

BEING POOR IS NOT ENOUGH: THE ‘NON-WRITTEN’ FACTORS AFFECTING THE
ALLOCATION OF THE EU STRUCTURAL FUNDS

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ABSTRACT

The European regional policy is conceived to support ‘regional convergence, competitiveness and cooperation’. However, given the complexity of the European multi-level governance (MLG), the ‘Structural Funds’ policy (SF) suffers an ‘economic democratic paradox’ (Olsson, 2003) because the allocation of these funds follows the EU eligibility criteria to a limited extend. The paper shows the significant heterogeneity across EU Member States, and some effects determined by institutional constraints affecting inter-regional distribution. Specifically, the fact that more decentralized countries suffer limits in the implementation of this inter-regional redistributive policy. The analysis of the allocation of the SF is based on a quali-quantitative methodology considering the differentials of regional allocation of funds on national average at the EU-15 level for SF cycles since 1985 onwards.

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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, pag. 291)

The Structural Funds (SF) policy of the European Union (EU) has been set up to support territorial development in lagging regions, promoting ‘cohesion, competitiveness and cooperation’, similarly to other regional policies. However, the EU is not formally a ‘state’ and the institutional process of policy design and implementation is extremely complex, given the scale and the complex institutional framework of the EU. Basically, the SF policy requires an inter-national agreement among European, national and regional² governments to provide a redistributive policy across regions.

The results of a regional policies depend not just by its overall economic rationale, but also by the capability of institutions to make operative this design. This is a classical problem of policy implementation: the EU case is particularly relevant given the difficulty of coordination among different tiers of government, without a formal sovereignty of the upper tier. In comparison to the other main pillars of the EU, like the Common Agricultural Policy (CAP) and the Single European Market (SEM), the SF is the only policy in which governments have to coordinate themselves and play an active role, whereas for both CAP and SEM they have ‘just’ to define common rules and set up regulatory institutions³.

From a theoretical point of view, the EU regional policy constitutes a unique opportunity to understand the role of different institutional frameworks for territorial economic development, whereas there is generally lack of attention on this field (Bennett, 1997). Specifically, this policy is a good case study because regions with different institutional frameworks are called to implement the same policy.

Moreover, the large debate on the evaluation of the EU regional policy does not pay adequate attention on this issue⁴. Furthermore, the importance of regional governments is becoming a more relevant aspect, considering the general process toward decentralization, which determines a rise in importance of regional governments (Rodriguez-Pose & Gill, 2003). Especially in the case of the EU, the SF has been explicitly conceived as a way to promote a growing role for regional governments.

² Although the definition of ‘regional governments’ is ambiguous because each country has its own institutional architecture, with this term are included all the tiers of government charged by the EU Commission to manage SF.

³ Obviously, this do not mean that the other main EU policies are ‘easy’.

⁴ (e.g. Boldrin & Canova, 2001; Cappelen, Castellacci, Fagerberg, & Verspagen, 2003; Midelfart-Knarvik & Overman, 2002; Puga, 2002; Rodriguez-Pose & Fratesi, 2004).

The aim of this paper is twofold. Firstly, the heterogeneity of intervention of the SF will be presented, and then the main effects of different institutional frameworks will be discussed. Specifically, the interest is to show the fact that allocation criteria are too weak to assure that poorer regions receive more funds, also within the same objective. Even though the allocation of funds is mainly driven by the regional level of development, there are significant ‘distortions’ affecting the intensity of the EU intervention. Although this might be seen as a ‘reasonable flexibility’ to adapt the EU policy to regional specificities, this heterogeneity and instability might undermine the rationale of the SF, explaining the lack in results of this policy.

Considering the effects of institutions, the aim of the paper is to show that in more decentralized countries, regional policies are weakened because national government has limited power to impose this kind of redistributive policy. This result is relevant considering the upper level (the EU) because could imply that to make more effective the SF, it is necessary to reinforce the EU sovereignty and legitimacy, otherwise the inter-regional redistribution (in this case across different countries) cannot become sufficiently relevant according to the goal set up by EU member states.

In this paper, the effectiveness of this policy will not be considered, whereas the focus is on the heterogeneity of this policy, specifically on the effects determined by different institutional frameworks. The analysis will be developed across several cycles of the EU regional policy, starting from 1985-88 (cycle 0) to the current cycle 2007-13 (cycle 4). The analysis will be carried out at NUTS-2 level for all the EU-15 states⁵ in order to have the longest period for data.

The structure of the paper is organized in three sections after this introduction, plus conclusions. In Section 2, the characteristics of the EU regional policy are presented, focusing on the institutional bias determined by the EU multi-level governance (MLG). In section 3, a framework for the analysis is proposed describing the importance of institutional aspects and the general trend toward decentralization, introducing the main aspects of the ‘Territorial Collective Action’ theory. In Section 3, a qualitative analysis is presented in order to show the limits of a weak coordination of policies among member states and the main effects of institutional and political aspects distorting the allocation of SF. Finally, some conclusions with further research development and policy options.

⁵ Although all the EU-15 are included in the database, given the focus on the intra-national allocation of funds across regions, Denmark, Ireland and Luxembourg have been excluded because they are too small to implement inter-regional redistribution. Furthermore, Greece has been excluded for significant lack of data.

