for the European territorial development was also adopted, the so-called 'European Spatial Development Perspective' (Council of Ministers, 1999). Finally, these same criteria have been used as reference for the conditions imposed to new countries accessing the EU after 1989 (Bailey & De Propris, 2003).

Even though there had been some changes, since 1989 the SF are fundamentally based on three main 'Objectives', defined as types of regions where different degrees of action are concentrated. The so-called 'Objective-1' includes the most underdeveloped areas, defined as regions below 75% of the European average in terms of GDP per capita and unemployment

rate[2]. Under the ‘Objective-2’, the EU has classified regions with problems in their socio-economic structure like industrial reconversion, ageing or structural unemployment; whereas, ‘Objective-3’ supports inter-regional cooperation by the ‘INTERREG’ programmes[3] (Mendez et al., 2006). Furthermore, there are some other minor programmes integrating the SF. The most important of them is called ‘URBAN’, oriented to support the regeneration and the sustainable development of urban districts, finally the ‘Cohesion Funds’ (CF) support the SF for new member countries[4]. Across the different Cycles, the ‘Objective-2’ has been characterized by the most significant reform because in 1999 all the ‘non-Objective-1’ regions have been classified as eligible for the ‘Objective-2’ funds, whereas before only some parts of them were eligible.

In conclusion, the European regional policy could be seen as an inter-national system to provide funds for underdeveloped regions, in order to pursue general goals of local economic development, nevertheless each country has still significant degrees of freedom to define his own priorities implementing the SF (cf. Bache & Jones, 2000).

2.3 The main effects of the SF

In order to evaluate the effects of the SF, many studies have been carried out (e.g. ESPON, 2006a, 2006b). Except in some specific regions like the well-known case of Ireland (cf. Pike et al., 2006, pp. 229-235), the overall effect of the SF has been limited in the reduction of regional disparities in terms of both income convergence and redistribution of economic activities across regions (Boldrin & Canova, 2001; Dall'Erba, Abreu, & de Groot, 2007; Midelfart-Knarvik & Overman, 2002). However, some positive effects have been identified for some specific typologies of regions, specifically in the case of regions able to take advantage by increased links with more developed regions (Cappelen et al., 2003; Crescenzi & Rodriguez-Pose, 2008; Puga, 2008).

In order to explain this general lack of results, it has been shown that regions tend to overspend in infrastructure with inadequate investments in other axes, like human capital (Rodriguez-Pose & Fratesi, 2004). From a socio-institutional perspective, the SF seem they would have had positive effects if these funds had been oriented to the creation of the pre-conditions of regional development, rather than as direct investment in economic growth (Bradley, Mitze, Morgenroth, & Untiedt, 2006; Ederveen et al., 2006); otherwise, the SF have

2 “Under the 1988 Communication, Article 87(3)(a) regions were defined as NUTS II areas with GDP(PPS) per head of less than 75 per cent of the EU average for the last five years for which data were available, while Article 87(3)(c) areas were principally determined by national disparities in GDP per head and unemployment rates”. (Mendez, Wishlade, & Yuill, 2008, p. 283).

3 From the 1989 to the 1999 the ‘Objective 3’ was called ‘Objective 5b’. During these cycles, there were 6 objectives, while objective 4, 5a and 6 were not really ‘regionalized’. Although these changes, these objectives have been substantially kept constant through cycles.

4 During the cycle 2000-06, the CF countries were Greece, Ireland, Portugal and Spain, while other special funds have been set up for states accessing the EU in 2004.

became just a social redistributive policy across regions (De La Fuente & Doménech, 2001; Rodriguez-Pose & Fratesi, 2004). Finally, some scholars have identified significant bias in the rationale of this policy, given by institutional constraints and political distortions (Bouvet & Dall'erba, 2008; Kemmerling & Bodenstein, 2006; Kemmerling & Stephan, 2008). This last aspect needs to be explored, recognizing the challenges of the EU governance.

According to the literature studies, the debate is still open about a policy which absorbs a significant amount of the EU budget. On one hand, there is not a counterfactual showing if the SF are ineffective in the reduction of regional disparities or an effective limitation for further divergences (Ottaviano, 2008; Puga, 2002, 2008). On the other hand, it is problematic to analyze if the efforts of the EU are adequate for its goals, in terms of amount of resources and institutional settings (Knill, 1998; Scharpf, 1988). Specifically, the SF are different from all the other regional policies because the EU is not a state.

> "Member States had relative freedom to designate aid areas provided that, firstly, the designation methodology was 'objective' and capable of Commission assessment; secondly, the indicators used were objective, relevant and based on time series data; and, thirdly, the designation units of analysis were both justifiable and uniform within countries. On the other hand, the guidelines were not always clear with respect to these (and related) aspects; this created significant (and, for many Member States, unexpected) problems in the map negotiations" (Mendez et al., 2006, p. 594).

The fact that this policy exists could be seen as a first successful step; however, after two decades of implementation, there is still a lack in the understanding of how the politico-institutional framework affects the outcome of this regional policy.

3 THE MULTI-LEVEL GOVERNANCE FOR THE STRUCTURAL FUNDS

3.1 The challenges of the EU Multi-Level Governance

In the general trend of decentralization, the EU constitutes an exception. Instead of just a stable multi-lateral agreement, European states decided to create an upper tier of government. The EU is provided with specific rules for decision making, an elected Parliament and a kind of executive branch, the EU Commission, plus some other institutions like the European Central Bank (cf. El-Agraa, 2007). Inspired by the German federalism (Scharpf, 1988), the EU institutions have been designed according to the principle of 'subsidiarity', which means that decisions have to be taken at the lowest efficient tiers of government. However, the EU does not have formal sovereignty and is fundamentally a set of joint-decision arenas. Therefore, all the decisions must be taken under the unanimity, and then ratified and implemented by each member state. The result is the so-called 'Multi-Level Governance' (MLG)[5]. Even though the efforts to set up the EU institutions are extremely relevant, this institutional architecture suffers the limits of the so-called 'joint-decision trap' (Blom-Hansen, 1999; Scharpf, 1988, 2006).

The Multi-Level Governance and the 'joint-decision trap'

According to the theory proposed by Scharpf (1988), the EU institutional framework determines sub-optimal decisions because only win-win games might be managed and Pareto-efficient reforms might be implemented, whilst 'normal' states are generally able to manage conflicts given by zero-sum games. Accordingly, this 'trap' determines the risk of overspending in order to achieve unanimity and then distortions in the governments' preferences given by the difficulties to achieve unanimous decision. Furthermore, differentiated electoral cycles affect dramatically the behaviour of governments. Recently, Scharpf (2006) has emphasized the benefits provided by the existence of the EU Commission, drastically reducing the transaction costs of the agenda setting. Moreover, the EU actors have acquired experiences and specific skills in the management of these decision arenas, although the EU is still an under-efficient institution under the 'trap' of the joint-decision mechanisms.

---

5 According to Hooghe and Marks (2003), there are two different types of MLG. In the first type, authorities are hierarchically organized, non intersecting and stable (Type I), whereas in the second type of governance there are flexible forms of cooperation based on specific tasks and overlapping of jurisdictions (Type II). The Type I allows institutions to use their 'voices', managing zero-sum conflicts and benefiting by economies of scale; while, in Type II, organizations are more flexible and governments are allowed to 'exit' from political arenas (Hooghe & Marks, 2003). Generally speaking, the EU is making significant efforts to move from the Type II to Type I, although this change seems very far to be achieved.