2 Structural Funds or an EU coordination of national regional policies

2.1 Main characteristics and evolution of the EU regional policy

In order to promote ‘cohesion, competitiveness and cooperation’ across member states (EU Commission, 2010), the EU has set up a common regional policy to support ‘lagging territories’, which means regions with lower income, higher unemployment, socio-economic structural problems and/or peripheral positions. The ‘European Regional Development Fund’ (ERDF) has been set up in 1975, while a main reform has been implemented in 1989 determining a dramatic increase of resources. In 1999, a minor reform has been introduced in order to simplify the complex framework as defined ten years before, and then facilitate the management of this policy in the context of an enlarged EU.

The EU regional policy has been conceived as a way to face strong inter-regional disparities determined by the progressive accession of poorer countries: firstly, Greece, Portugal and Spain, and then other countries like ex-communist states. These problems became progressively more relevant in a context of growing polarization of development (Brakman & van Marrewijk, 2008). Furthermore, the SF policy became a pillar of the EU promoting integration and cooperation across states. Finally, the EU regional policy is conceived also as a way to balance the effects of the other sectoral policies, specifically CAP and SEM (Scharpf, 1988). In the ‘reformed’ EU regional policy, European funds have been doubled and then they have been progressively expanded becoming, nowadays, almost half of the EU budget for the period 2007-13 (Harrop, 2004).

In the reform of 1989, four general criteria have been defined for the SF. Firstly, the European regional policy is based on ‘multi-annual programmes’ proposed by regions, with the support of the States and co-financed by European funds⁶. Secondly, national governments have to concentrate resources on specific ‘objective’ regions defined at the EU level via some common and general rules (Mendez, Wishlade, & Yuill, 2006). Thirdly, Member States must co-finance programmes (criterion of ‘additionality’) to avoid the risk of an ‘effect of substitution’. Fourthly, governments must involve other actors (criterion of ‘partnership’) to design and implement development programmes, specifically regional governments.

These criteria have been substantially confirmed since 1989 through cycles, although they have been slightly modified increasing progressively resources, changing eligibility criteria of minor objectives and simplifying finance management procedures (Bachtler & Mendez, 2007; Bailey & De Propriis, 2002, 2003). In 1999, it has been adopted a common framework for the

⁶ In the pre-1989 version, the regional policy was articulated in several programmes specifically oriented to different problems and regions.

European territorial development, called ‘European Spatial Development Perspective’ (Council of Ministers, 1999). however, this was conceived more as a ‘guideline’ to orient the EU regional policy rather than a spatial development programme. In conclusion, the existence of this policy might be seen as a significant result considering the extremely complex context of the EU. However, the institutional framework has affected dramatically the implementation of this policy.

2.2 Areas of intervention

Considering the area of interventions, the SF policy has been kept constantly oriented in favour of the so-called ‘Objective-1’ regions, which are identified as territories at NUTS-2⁷ level with a level of GDP per capita below 75% of the EU average. This rule has been confirmed since 1989 through all the cycles and few regions have been able to go-beyond this threshold. However, the enlargement of the EU via the accession of poorer countries determined a fall in the European average, determining the exclusion of many regions just for a statistical effect.

Differently from the Objective-1, the Objective-2 has had significant changes. Generally, this objective was focused on regions with ‘structural problems’ of industrial re-conversion. The main problem targeted by this policy is unemployment. From 1989 to 1999 the objective-2 was accessible only for regions (NUTS-2) having in their territory provinces (NUTS-3) below 75% of the EU average of long-term unemployment rate, whereas in 1999 a reform has been introduced allowing all the non Objective-1 regions to access Structural Funds (Bachtler & Mendez, 2007)⁸.

Some other minor objectives have been set up. The most important is the ‘Objective-3’, as was called during period 2000-06⁹ that became ‘Cooperation’ during 2007-13. This objective involves the different types of ‘Interreg’ programmes for inter-regional cooperation across regions. Some other programmes have been included through cycles, like the Objective-6 (cycle 1995-99) for regions with very low population density in Finland and Sweden. In spite of the change of labels, the most important objectives (Ob.1, 2 and 5b that became now ‘convergence’ and ‘competitiveness’) have been substantially confirmed through cycle with the only significant reform of the spread of Objective-2 eligibility to all the non-Objective-1 regions.

⁷ Generally, the statistical unit NUTS-2 corresponds with regional level, except in some cases like Belgium, Germany, and the UK where the NUTS-1 level has been used.

⁸ This reform has been criticized because would have allowed too many regions without specific needs to access these funds. However, the Objective-2 has been generally provided with minor resources rather than the Objective-1.

⁹ From 1989 to 1999 the ‘Objective 3’ was called ‘Objective 5b’. During these cycles, there were 6 objectives, while objective 4 and 5a were not really ‘regionalized’. Although these changes, these objectives have been substantially kept constant through cycles.

According to criteria presented above, each member states receive an amount of funds proportional to the difference between their regions and the EU average. Member States have the only constraints to allocate funds received for each objective in eligible regions, however, the inter-regional allocation within each objective does not have formal constraints, but depends from national and regional development programmes. However, “it has been shown [...] that compared to the initial distribution proposed by the European Commission, Member States operate significant adjustments in the allocation of financial resources between sectoral and regional programmes, and among regional programmes”(De Michelis & Monfort, 2008, p. 20). The freedom of national governments to re-allocate Structural Funds across their regions is a crucial aspect because this might introduce dramatic changes on the policy rationale as defined at the EU level. This lack of constraints is the result of limited competences assigned to the EU institutions by national governments.

2.3 The Multi-Level Governance of the Structural Funds

In the field of the political sciences, the European Union (EU) is a central topic for scholars all around the world because it is more than a permanent international agreement, but less than a federal state. The specificity of the EU is to have some supra-national institutions, like a Parliament and an executive branch¹⁰, whereas it has a very limited sovereignty (Thielemann, 1999). The main limit of the EU institutions has been described by the problem of the ‘joint-decision trap’ (Scharpf, 1988).

The EU provides just arenas for joint decisions across member states, rather than a formal institution with autonomous sovereignty. This system determines sub-optimal decisions because only win-win game and Pareto-efficient improvements could be implemented; whereas, in states provided with full sovereignty, it is possible to implement structural reforms and manage conflicts given by zero-sum games. Accordingly, this ‘trap’ determines the risk of overspending public resources to achieve unanimity across states¹¹. The collective experience of EU decision making and the recent institutional reforms have improved EU institutional efficiency because the increased role of the EU Commission determined a fall in the transaction costs required for the agenda setting (Scharpf, 2006).

Considering just the EU regional policy, three different tiers of government are involved in a three steps procedure (Bachtler & Mendez, 2007; Olsson, 2003). At the first step, the EU Commission and the National Governments negotiate the general guidelines of the policy, including the *inter*-national budget allocation and the criteria for regional eligibility to objectives. In the second step, National Governments have to design their own strategy of

¹⁰ The EU Commission could not considered properly as a government. However, we do not want to discuss the legal implication of this institution.

¹¹ Furthermore, it should be considered also the problem of common decision among governments with different electoral cycles.

territorial development. Within this strategy, regional governments have to participate providing their own programmes for development. This process is basically based on national institutions and their decision making systems. According to these programmes, European funds are allocated.

The final result is a set of common rules to identify similar regions eligible for the European 'objectives' and common criteria to evaluate national and regional development programmes, determining the final allocation of funds. From the point of view of national governments, each national governments receive a certain amount of funds divided by objective, and then states are relatively free to adapt the EU regional policy to their needs. This is the space for most relevant political decisions.

Considering the three tiers of government involved, it has been shown that the EU Commissioners have limited political role because their legitimacy is ambiguous (Wonka, 2008). Whilst, considering the dynamics among European, national and regional politics "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). According to the 'joint-decision trap', in a context of required unanimity, like the EU, a weak national government can negotiate better conditions because, otherwise, this will not be able to vote, and then the entire arena cannot achieve an agreement. However, this rule does not affect states with complete sovereignty because they are provided with formal authority to impose decision taken by the majority.

Considering specifically the case of EU regional policy, a local lobby might pay to influence the decision making process in favour of their interests, undermining the rationale of the EU policy. However, this effect might be positive because regions provided with strong political leadership have the incentive to propose 'better' development programmes and then receive more funds. According to the literature on the Structural Funds, this system has allowed a 'pork barrel politics' determined by a large amount of available resources and limited constraints imposed by the EU on member states.

3 Regional governments for territorial economic development

3.1 *The importance of the institutional framework*

Any regional policy is basically a redistributive policy across regions. Even though there are different economic theories about the rationale of regional policies, this means that taxation on richer regions finances public investments in poorer ones. It is not necessary to discuss all the theories proposed to explain why this should be done and which benefits are expected. However, it is sufficient to note that the EU has set up this type of policy to achieve ‘convergence, competitiveness and cooperation’ with a lack of attention on the adequacy of the institutional framework.

Considering the main reasons to have a regional policy, the public redistribution might be a way to support a raise in income in lagging regions, and then expand national demand for markets where are active economic actors coming from richest regions and that finance this policy by their taxes. Furthermore, this can be done also to limit costs of congestion in richest regions. Moreover, a regional policy can be set up for equity reasons and ‘national solidarity’, although this is more a political argument, rather than an economic base. Finally, the sustainable argument has been introduced in order to show the importance of inter-regional redistribution to face rising of social inequalities.

From an institutional point of view, in the case of the SF, the principle of *partnership*, which implies the involvement of regional governments, it not obvious because for long time the national governments intervened directly defining priorities and implementing programmes. However, in the case of the EU, the ‘centre’ is not allowed to intervene directly, and then has been designed a complex system to implement this policy. If the existence of this policy might be seen as a ‘first-step success’, the efforts by the EU to coordinate national and regional governments are too weak and national institutions are still too relevant to consider SF as a unique policy. However, the EU regional policy is just a sum of national policy for regional development and this explain the heterogeneity of results.