Focusing just on the EU regional policy, three different tiers of government are involved in a ‘three-steps’ decision making procedure (Olsson, 2003). At the first step, the EU Commission and the national governments negotiate the general guidelines of the policy, including the inter-national allocation of funds and the criteria for regional eligibility. At this stage, the EU Commission acts as a pivot in the negotiation among national governments, while regional governments are not directly involved. In the second step, national governments have to design their own strategy and, within this strategy, regional governments have to participate providing their own programmes. Both national and regional development programmes have to be developed under the supervision of the EU Commission, however each State has significant degrees of freedom for the final allocation of funds. The third step is the implementation of the development programmes by regional governments, with the support of national governments and under the supervision of the EU Commission.

Even though it is not necessary to analyse all the juridical implications[6], the EU regional policy has become a crucial aspect for the European governance, specifically because the “Structural Funds have increased the profile and influence of regional and local actors in economic development” (Bachtler & McMaster, 2008, p. 398). In order to adapt states to the new framework of the MLG, some countries have had to create new tiers of government, like in Greece, Finland and the UK, or upgrade the existing regional governments, like in France and Italy.

In conclusion, the MLG has to be conceived as “an outcome of the multiplicity of governance structures, organizational routines, norms and policy styles among the member states” (Paraskevopoulos, Getimis, & Rees, 2006, p. 7), matching the internal needs of each state and the necessity of some kind of homogenization to achieve coordination.

A three level negotiation

At the EU level, each member state negotiates the SF balancing its internal interests with the problem of achieving a unanimous decision. According to the ‘two-level negotiation’ theory (Putnam, 1988), it is necessary to consider if internal interests are homogeneous: reinforcing a decision maker internally could weaken that government internationally, and vice versa. If a government suffers internal instability, then this government is more likely to negotiate better conditions at international level because other governments will prefer to achieve an unbalanced decision rather than fail the agreement. On the other hand, an instable government will be able to get internal consensus and sign the international agreement only if this one provides significant benefits for its country. For these reasons, the negotiation depends from both the internal and the international level. Specifically, in the context of the EU there is large empirical evidence; however, in the case of the SF it is necessary to also consider the

6 Specifically, the main debate is between the supra-nationalists and inter-governamentalists (cf. Scharpf, 2006; Thielemann, 2002).

third level constituted by regional governments, below the international and the national level of negotiation.
Firstly, the intra-national arena is able to manage the zero-sum games, and then some regions could have to suffer decisions designed by other regions. Finally, considering the intra-national negotiation there are two types of behaviour. According to the ‘median voter theorem’, national governments could privilege regions where they have more possibilities to influence political equilibrium, investing where regional governments are weaker and then improve the consensus for the parties ruling national government. On the other hand, national governments could prefer regions where they have stronger consensus to provide resources for its supporters. The result could be a system of patronage or a ‘pork barrel’ politics (Bodenstein & Kemmerling, 2008; Kemmerling & Bodenstein, 2006). Both types of behaviour are rational.
In conclusion, given the rise in importance of local economic development, the SF have been explicitly oriented to support lagging regions, matching the economies of scale of the EU with the stronger legitimacy of the regional governments (Scharpf, 1988; Thielemann, 1999, 2002). However, the institutional framework of the EU requires a complex negotiation which determines significant uncertainty. In the upper arena of the EU, decisions can be taken only under unanimity, and then it is possible to manage just the win-win situations; whereas, in the lower arena, national institutions can manage zero-sum games. The results is a three level negotiation, where European, national and regional interests have to match their interests.

3.2 The allocation of the SF in 2000-06

In order to evaluate the Cycle 2000-06, the EU Commission provided a complete dataset with the final allocation of the SF at the regional level (cf. EU-DGRegio, 2008)[7]. The database includes Objective-1, Objective-2, Cohesion Funds, URBAN, and INTERREG programmes. At the end of the negotiation process, each region has received an amount of resources according to its capabilities to influence the decision making, assuming that all of them are interested in the maximization of funds. However, each state has different conditions in terms of funds collected and number of regions, as described in [Tab. 1].

[Tab. 1] The allocation of the Structural Funds across the EU-15 for the Cycle 2000-06

7 Data are based on NUTS3 level, even though some of these allocations are estimated. Furthermore, Regional governments correspond to NUTS2 level, except in Belgium, Germany and the UK where the allocation is at NUTS1 level. However, the aggregation at NUTS2 level makes marginal these estimations. Furthermore, all the programmes are aggregated under the assumption that negotiations are carried out considering the overall perspective rather than single programmes.

COUNTRY		FUNDS COLLECTED (millions of Euro)	POPULATION (mill. of inhab.)	COHESION FUNDS	REGIONS (total and in Objective1)[8]	
Austria	€	994.79	8.0	No	9	1
Belgium	€	914.08	10.2	No	3	1
Denmark	€	163.12	5.3	No	1	0
Finland	€	979.20	5.2	No	5	3
France	€	8,427.18	60.2	No	26	6
Germany	€	15,772.88	82.0	No	16	6
Greece	€	19,114.83	10.9	Yes	13	13
Ireland	€	2,600.52	3.7	Yes	2	2
Italy	€	19,049.97	56.9	No	21	7
Luxembourg	€	51.93	0.4	No	1	0
Netherlands	€	921.72	15.8	No	12	1
Portugal	€	16,888.76	10.1	Yes	7	7
Spain	€	40,817.52	39.8	Yes	19	12
Sweden	€	960.46	8.9	No	8	5
UK	€	8,231.61	58.6	No	12	6
EU-15	**€**	**35,888.57**	**376.0**		**155**	**70**

(data sources EU-DGRegio, 2008; EUROSTAT, 2009, my own elaborations)

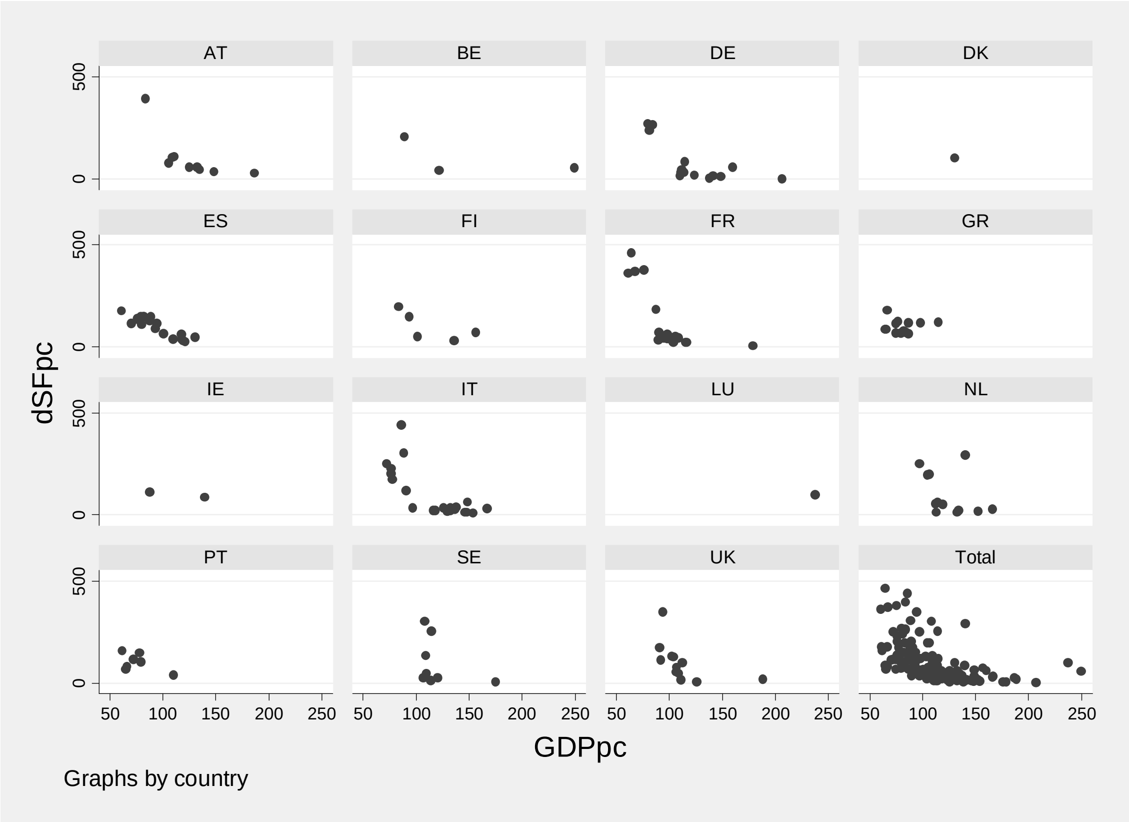
Even though all the national governments have signed the common agreement for the SF, sharing goals and eligibility criteria, the final allocation is significantly heterogeneous. Assuming as an indicator the amount of the SF per capita collected by each region on the national average, as in [1], and then [dSF] is plotted against the level of regional GDP per capita[9] in 1999, assumed as a proxy of regional development [see Graph 1].