The lack of attention in the institutional effects on economic policy has became more relevant considering the new institutional context and the EU complexity. Specifically, in the recent decades there has been two relevant trends. Firstly, the creation of the EU as supra-national institutional tier determined a change in the idea of sovereignty of states, which became linked not just by international agreements. Secondly, there is a symmetric process of decentralization of powers from national to regional governments (Rodriguez-Pose & Gill, 2003). In the next section the main effects of this trends will be discussed briefly.

3.2 The main effects of decentralization

Since 1970s, there is a general trend in decentralization of powers from national toward sub-national governments (Rodriguez-Pose & Gill, 2003), which has been determined mainly by the failure of centralized systems (Oates, 2005). This process of ‘decentralization’ has been implemented via the spatial ‘deconcentration’ of public offices, the ‘delegation’ of national power to public agencies focused on specific regions (‘delegation’), and/or via a redistribution of public powers and political legitimacy in favour of sub-national tiers of government (Prud'homme, 1995; Rodriguez-Pose & Gill, 2004). Obviously, these reforms have been implemented considering the different starting point of national institutions (e.g. the ‘federal’ Germany or the ‘centralized’ France) and the different geographical features of each country, like size, presence of socio-ethnic minorities or peripheral areas. This process of decentralization has started as a way to assure autonomy to local identities, whereas recently has been based more on ‘economic’ arguments (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).

According to supporters of decentralization, the possibility to tailor public policies on local needs should increase efficiency reducing waste of public resources (Azfar, Kähkönen, Lanyi, Meagher, & Rutherford, 1999). This is possible via a direct access on relevant information that lower tiers of government can have easily rather than upper tiers. Furthermore, lower tiers of governments should be more able to mobilize local endogenous actors. All these arguments support the idea of the existence of an ‘economic dividend’ determined by decentralization (Rodriguez-Pose & Gill, 2005).

Opposing the supporters of previous arguments, it has been argued 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). Furthermore, decentralization could produce undesired effects because multiplying centres of public expenditure can be a risk for the general macro-economic stability or hide other kinds of reforms, like ‘hidden’ privatisation of public services (Prud'homme, 1995). Finally, if the number of governments increase, it might be harder to have an adequate number of highly skilled civil servants for all these administrations (Azfar, et al., 1999).

The territorial effects of this processes seem unclear (Ezcurra & Pascual, 2008; Gil Canaleta, Pascual Arzoz, & Rapún Gárate, 2004; Martinez-Vazquez & McNab, 2003). From a theoretical perspective, it is unclear if decentralization boosts territorial competition allowing poorer regions to develop their potentialities, and then having regional convergence (Rodriguez-Pose & Arbix, 2001), or if this determines a lack of inter-regional support ‘leaving behind’ poorer regions. From a political point of view, the multiplication of tiers of government makes harder the responsibilities of each government, and then of elected

politicians, in front of its electors (Putnam, 1988). Furthermore, there is not clear evidence on the positive or negative effects of decentralization on corruption. Therefore, according on the literature, the effects of decentralization for territorial development are still unclear and constitutes an open challenge for regional studies.

3.3 The 'territorial collective action' (TCA) problem

According to the main arguments in favour of decentralization, it is relevant to consider what are the effects of a redistribution of public powers across tiers of government. Generally, if resources and competences are decentralized, it becomes harder to provide redistributive policies across regions (Ezcurra & Pascual, 2008). In the case of the EU regional policy, there are two levels of decision. At the European level, national governments must achieve unanimity on the criteria for the redistribution of resources; at each national level, regional stakeholders negotiate in the national decision making arena how these (large amounts of) funds will be used.

When in 1989 the SF were reformed, the criteria of 'additionality', 'programming' and 'partnership' introduced significant challenges for those regions. By this mechanism, there is a strong incentive for regional governments to engage themselves in 'collective actions' (Cheshire & Gordon, 1996; Olson, 1965). However, regional collective action to access these funds is neither costless nor without risks.

According to the 'classical' theory of Mancur Olson (1965), actors coordinate themselves if they have interest in a good or service that cannot be produced by an individual because it is too expensive or because it is not excludable and then will not provide enough returns for the individual producer. Therefore, actors interested in this collective good coordinate themselves to produce it, overcoming economic and organizational costs. The main problem of the collective action is that larger group can achieve economies of scale, while they suffer higher costs of coordination.

This theory has been applied to the regional field by Cheshire and Gordon (1996): local actors are interested in regional development according to the benefits they receive for being part of a competitive environment, and then they are interested in the maximization of opportunities or the reduction of negative externalities of their territories. As example, an infrastructure is a collective goods providing benefits that are 'exclusive' for actors localized in that territory.

Generally, institutions are set up to promote the management of this issues via a reduction of coordination costs. However, this collective action do not happen systematically and might fail because costs are (or are perceived as) higher than benefits. Assuming this perspective, a crucial factor for long-term development is the collective learning to carry out this kind of coordination. In a virtuous cycle, regions should learn to coordinate themselves, improving their self-organization. Furthermore, decentralization should boost these processes reinforcing

local governments in a fourth fold role, as pivot actors for policy agenda setting, as place where common regional decisions are taken, as spokesman of regional interests, and executive branch implementing collective decisions. The reinforce of these actors should facilitate their role in the reduction of coordination costs. However, a multiplication and fragmentation of actors might be a problem because there will be multiple pivot actors or decision arenas, and then actors have to coordinate themselves more than once to lobby and promote their interests.

In order to test the previous hypothesis about regional capabilities of TCA, it is very problematic to design an adequate and completely exhaustive methodology. However, the case of SF could provide significant indications given the relative flexibility of the policy and the large amount of resources available, mainly for Objective-1 regions. Specifically, the aim of this paper is to show heterogeneity in the allocation of SF and which institutional framework enables or limits inter-regional redistribution.

From an institutional point of view, it is necessary to consider if the institutional framework enables or facilitate inter-regional redistribution. According to the limit of the multi-level governance presented above, a redistributive policy is facilitated by centralized systems because decisions can be taken by majority, which means a coalition of regional interests rather than in the case of federalism where each region can play (a kind of) veto-power. However, it is necessary that regions have a government in order to use their 'voice', reducing local costs of coordination. Therefore, in more decentralized country we expect lower redistribution of funds rather than in centralized system. In order to test for the existence of a TCA, the political aspects will be considered: if a region wants to access more funds, this will be interested to be part of national political majority to become the decisive lobby in the allocation of funds.

4 The differences in the allocation of the SF

4.1 Indexes and data used

In order to study the allocation of SF across regions, the basic index is the total sum of funds per capita specifically allocated to each EU region on the national average, as shown in [Equ. 1].

$$dSF_{r,t} = (SF_{pc\ r,t} / SF_{pcn,t}) - 1 \quad [Equ. 1]$$

Where ‘SF_{pc}’ are the total amount of SF per capita given to region ‘r’ for the cycle ‘t’ on the national average ‘n’ of the same value for the same period. The subtraction of 1 helps readability of this indicator because when the value is negative the region receives less than national average and vice versa. The use of a ‘per capita’ allocation allows to reduce problems for different regional size. In the variable ‘SF’ are included all the funds received by regions from Objective-1, Objective-2, Cohesion Funds (EU Commission, 1996, 2009, 2010) and pre-1989 reform’s funds for cycles 1985-88, 1989-93, 1994-99, 2000-06, and 2007-13 (EU Commission, 1989, 1996, 2009, 2010), while are excluded all the other funds like Interreg and Urban. Furthermore, the index do not include funds received by a country and that are not specifically allocated to a region¹². All the funds are calculated in Euros (or in EMU), while inflation is not considered because the indicator is conceived to show cross section differences rather than inter-temporal evolution.

As territorial statistical units, regions are identified according to NUTS-2 classification, except in the cases of Belgium, Germany, the Netherlands and the UK it has been used the NUTS-1 level because this corresponds to the level of regional governments or agencies. This homogenization introduces some distortion because these levels have been changed in some countries across cycles. However, this aggregation of sub-regional units allows to have a constant classification allowing inter-cycle comparisons.

In order to analyze regional level of development, the basic indicator used as EU benchmark is GDP p.c. at PPP. According to the EU agreements for each cycles, all the data are referred to the most recent period available when the institutional agreement have been signed. Specifically, given statistical constraints, data about GDP are available with about 3 years of delay. As example, this means that the agreement in 2006 for funds of cycle 2007-13 was based on GDP data for period 2000-02. According to institutional agreement, this system is

¹² This happens when some funds are used by national governments for policy of national interest or when some funds have been used on multiple regions.

basically constant through cycles and constitutes a useful reference for a comparative research.

The second set of variables are institutional and political dataset, in order to analyze institutional data Hooghe, Schakel and Marks have provided a complete dataset including all the EU-15 states for the entire period considered (Hooghe, Schakel, & Marks, 2008). Specifically, this dataset provides a complete set of comparable indicators about the distribution of public powers across tiers of government, avoiding problems linked with fiscal transfer that are not always comparable or manageable (Ebel & Yilmaz, 2002; Martinez-Vazquez & McNab, 2003; Thiessen, 2003). In order to adapt this indicator to the case of the EU regional policy, index used are the regional average in the three years before the agreement, without further shifts that have been applied in the case of GDP. Finally, political variables have been collected from public database available online that collected election results across countries for ruling government when the EU agreement have been signed (CivicActive, 2006).

4.2 The EU Regional Policy is a weak coordination of national policies [650]

The evolution of the allocation of funds across regions in each member states is shown in the graphs listed below [Fig. 1]. Even though the analysis suffers some data constraints determined by limited data availability, it is possible to compare the four main cycles, after the Reform in 1989, which can be assumed as starting point. The graphs plot on the horizontal axe the level of GDP per capita of each region (100 = EU average in the cycle) and on the vertical axe the indicator dSF, as calculated in [Equ. 1]. These graphs are conceived to compare the different allocation of funds by each member states on similar level of economic development.