$$dSF_r = \frac{SFpc_r}{\overline{\overline{SFpc}}}(*100) \quad [1]$$

8 All NUTS2 level, except Belgium, Germany and the UK at NUTS1 level.
9 The GDP p.c. is in purchasing power standard (PPS) and normalized on the EU average.

[Graph 1] SF allocation and GDP per capita

Even though the GDP is just a proxy for regional development, this macroeconomic indicator



is commonly used as main benchmark by policy makers. However, the results clearly show a significant heterogeneity in the allocation of the SF across member states. Specifically, in some countries like Austria (AT), Germany (DE) and France (FR), the Objective-1 regions receive much more resources than the others. However, across the non-Objective-1 regions, the final allocation seems fairly homogeneous. Quite similar are the cases of Belgium (BE) and Finland (FI), although there have only three and five regions. In countries like Italy (IT) or the UK, there are significant differences in the distribution of resources within the Objective-1 regions; specifically it seems that national governments have allocated more resources in favour of the ‘less underdeveloped’ regions. Moreover, in the three states of the Cohesion Funds, Spain (ES), Greece (GR) and Portugal (PT), there is little differentiations and each region receives a similar amount of resources; while, in Sweden (SE) and the Netherlands (NL) there are significant differences among regions with similar levels of GDP. Obviously, the cases of Denmark (DK) Ireland (IE), Luxembourg (LU) are not relevant because the number of regions is too small.

Indeed, the GDP is a rough indicator for regional needs and the decisions for the allocation could depend on many other factors like regional growth trends, endogenous potentialities, and structural problems in socio-economic terms, or specific regional conditions. However, it

is clear that the allocation across regions is strongly differentiated, independently from the indicator used.

In conclusion, in spite of a general agreement to invest in underdeveloped regions, states allocate their funds differently. On one hand, it could be argued that this is the necessary flexibility in order to adapt the SF to different contexts; on the other hand, this heterogeneity could dramatically affect the outcome of a common policy. Assuming a bottom up perspective, these differences show different regional capabilities to collect the SF, influencing the decision arenas within the common framework of the European MLG.

4 REGIONS, COLLECTIVE ACTION AND THE STRUCTURAL FUNDS

> *"It is fruitless to debate whether domestic politics really determine international relations, or the reverse.*
> *The answer to that question is clearly 'both, sometimes' " (Putnam, 1988, p. 427).*

4.1 Regions as base for the collective action

Within the framework of the Structural Funds, the final allocation of resources is highly heterogeneous. When the SF were reformed in 1989, the new criteria of additionality, programming and partnership introduced a significant challenge for regions. These criteria imply a strong engagement of regional governments to access funds, specifically the criterion of 'additionality' has imposed a significant financial constraints for many lagging regions, as well as the need to provide their governments with adequate skills (Bailey & De Propris, 2002; Horvat & Maier, 2004; Šumpíková, Pavel, & Klazar, 2004). Furthermore, the MLG determines much uncertainty, specifically the allocation of the SF depends more from negotiation rather than general criteria or formula-based methods for the allocation. In other words, the SF suffer an 'economic democratic paradox' (Olsson, 2003, p. 291) because these funds support lagging regions only if those regions are able to carry out the negotiation, coordinating their stakeholders. However, the collective action required to coordinate regional actors is neither costless nor without risks.

Regions and the collective action theory

According to the theory of the 'collective action' (Olson, 1965), individuals coordinate themselves if they have a common interest to pursue. Specifically, individuals act as a group to produce common goods or services, when these goods are too expensive to be produced alone or when the good does not provide enough returns because it is not excludable. Even though this theory is not strictly economic and could be applied in the case of political, ideological or religious movements, the main problem is the mismatch between costs and benefits. Furthermore, larger groups could achieve significant economies of scale; while, on the other hand, the coordination becomes much more costly and problematic. Moreover, costs for collective action are not constant and could vary dramatically across different contexts. Finally, public institutions are generally set up to reduce these costs and the process of

decentralization should be the way to reinforce them, empowering regional governments as pivots of the local collective action.

Influenced by the rise of the New Regionalism, the theory of the collective action has been adapted specifically to the regional field (Cheshire & Gordon, 1996, 1998). Local actors are interested in regional development according to the benefits they may receive for being part of a competitive environment, increasing their benefits or reducing negative externalities. According to this theory, the factors facilitating the regional collective action are the presence of actors interested in their own environment, a small and influential set of public agencies and institutions which are able to reduce coordination costs and finally potential and significant benefits for individual actors. Lastly, this kind of collective action is facilitated by the possibility to exclude non-regional actors, who do not participate in these investments.

According to this perspective, it seems clear why regions tend to invest the SF more in infrastructure rather than in human capital (Rodriguez-Pose & Fratesi, 2004). Specifically, infrastructure is an immobile asset that provides benefits mainly for actors located in the region and they are too expensive for an individual investor. While, human capital is potentially mobile and could benefit other regions. Finally, territorial competition becomes a virtuous cycle not only if there is economic development, but even more if the regional capability of coordination is reinforced.

The regional collective action: the role of politics in the MLG of the SF

In the case of the SF, the collective interest of a region is to access SF, achieving the EU requirements. During the process of negotiation, regional governments have to work locally to design the development programmes, driving their regional collective action. While, at upper levels, regional governments have to make clear the potentiality of their programmes, lobbying superior tiers of government in the negotiation for the definition of the criteria and the final allocation of the SF. To achieve these results, regional stakeholders have to coordinate themselves, creating stable coalitions to rule regional governments[10]. Commonly, regional coalitions are created during political elections, given the fact that all the European countries are democratic[11]. Even though different voting systems induce different behaviour, elections are the fundamental moment when political coalitions are created to have stable majorities. The importance of regional governments is given by their double role as a pivot for regional collective action and as a main channel to access the SF. For these reasons, regional governments become a key for the regional collective action.

10 From a geographical perspective, the problem to create coalitions is also influenced by regional structures. The difference in terms of size is the most evident, while other factors could affect coordination costs and distribution of interests, like the spatial distribution of interests for a new infrastructure like an highway or an airport. Even though the economic potentiality of each region is specific, the SF constitute a significant incentive to overcome the costs of collective action, while the general process of decentralization should empower regional government as pivot actor.

11 In this dissertation, we assume as 'democratic' all the elective governments.

However, the upper tiers of government are still relevant and, furthermore, regional stakeholders are also electors of national governments, even though their relative weight decreases. Nevertheless, national governments are the actor playing the part of negotiation at the EU level and the pivot of the intra-national negotiation. Therefore regional stakeholders would be interested to rule also national government. Finally, the third level of government seems less influenced by political dynamics because the legitimacy of the EU Commission is ambiguous: the EU Commissioners are selected by their national governments with the agreement of the EU Parliament, then they have to represent their country, their party, the whole EU and defend their own competences at the same time (Wonka, 2008). For this reason, the EU Commission is generally seen as a non-political actor.

Summing up, regional stakeholders have to coordinate themselves to influence or rule directly both regional and national governments in order to benefits from the SF. On one hand, regional stakeholders have to coordinate themselves to provide adequate development programmes; on the other hand, they have to lobby the decision arenas to negotiate better conditions. Considering the EU level, any agreement implies that each country must clearly have more benefits than costs, whereas, at the national level, decisions require just a majority, and then a region could suffer decisions taken by others.

4.2 The regional collective action and the SF allocation

Hypotheses

Given the framework of the MLG, the SF policy is a way to test the regional capability to coordinate stakeholders to access these funds. There is empirical evidence that there are different regional 'absorption capacities' across both 'new' and 'old' member states (e.g. Horvat, 2005). The regional 'absorption capacity' could be conceived in three different ways: the 'macroeconomic absorption capacity', given by the structural conditions allowing regions to become eligible; the 'financial absorption capacity', given by the possibility of regional governments to co-finance the EU policy, and the 'administrative absorption capacity', made explicit by the quality of regional development programmes, according to requirements of the EU Commission (Šumpíková et al., 2004).

In order to explore the regional capability to influence the allocation of the SF, the two main knots of the MLG have to be considered. The first step is the inter-national negotiation for the definition of the common criteria of regional eligibility; the second step is the final allocation of the SF, which is the outcome of an intra-national negotiation, under the constraints defined in the first step. Even though the EU Commission made significant efforts to 'regularize' and 'rationalize' the decision making (Conzelmann, 1998, pp. 8-9), the two aspects should be considered together.

The assumption is that national governments negotiate the general criteria considering the final allocation of the funds, rather than the criteria per se.

> *[P.1] At the EU level of negotiation, if the regional government has a stronger institutional role, then the region benefits from better eligibility criteria because national governments are more interested in and able to negotiate in favour of their regions.*

The first proposition is based on the assumption that national governments carry out the EU negotiation according to their institutional mission, as defined by their constitutions. If a national constitution assigns significant importance to regional governments, then the national government will support regions ‘better’ in order to achieve its constitutional mission, where ‘better’ means most favourable conditions to access funds. Furthermore, stronger constitutional legitimacy improves the role of the regional governments as a pivot of the regional collective action and to lobby the decision making arenas.

> *[P.2] If a regional government has stronger political legitimacy, then its region will receive more money. Furthermore, the effect is reinforced if the same party (or coalition of parties) rules both national and regional governments.*

The second step of the MLG is the final allocation of resources across regions. Even though the EU Commission should assure a minimum level via the evaluation of regional programmes (Ederveen et al., 2006). each state has still significant degrees of freedom in the final allocation of the SF. During this phase, regional governments drive its stakeholders to achieve the requirements of the EU Commission and lobby the national government. For this reason, stronger legitimacy of the regional government should reinforce the collective action, promoting regional interests. Vice versa, stronger legitimacy is the outcome of an effective coordination among regional stakeholders. There is the assumption of a patronage system in the distribution of funds because regional stakeholders will try to coordinate themselves to affect both tiers of government, and then increase the possibilities to access a larger amount of funds.

Methodology and data

Considering the first step of decision making, the main outcomes are the criteria for regional eligibility. Given the amount of resources, the most relevant aspect to be negotiated is the ‘Objective-1’ eligibility. During the Cycle 2000-06, the threshold level has been confirmed at 75% of the EU average of GDP and unemployment rate, while some countries have received

special conditions, like the Swedish and Finnish ultra-peripheral regions. In order to test [P.1], Liesbet Hooghe, Arjan H. Schakel and Gary Marks have carried out a complete and updated survey of the different degrees of decentralization, providing a complete set of indicators about decentralization in the EU member states (Hooghe, Schakel, & Marks, 2008)[12]. This set of indicators has two significant advantages: firstly, they make comparable the different institutional frameworks; secondly, given the fact they are based on specific survey, they do not suffer the common problems in the reliability of data about fiscal federalism (Akai & Sakata, 2002; Boex & Simatupang, 2008). Finally, it is necessary to consider the distribution of funds allocated via other policies, like the CAP (Scharpf, 1988; Thielemann, 1999), and then the common macroeconomic indicators used to have an international agreement and set this policy up, like GDP per capita and unemployment rate.

The second step is the intra-national distribution of resources, using the variable [dSF], as described above in [1]. In order to test [P.2], it is necessary to consider countries where there are elective regional governments. According to the availability of regional[13] and electoral data[14], there are seven states in the EU-15 matching these requirements: Austria, Belgium, France, Germany, Italy, Portugal and Spain. The sample includes around two third of the EU-15 regions[15], from both big and medium countries[16], founders and more recent members, southern and central Europe, whereas, the new member countries are not included in the sample, given their recent accession to the EU.

The econometric model is a system of two simultaneous equations, as in [2] and [3].

Obj1_d = f(GDPpc_log, UnEmpl_log, CAPshare, CF_d, country_d, RegConst) [2]

dSF = f(dGDPpc, dUnEmpl, Obj1_d, '*Pol*') [3]

In [2], [Obj1_d] is a dummy variable considered as the main outcome of the first level of negotiation. [GDPpc_log] and [UnEmpl_log] are the regional GDP per capita and unemployment ratio, both logged. These two variables had driven the eligibility as common indicators used in the negotiation to define lagging regions. [CAPshare] is the share of funds

---

12 The complete dataset includes forty-two states, generally all the developed countries around the world. See also (Hooghe, 1996; Marks, 1995; Marks, Hooghe, Nelson, & Edwards, 2006).

13 The socio-economic data about the EU regions are provided by Eurostat (EUROSTAT, 2009), while data about the CAP are provided directly by the EU Commission (EU-Commission, 2000).

14 The two websites (CivicActive, 2006; Nordsieck, 2009) provide a complete dataset of elections across the EU-15 at both European, national and regional level, except for Italy (Cattaneo, 2007) and France (EPoC, 2009). These portals provide a set of link in order to reconstruct the voting system and the composition of each government ruling in 1999, while data about decentralization have already been described (Hooghe et al., 2008).

15 In the case of Belgium are considered the provincial governments, in Austria and Germany the Länder, in France, Italy and Spain all the regional governments, except the overseas departments of France and Spain, while in the case of Portugal just the two autonomous regions of Açores and Madeira are included in the sample.