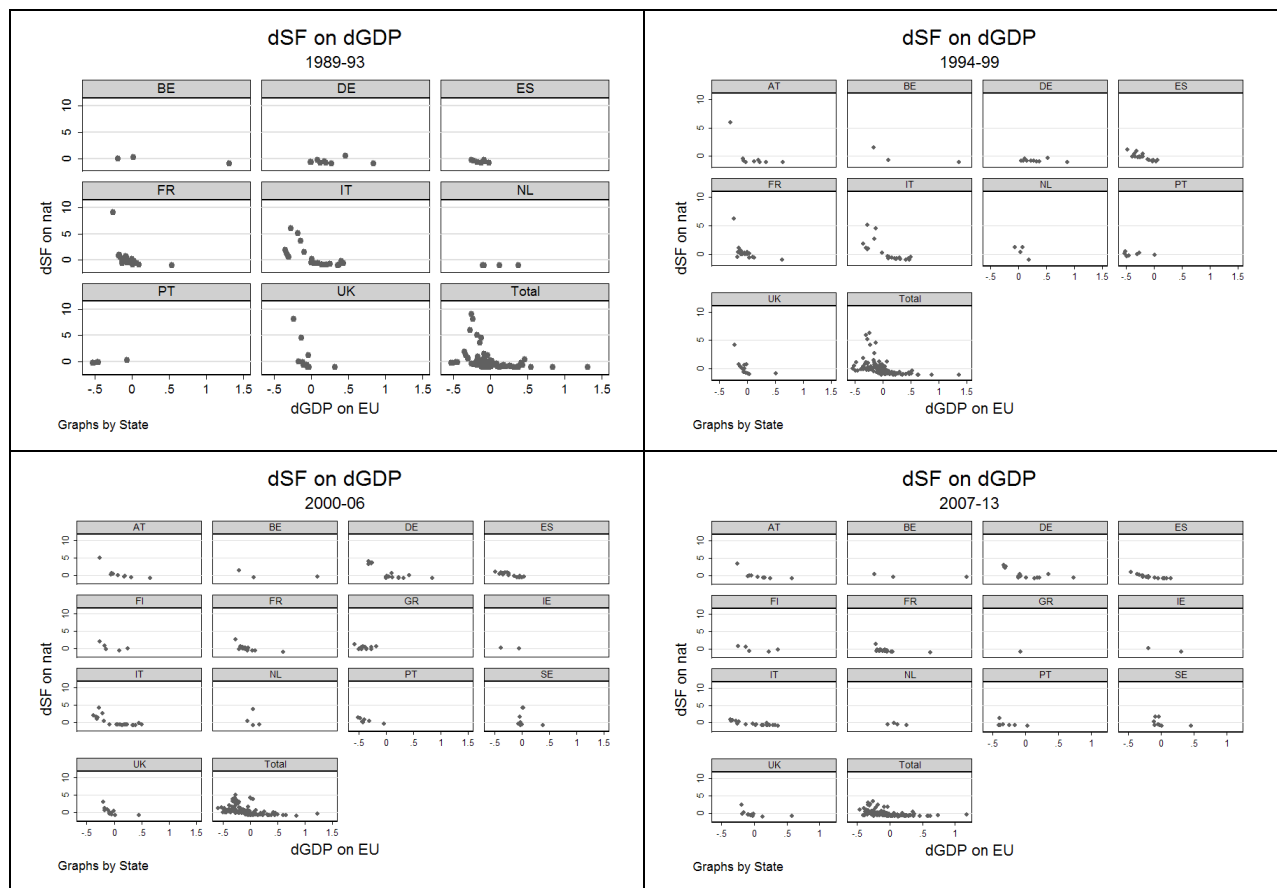


Fig. 1 Allocation of the SF across Member States

The first two evident results are the general trend of a proportional allocation of funds in favour of poorer regions and, second, significant differences within countries. This second aspect is crucial. Even though each member state has a different level of inter-regional disparities, the shape of the general distribution in each country is significantly different: if France (FR) tends to be the more progressive one in the allocation of the SF, Italy (IT) makes strong differentiation among regions with similar level of under-development, whereas Belgium (BE) and Spain (ES) tend to make minor differences across regions.

If we consider the effects of Reforms in 1999, it is possible to observe a general trend in the reduction of differentiation in the allocation of funds between richer and poorer regions. This has been determined by the enlargement of the eligibility criteria for Objective-2. However, these changes are limited, and this might suggest that the innovation determined by the reform was more in terms of procedure and management, rather than in the final distribution of funds. Generally, there is a certain degree of inertia in the allocation of SF, depending by the difficulty for national decision makers to re-negotiate the distribution of funds, and then for the re-definition of inter-regional equilibrium.

Even though the GDP p.c. is a rough indicator, these differences are confirmed if we use other indicators, like unemployment ratio. This means that the efforts to coordinate intervention at

the EU level did not succeed because regions with similar problems of under-development in two different countries will receive differentiated support. Furthermore, this support might change across time. These aspects support the idea that SF are more an inter-governmentalist policy rather than a supra-national one.

4.3 The bottom-up perspective: three national cases

In this section, three national cases will be presented in order to show the specific regional trends of some selected contexts: the Northern regions of the UK, the Southern regions of Italy (the ‘Mezzogiorno’) and Belgium. In the next section, more specific cases will be presented for regions with similar characteristics.

All the graphs presented below show the level of regional GDP p.c. on national average as proxy of regional level of development plotted on dSF calculated on national average. These values are presented for single regions across time, according to data availability.