16 Obviously, small countries could not included given the fact they do not have a multi-tier system of government.

collected by the state from the Common Agricultural Policy: this variable is assumed to be negative because countries receiving more funds from the CAP should receive less SF to balance the overall allocation. The variable [CF_d] is the national eligibility for the Cohesion Funds and should have similar meaning like [CAPshare]; finally, there is also a set of national dummies [country_d] to capture other hidden variables depending from national context. In order to test [P.1], [RegConst] is "the extent to which regional representatives co-determine constitutional change" (Hooghe et al., 2008, p. 261), considered as a proxy of the role of regional governments as defined by the national constitutions. According to [P.1], this variable should be positive because regions with stronger constitutional legitimacy have larger influence on the negotiation.

Moreover, in [3] the dependent variable [dSF] is the differential of SF collected by a region on the national average, as in [1]; whereas [dGDPpc] and [dUnEmpl] are the differentials of GDP p.c. and unemployment on national average, calculated similarly like in [1] in order to re-calibrate the relative position at the national level. Furthermore, it is included the Objective-1 eligibility dummy [Obj1_d] as calculated in [2]. According to the EU guidelines, these variables should drive the allocation of funds within countries because they are used to classify lagging regions.

Finally, [*Pol*] represents three sets of political variables. Firstly, according to the 'median voter' theorem (cf. Bodenstein & Kemmerling, 2008). [Nat1st-2nd] and [Reg1st-2nd] are the difference between the first and the second most voted parties at the last elections for respectively the national and the regional governments. If this hypothesis is true, both variables should be significant and negative because national governments should allocate more funds in regions with instable governments in order to influence them and then [P.2] will be refused. Secondly, [NatGovLegitimacy] is the share of votes collected in the region during the last elections by the party (or coalition) ruling the national government, while [RegGovLegitimacy] is the share of votes of the party (or coalition) ruling the regional government, while [NatRegAling_d] is a dummy variable which assumes the value 1 if national and regional governments are ruled by the same party (or coalition). All the data are referred to last elections for national and regional government ruling in 1999, according to their Cycles. According to [P.2], these variables are supposed to be positive because stronger legitimacy of government should assure stronger negotiation capabilities. Thirdly, [L&A] is the 'National-Regional Legitimacy and Alignment Indicator' given by the product between [NatGovLegitimacy] and [RegGovLegitimacy] plus a positive sign if [NatRegAling_d] = 1, while [L&A] becomes negative if the two tiers of government are ruled by opposing parties.

In econometric terms, this is a system of two nested simultaneous equations with the 'seemingly uncorrelated regression' (SURE) method, which calculates all the coefficients together, correcting autocorrelation of errors. This correction is consistent with the theoretical assumption that the two steps of the decision making are mutually influential. However, using

a common 2SLS method, results are substantially confirmed, even though correlation across errors weakens the significance of the single variables. Furthermore, in [2] the variables for GDP and unemployment are logged, while in [3] they are weighted for the national mean to avoid the risk of autocorrelation of variables. The mean of these variables is slightly different: in [2], the two logged variables mean the variation of macroeconomic structure in the continental context and could be considered as absolute measures of development, while in [3] the other two variables become a measure of the relative poverty of the regions within the national context. Finally, all the other diagnostics have been carried out regularly, specifically the test for the functional forms.

Results and discussion

In order to test the hypothesis, a set of regressions has been runned. In the first set (1-4), the negotiation at the EU level is tested, and then the results are nested in the second step of intra-national negotiation. The EU rules for eligibility seem based mainly on the explicit indicators of GDP and unemployment, with the expected signs. Furthermore, [CAPshare] has the expected and negative sign according to the idea that the SF's criteria are conceived as a balance in the overall allocation of the EU budget across states. Testing [P.1], in [4] the variable [RegConst] is significant and positive. Specifically, Austria and Germany are the two countries with the highest values according to their federalist constitutions, while Italy and Portugal are the only ones with differentiated degrees of Constitutional legitimacy across regions and this explains why these national dummies are the only becoming relevant. Therefore, [P.1] should not be rejected because in countries where regions have stronger constitutional legitimacy, there are more possibilities to negotiate better conditions under the same macroeconomic indicators.

Considering [P.2], regressions (5-7) show the effects of the different political behaviour. Comparing (5) and (6), regions collect more funds if their regional governments have stronger legitimacy and not if it is easier to influence the 'median voter'. This result confirms that [P.2] should not be refused. Furthermore, in (7) [L&A] is significant and positive, even though its significance is lower than [RegGovLegitimacy]. However, this result confirms the hypothesis of a certain degree of patronage, because regions where governments are ruled by the same parties, they access more funds proportionally to the share of votes.

In conclusion, the results show that macroeconomic and abstract indicators of regional development are the main drivers in the process of allocation. This result is consistent with the fact that in such an enlarged arena, abstract indicators are the only way to achieve an agreement. However, where regional governments have stronger constitutional legitimacy, national governments seem more able to negotiate better conditions. Considering intra-national dynamics, stronger regional governments are more able to access SF, also under the constraints imposed by the EU agreement. Furthermore, the significance of regional

government legitimacy for the SF collection seems confirming the importance of these actors as drivers of the territorial collective action in order to attract SF.

[Tab.2] Results

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
2.A) Dependent Variable: Obj1_d							
GDPpc_log	-0.940***	-0.860***	-0.942***	-0.868***	-0.868***	-0.857***	-0.864***
	-0.12	-0.13	-0.12	-0.13	-0.13	-0.13	-0.13
UnEmpl_log	0.407***	0.438***	0.406***	0.450***	0.450***	0.454***	0.451***
	-0.06	-0.07	-0.06	-0.07	-0.07	-0.07	-0.07
CAPshare	-0.036***	-0.034***	-0.034***	-0.003	-0.004	-0.001	-0.002
	0	-0.01	0	-0.02	-0.02	-0.02	-0.02
CF_d	-0.006	0.335	0.01	0	0	0.843**	0.800**
	-0.07	-0.19	-0.07	0	0	-0.29	-0.29
Belgium_d		-0.074		0.35	0.348	0.368	0.352
		-0.17		-0.26	-0.26	-0.26	-0.26
Germany_d		0.068		-0.358	-0.352	-0.352	-0.355
		-0.08		-0.21	-0.21	-0.21	-0.21
France_d		0		0	0	0	0
		0		0	0	0	0
Italy_d		0.079		0.386*	0.382*	0.390*	0.389*
		-0.07		-0.16	-0.16	-0.16	-0.16
Portugal_d		0		0.787**	0.779**	0	0
		0		-0.29	-0.29	0	0
Spain_d		-0.325		0.345	0.341	-0.487*	-0.448*
		-0.2		-0.18	-0.18	-0.2	-0.2
RegConst			0.012	0.233*	0.230*	0.231*	0.232*
			-0.02	-0.11	-0.11	-0.11	-0.11
Constant	*4.361****	*3.857****	*4.342****	*3.128****	*3.142****	*3.042****	*3.099****
	-0.61	*-0.69*	*-0.61*	*-0.76*	*-0.76*	*-0.76*	*-0.76*
2.B) Dependent Variable: dSF_log							
Obj1_d	1.433***	1.338***	1.419***	1.379***	1.300***	1.331***	1.403***
	-0.19	-0.19	-0.19	-0.19	-0.19	-0.18	-0.18
dGDPpc	-0.011***	-0.011***	-0.011***	-0.011***	-0.012***	-0.012***	-0.012***
	0	0	0	0	0	0	0
dUnEmpl	0.016	0.018	0.016	0.016	0.02	0.022	0.016
	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02
Nat1st-2nd					1.206		
					-0.96		
Reg1st-2nd					0.044		
					-0.7		
NatGovLegitimacy						-0.036	
						-0.75	
RegGovLegitimacy						1.300**	
						-0.42	
NatRegAlign_d						-0.062	
						-0.14	
L&A							0.527*
							-0.24
Constant	*3.469****	*3.496****	*3.473****	*3.484****	*3.398****	*2.888****	*3.424****
	-0.08	*-0.08*	*-0.08*	*-0.08*	*-0.14*	*-0.32*	*-0.09*
Obs.	90	90	90	90	90	90	90
BIC	190.8	206.5	195.5	205	212.7	207.4	204.6

** p<0.05, ** p<0.01, *** p<0.001*

5 CONCLUSIONS AND FURTHER DEVELOPMENTS

This paper has discussed the new trend for local economic development approaches, specifically the institutional changes toward decentralization. However, there is a gap in the exploration of the effects of this new institutional framework on regional policies (Bennett, 1997), specifically in the EU which is a particularly complex case. The MLG of the SF has been discussed with its theoretical challenges, showing the bias in the allocation of the SF's Cycle of the 2000-06. The existence of the 'economic democratic paradox' (Olsson, 2003) has been shown; the MLG of the EU does not assure that poorer regions receive more funds.

Considering the bottom up perspective, the SF makes explicit the different capabilities of regions to coordinate themselves and influence the decision arenas. Starting from the theoretical framework of the regional collective action (Cheshire & Gordon, 1996; Olson, 1965), an empirical model has been used to test two hypotheses. Firstly, regional governments provided with stronger constitutional legitimacy benefit from better eligibility criteria. Secondly, if regional governments have stronger political legitimacy, then those regions receive more funds. These results are consistent with the idea that regions are a base for collective actions driven by their regional governments, and then the SF are a significant incentive for regional stakeholders to coordinate themselves. Moreover, these results are robust because of the use of basic data like GDP and electoral results. The implications suggest the necessity to implement changes in the the MLG in order to assure adequate supports to underdeveloped regions with weaker institutions. Implicitly, this dissertation confirms the idea that the economic rationale of each policy is affected by the political-institutional conditions. The distortion of the non-economic variables should be considered in the evaluation of the SF, specifically in the light of dramatic heterogeneity of governments across the EU.

Even though results are robust, it is necessary to pursue further research about the link between economic and political factors influencing the EU regional policies. Firstly, the analysis of politics should include also other collective actors, such as trade unions and business associations. Furthermore, the dynamics of interaction between regions could be explored further using other econometric methods, like spatial interaction models. Finally, the model is static and considers just one cycle. However, it could be relevant to evaluate the regional capability through different cycles in order to verify if there are some collective learning processes or if regions are locked in, losing the opportunity to access SF. Finally, the model considers just the seven countries of the EU-15 where regional governments are elective, whereas they might be compared with the other countries of the EU-15 and the 10 New Member States.

This dissertation has analysed the regional capability to attract SF. However, it is necessary to move forward and verify how SF are used and in which cases they become more effective. These two further steps will allow us to have a better understanding of how the SF policy works and have more indications in order to improve the effectiveness of this policy.

6 ACKNOWLEDGEMENTS

This paper has been developed at the London School of Economics and Political Science (LSE), Department of Geography and Environment and the financial support of the Politecnico di Milano, Department of Management, Economics and Industrial Engineer. The supervisors of this paper are Andrés Rodríguez-Pose and Riccardo Crescenzi from the LSE and Roberto Camagni, Roberta Capello and Ugo Fratesi from the Politecnico di Milano. The author would like to thank Marina Biancalana, Christopher Hooton, Marco Magini, Samantha Trumbull Wetzel, Carla Venesio and all the students of the MSc in Local Economic Development (LED) for the discussions and the survey of the literature. The author remains solely responsible for any errors contained in this paper.

7 REFERENCES

Agnew, J. (2000). From the political economy of regions to regional political economy. *Progress in Human Geography, 24*(1), 101-110.

Akai, N., & Sakata, M. (2002). Fiscal decentralization contributes to economic growth: evidence from state-level cross-section data for the United State. *Journal of Urban Economics, 52*, 93-108.

Amin, A. (1999). An institutionalist perspective on regional economic development. *International Journal of Urban and Regional Research, 23*(2), 365-378

Armstrong, H. (2007). Regional Policy. In A. M. El-Agraa (Ed.), *The European Union - Economics and Policies* (VIII ed., pp. 420-440). Cambridge (UK): Cambridge University Press.

Aron, J. (2000). Growth and Institutions: a review of the evidence. *The World Bank Observer, 15*(1), 99-135.

Azfar, O., Kähkönen, Lanyi, A., Meagher, P., & Rutherford, D. (1999). *Decentralisation Governance and Public Services: The Impact of Institutional Arrangements*: University of Maryland Working Paper No. 255.

Bache, I., & Jones, R. (2000). Has EU regional policy empowered the regions? A study of Spain and the United Kingdom. *Regional & Federal Studies, 10*(3), 1-20.

Bachtler, J., & McMaster, I. (2008). EU Cohesion Policy and the Role of the Regions: Investigating the Influence of Structural Funds in the New Member States. *Environment and Planning C: Government and Policy, 26*(2), 398 – 427.

Bachtler, J., & Mendez, C. (2007). Who Governs EU Cohesion Policy? Deconstructing the Reforms of the Structural Funds. *Journal of Common Market Studies, 45*(3), 535-564.

Bailey, D., & De Propris, L. (2002). The 1988 reform of the European Structural Funds: Entitlement or Empowerment? *Journal of European Public Policy, 9*(3), 408-428.

Bailey, D., & De Propris, L. (2003). EU Structural Funds, Regional Capabilities and Enlargement: Towards Multi-Level Governance? *Journal of European Integration, 24*(4), 303-324.

Bennett, R. J. (1997). Administrative Systems and Economic Spaces. *Regional Studies, 31*(3), 323-336.

Blom-Hansen, J. (1999). Avoiding the 'joint-decision trap': lessons from intergovernmental relations in Scandinavia. *European Journal of Political Research, 35*, 35-67.

Bodenstein, T., & Kemmerling, A. (2008). *Ripples in a Rising Tide: Why Some EU Regions Receive More Structural Funds Than Others Do.*: Archive of European Integration.

Boex, J., & Simatupang, R. R. (2008). Fiscal Decentralization and Empowerment: Evolving Concepts and Alternative Measures. *Fiscal Studies, 29*(4), 435-465.

Boix, C., & Posner, D. N. (1998). Social Capital: Explaining its Origins and Effects on Government Performance. *British Journal of Political Sciences, 28*, 686-693.

Boldrin, M., & Canova, F. (2001). Inequality and convergence in Europe's regions: reconsidering European regional policies. *Economic Policy, 16*(32), 205-253.

Boschma, R. (2005). Proximity and Innovation: A critical assessment. *Regional Studies, 39*(1), 61-74.