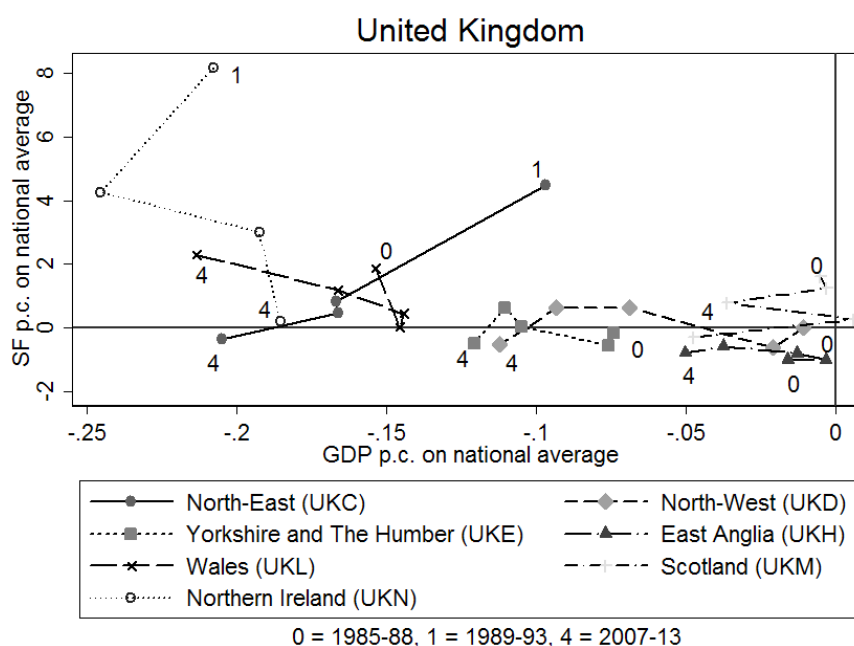


Fig. 2 The case of Northern and Western regions of UK

The case of the United Kingdom is relevant given the changes in the institutional framework with growing autonomy for Wales, Scotland, and the Northern Ireland. In graph [Fig. 2], it is evident the trend towards regional divergence shown by the fact that all these regions are moving to the left. This is determined by the progressive polarization of British development on its capital, London.

If we consider each regional case, the two English regions (North-East and North-West) suffer a dramatic crisis determining a strong process of divergence, however, they do not receive a significant increase in terms of funds allocated. Specifically, in the case of North-

East (UKC), it is possible to observe a dramatic reduction in the support provided by the EU regional policy. Whilst, funds for Scotland (UKM) and Wales (UKN) have the opposing trajectory, reducing for Scots and growing for Welsh, although both suffer a process of divergence. The case of Wales represents the ‘paradigmatic’ and ‘expected’ trend because declining regions receive larger amount of funds, however, the graph shows clearly that this is an exception because this does not happen for North-East. Finally, the special status introduced for Northern Ireland in cycle 1 (1989-93) have been progressively and dramatically reduced.

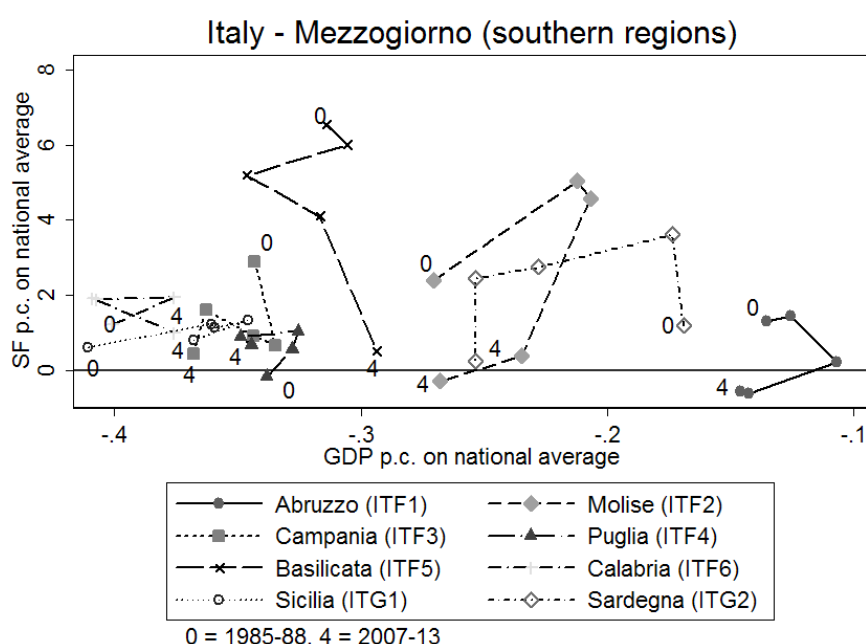


Fig. 3 The case of Italian ‘Mezzogiorno’

The case of Southern Italian regions is one of the most relevant given the situation of long-term underdevelopment of these regions. Considering the graph in [Fig. 3], we can identify two groups of regions: the group of poorer (and bigger) regions, Calabria (ITF6), Campania (ITF3), Puglia (ITF4), and Sicilia (ITG1), receives a lower amount of funds in comparison to other regions, also if they are the poorest. However, their level of underdevelopment on the national average is substantially stable through cycles (from 1985-88 to 2007-13). Opposing to this case, less under-developed regions, like Basilicata (ITF5), Molise (ITF2) and Sardegna (ITG2), received a larger amount of funds for the first period, almost during ‘90s. Progressively, this support for these regions have been cut dramatically, also if there are no evident process of convergence. This has happened because they have been progressively excluded from the Objective-1 for a statistical effect, however, they did not achieve any significant convergence on national average.