Bouvet, F., & Dall'erba, S. (2008). European Regional Structural Funds: how politically biased is the allocation process. *Regional Studies*.
Bradley, J., Mitze, T., Morgenroth, E., & Untiedt, G. (2006). *How can we know if EU cohesion policy is successful?* Munster: GEFRA.
Brakman, S., & van Marrewijk, C. (2008). It's a big world after all: on the economic impact of location and distance. *Cambridge Journal of Regions, Economy and Society, 1*(3), 411-437.
Calamai, L. (2008). The link between devolution and regional disparities: evidence from the Italian regions. *Environment and Planning A, forthcoming*.
Camagni, R. (2007). *Towards a concept of Territorial Capital.* Paper presented at the 47th European Regional Science Association, Paris.
Cappelen, A., Castellacci, F., Fagerberg, J., & Verspagen, B. (2003). The Impact of EU Regional Support on Growth and Convergence in the European Union. *Journal of Common Market Studies, 41*(4), 621-644.
Cattaneo, I. (2007). Adele - Archivio dati sulle elezioni e la partecipazione politica (Publication. Retrieved 11-Aug-2009, from Fondazione di Ricerca Istituto Carlo Cattaneo: http://www.cattaneo.org/
Cheshire, P. C., & Gordon, I. R. (1996). Territorial Competition and the Predictability of Collective (In)Action. *International Journal of Urban and Regional research, 20*, 383-399.
Cheshire, P. C., & Gordon, I. R. (1998). Territorial Competition: Some lessons for policy. *The Annals of Regional Science, 32*, 321-346.
CivicActive. (2006). European Election Database (Publication. Retrieved 11-Aug-2009, from Norwegian Social Science Data Services: http://extweb3.nsd.uib.no/civicactivecms/opencms/civicactive/en/
Conzelmann, T. (1998). 'Europeanization' of Regional Development Policies? Linking the Multi-Level Governance Approach with Theories of Policy Learning and Policy Change. *European Integration online Papers, 2*(4), 1-23.
Council of Ministers. (1999). *ESDP : European Spatial Development Perspective : towards balanced and sustainable development of the territory of the European Union*. Luxembourg: Office for Official Publications of the European Communities.
Crescenzi, R., & Rodriguez-Pose, A. (2008). Infrastructure endowment and investment as determinants of regional growth in the European Union. *EIB Papers, 13*(2), 62-101.
Dall'Erba, S., Abreu, M., & de Groot, H. L. F. (2007). A meta-analysis of ten years of EU regional policy evaluation: what have we learnt? *Regional Studies, Forthcoming*.
De La Fuente, A., & Doménech, R. (2001). The redistributive effects of the EU budget. *Journal of Common Market Studies 39*(2), 307-330.
Donahue, J. D. (1997). *Disunited States* New York: Harper Collins Publishers Inc.
Ederveen, S., de Groot, H. L. F., & Nahuis, R. (2006). Fertile Soil for Structural Funds? A Panel Data Analysis of the Conditional Effectiveness of European Cohesion Policy. *Kyklos, 59*(1), 17-42.
El-Agraa, A. M. (2007). *The European Union : economics and policies* (8th ed.). Cambridge: Cambridge University Press.
EPoC. (2009). Election Politique (Publication. Retrieved 11-Aug-2009, from EPOC - Election Politique Citoyen: http://www.election-politique.com/index.php?1249987802
ESPON. (2006a). *2.2.1 The Territorial Effects of the Structural Funds*: ESPON.
ESPON. (2006b). *2.2.3 Territorial Effects of the Structural Funds in the Urban Areas*: ESPON.
EU-Commission. (2000). *LE FONDS EUROPÉEN D'ORIENTATION ET DE GARANTIE AGRICOLE: FEOGA - SECTION GARANTIE*. Bruxelles: EU Commission.
EU-DGRegio. (2008). The European Regional Development Fund How do the Structural funds work? Retrieved 20-06-2008, from http://ec.europa.eu/regional_policy/funds/prord/prord_en.htm
EUROSTAT. (2009). General and Regional Statistics (Publication. Retrieved April 22nd, 2009, from Eurostat: http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1090,30070682,1090_30298591&_dad=portal&_schema=PORTAL
Ezcurra, R., & Pascual, P. (2008). Fiscal decentralization and regional disparities: evidence from several European Union countries. *Environment and Planning A, 40*(5), 1185-1201.
Fukuyama, F. (2000). *Social Capital and Civil Society*: IMF.
Gil Canaleta, C., Pascual Arzoz, P., & Rapún Gárate, M. (2004). Regional economic disparities and decentralisation. *Urban studies, 41*(1), 71-94.
Heydemann, S. (2008). Institutions and Economic Performance: The Use and Abuse of Culture in New Institutional Economics. *Studies In Comparative International Development, 43*(1), 27-52.
Hooghe, L. (1996). *Cohesion policy and European integration : building multi-level governance*. Oxford ; New York: Oxford University Press.

Hooghe, L., & Marks, G. (2003). Unraveling the Central State, but How? Types of Multi-level Governance. *American Political Science Review, 97*(2), 233-243.

Hooghe, L., Schakel, A. H., & Marks, G. (2008). Regional Authority in 42 Countries, 1950–2006: A Measure and Five Hypotheses [Special Issue]. *Regional and Federal Studies, 18*(2&3), 111-302.

Horvat, A. (2005). *Financial Absorption Rates in EU Objective 1 1994-99 and Some Lessons for the New Member States in 2004-2006*: WIFO.

Horvat, A., & Maier, G. (2004). *Regional development, Absorption problems and the EU Structural Funds*. Paper presented at the ERSA 2004.

Hulst, R. (2005). Regional Governance in Unitary States: Lessons from the Netherlands in Comparative Perspective. *Local Government Studies, 31*(1), 99-120.

Kemmerling, A., & Bodenstein, T. (2006). Partisan Politics in Regional Redistribution: Do Parties Affect the Distribution of EU Structural Funds across Regions? *European Union Politics, 7*(3), 373-392.

Kemmerling, A., & Stephan, A. (2008). The politico-economic determinants and productivity effects or regional transport investment in Europe. *EIB Papers, 13*(2), 37-60.

Knill, C. (1998). European Policies: The Impact of National Administrative Traditions. *Journal of Public Policy, 18*(1), 1-28.

Krugman, P. (1991). *Geography and Trade*. Boston, MA: MIT Press.

Marks, G. (1995). Structural Policy and Multilevel Governance in the EC. In A. W. Cafruny & G. G. Rosenthal (Eds.), *The State of the European Community* (Vol. 2). Essex: Longman.

Marks, G., Hooghe, L., Nelson, M., & Edwards, E. (2006). Party Competition and European Integration in the East and West: Different Structure, Same Causality. *Comparative Political Studies, 39*(2), 155-175.

Martin, P. (2000). The role of public policy in the process of regional convergence. *European Investment Bank Papers, 5*(2), 69-79.

Martinez-Vazquez, J., & McNab, R. M. (2003). Fiscal Decentralization and Economic Growth. *World Development, 31*(9), 1597-1616.

Mendez, C., Wishlade, F., & Yuill, D. (2006). Conditioning and Fine-Tuning Europeanization: Negotiating Regional policy Maps under the EU's Competition and Cohesion Policies. *Journal of Common Market Studies, 44*(3), 581-605.

Mendez, C., Wishlade, F., & Yuill, D. (2008). Made to Measure? Europeanization, Goodness of Fit and Adaptation Pressures in EU Competition Policy and Regional Aid. *Journal of Comparative Policy Analysis: Research and Practice, 10*(3), 279-298.

Midelfart-Knarvik, K. H., & Overman, H. G. (2002). Delocation and European integration: is structural spending justified? *Economic Policy, 17*(35), 321-359.

Nordsieck, W. (2009). Parties and Elections in Europe (Publication. Retrieved 11-Aug-2009: http://www.parties-and-elections.de/

Oates, W. E. (1999). An Essay on Fiscal Federalism. *Journal of Economic Literature, 37*(3), 1120-1149.

Olson, M. (1965). *The logic of collective action : public goods and the theory of groups*: Harvard U.P.; Oxford U.P.

Olsson, J. (2003). Democracy paradoxes in multi-level governance: theorizing on structural fund system research. *Journal of European Public Policy, 10*(2), 283-300.

Ottaviano, G. I. P. (2008). Infrastructure and economic geography: An overview of theory and evidence. *EIB Papers, 13*(2), 8-35.

Ottaviano, G. I. P., & Puga, D. (1998). Agglomeration in the Global Economy: A Survey of the 'New Economic Geography. *The World Economy, 21*(6), 707-731.

Paraskevopoulos, C. J., Getimis, P., & Rees, N. (2006). *Adapting to EU multi-level governance : regional and environmental policies in cohesion and CEE countries*. Aldershot ; Burlington, VT: Ashgate.

Pike, A., Rodriguez-Pose, A., & Tomaney, J. (2006). *Local and regional development*. London: Routledge.

Piore, M. J., & Sabel, C. F. (1984). *The second industrial divide : possibilities for prosperity*. New York: Basic Books.

Porter, M. E. (1990). *The competitive advantage of nations*. New York: Free Press.

Prud'homme, R. (1995). The dangers of decentralization. *World Bank Research Observer, 10*(2), 201-220.

Puga, D. (2002). European regional policies in light of recent location theories. *Journal of Economic Geography, 2*, 373-406.

Puga, D. (2008). Agglomeration and cross-border infrastructure. *EIB Papers, 13*(2), 102-124.

Putnam, R. (1988). Diplomacy and domestic politics: the logic of two-level games. *International Organization, 42*(3), 427-460.

Rodriguez-Pose, A., & Bwire, A. (2004). The economic (in)efficiency of devolution. *Environment and Planning A, 36*(11), 1907-1928.

Rodriguez-Pose, A., & Fratesi, U. (2004). Between Development and Social Policies: The Impact of European Structural Funds in Objective 1 Regions. *Regional Studies, 38*(1), 97-113.

Rodriguez-Pose, A., & Gill, N. (2003). The global trend towards devolution and its implications. *Environment and Planning C, 21*(3), 333-351.

Rodriguez-Pose, A., & Gill, N. (2004). Is there a global link between regional disparities and devolution? *Environment and Planning A, 36*(12), 2097-2117.

Rodriguez-Pose, A., & Gill, N. (2005). On the 'Economic Dividend' of Devolution. *Regional Studies, 39*(4), 405-420.

Rodriguez-Pose, A., & Sandall, R. (2008). From identity to the economy: analysing the evolution of the decentralisation discourse. *Environment and Planning C: Government and Policy 26*(1), 54-72.

Saxenian, A. (1994). *Regional advantage : culture and competition in Silicon Valley and Route 128*. Cambridge, Mass: Harvard University Press.

Scharpf, F. W. (1988). The Joint-Decision Trap: lessons from German Federalism and European Integration. *Public Administration, 66,* 239-278.

Scharpf, F. W. (2006). The Joint-Decision Trap Revisited. *Journal of Common Market Studies, 44*(4), 845-864.

Storper, M. (1997a). Regional economies as relational assets. In *Regional World: territorial development in a global economy*. New York: Guilford Press. .

Storper, M. (1997b). *The regional world : territorial development in a global economy*. New York: Guilford Press.

Storper, M., & Venables, A. J. (2004). Buzz: face-to-face contact and the urban economy. *Journal of Economic Geography, 4*(4), 351-370.

Šumpíková, M., Pavel, J., & Klazar, S. (2004). *EU Funds: Absorption Capacity and Effectiveness of Their Use, with Focus on Regional Level in the Czech Republic.* Paper presented at the Problems facing the New Member States: The capacities of regional public administrations to participate in EU programmes and the risks of mismanagement of EU funds., Vilnius.

Thielemann, E. R. (1999). Institutional limits of a 'Europe with the Regions': EC state-aid control meets German federalism. *Journal of European Public Policy, 6*(3), 399-418.

Thielemann, E. R. (2002). The Price of Europeanization: Why European Regional Policy Initiatives Are a Mixed Blessing. *Regional & Federal Studies, 12*(1), 43-65.

Tiebout, C. M. (1956). A Pure Theory of Local Expenditures. *The Journal of Political Economy, 64*(5), 416-424.

Tocqueville, A. C. H. C. d., Reeve, H., Taylor, R., Ball, J. T., Saunders and Otley., Martin R. & Co., et al. (1836). *Democracy in America* (Second edition, in two volumes. ed.). London: Saunders and Otley.

Trigilia, C. (1992). Italian industrial districts: neither myth nor interlude. In F. Pyke & W. Sengenberger (Eds.), *Industrial districts and local economic regeneration* (Vol. OFF PUBNS ILO). Geneva: ILO.

Wonka, A. (2008). Decision-making dynamics in the European Commission: partisan, national or sectoral. *Journal of European Public Policy, 15*(8), 1145-1163.

8 ANNEX: DEFINITION OF VARIABLES

Variable	*Definition and description*	*Source*
Obj1_d	Region eligible for the Objective1 for the Cycle 2000-06	(EU-DGRegio, 2008)
dSF_log	(Log of) Structural funds per capita collected by the region (Objective1 + Objective2 + INTERREG+ URBAN+ Cohesion fund) for the Cycle 2000-06 on the average of the funds collected by all the regions in the same nation (*100).	
GDPpc_log	(Log of) regional GDP per capita on PPS in 1999	(my elaborations on EUROSTAT, 2009)
dGDPpc	Regional GDP per capita on PPS in 1999 on the average of all the regions in the same country (*100)	
UnEmpl_log	(Log of) Regional Unemployment rate on active population in 1999	
dUnEmpl	Regional Unemployment rate on active population in 1999 on the average of all the regions in the same country (*100)	
CAPshare	Share of the total amount of funds of the funds for the Common Agricultural Policy received by the country	(EU-Commission, 2000)
CF_d	Region in a country receiving the Cohesion Funds for the Cycle 2000-06	(EU-DGRegio, 2008)
Country_d	National dummies	--
RegConst	Constitutional legitimacy of Regional governments: "the extent to which regional representatives co-determine constitutional change" (Hooghe et al., 2008, p. 261)	(Hooghe et al., 2008)
Nat1st-2nd	Political instability of the region in the last national elections: Difference in the share of votes in the region between the first and the second most voted parties in the last national election.	(my elaborations on Cattaneo, 2007; CivicActive, 2006; EPoC, 2009; Nordsieck, 2009)
Reg1st-2nd	Political instability of the region in the last regional elections: Difference in the share of votes between the first and the second most voted parties in the last regional elections.	
NatGovLegitimacy	National government legitimacy Share of votes collected in the region by the party or the coalition of parties ruling national government in 1999	
RegGovLegitimacy	Regional government legitimacy Share of votes collected by the party or the coalition of parties ruling regional government in 1999	
NatRegAlign_d	National Regional alignment: dummy variable if regional and national governments are ruled by the same party or the same coalition of parties (1= aligned, 0= not aligned).	
L&A	'National-Regional Legitimacy and Alignment Indicator'. If NatRegAlign_d = 1 L&A = NatGovLegitimacy * RegGovLegitimacy If NatRegAlign_d = 0 L&A = (-1) * NatGovLegitimacy * RegGovLegitimacy	