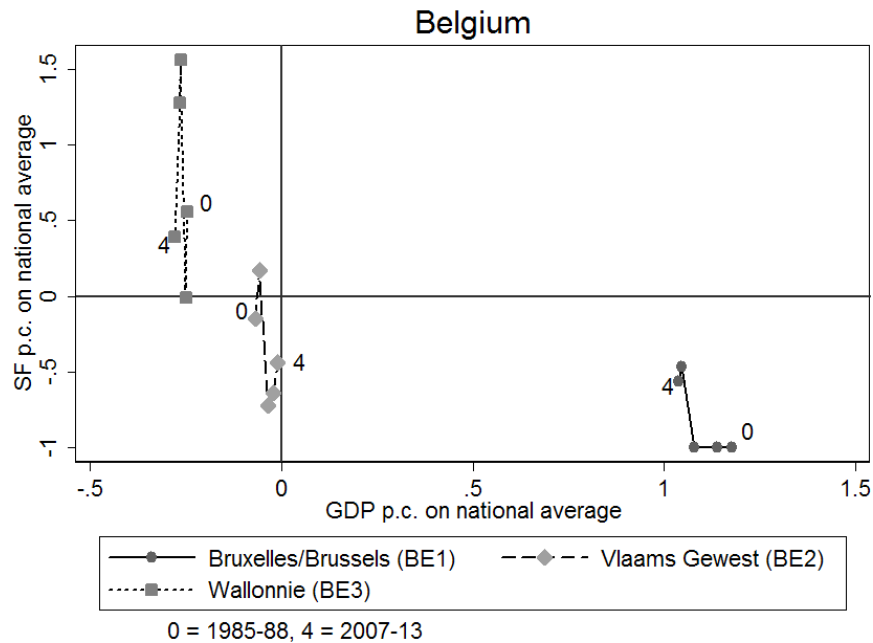


Fig. 4 The case of Italian 'Mezzogiorno'

The third national case is Belgium [Fig. 4] that is a relatively simplified situation because there are just three regions. However, the division of the two communities of Flemish and Walloons shows an interesting case of interaction: they start from a situation of relative equilibrium in the distribution of funds, then there are two cycles when Walloons receive more funds considering their situation as lagging regions. However, these concentration of resources has been reduced recently in favour of Flemish and, mainly, in favour of the capital region. This case is relevant because strong changes in the inter-regional distribution of SF do not depend by relevant changes in inter-regional disparities.

4.4 The bottom-up perspective: some regional cases

In order understand the specificities of each region, some typologies of behaviour are presented in this section, considering the different dynamics in the allocation of SF and regional convergence or divergences. The indicators used are the same of the previous section.

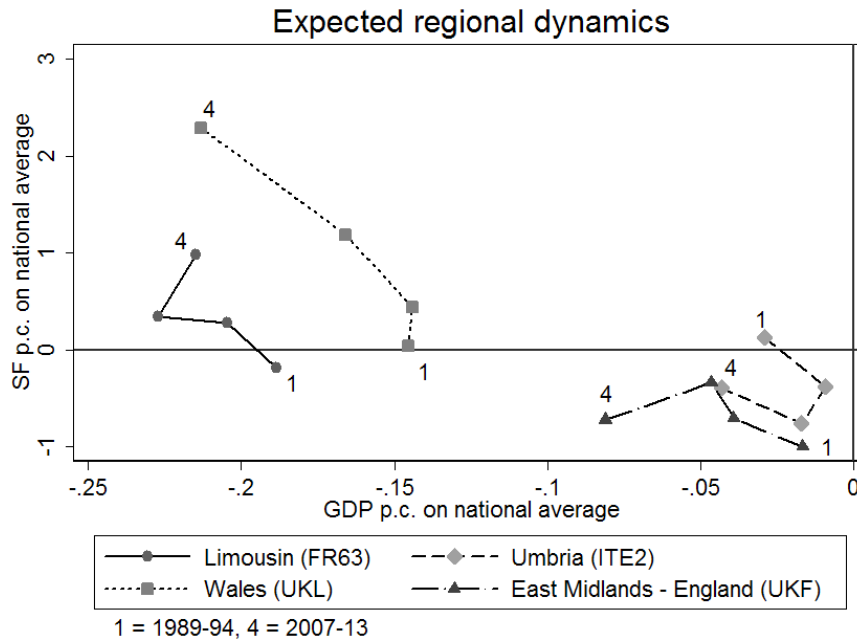


Fig. 4 The 'expected' behaviour

In the previous graph (Fig. 4), there are the 'expected behaviour' of a 'normal' regional policy, this means that the intra-national allocation of funds tend to be proportional to the level of national development. Furthermore, assuming a dynamics perspective, regions suffering divergence tend to receive growing support by SF, and vice versa.

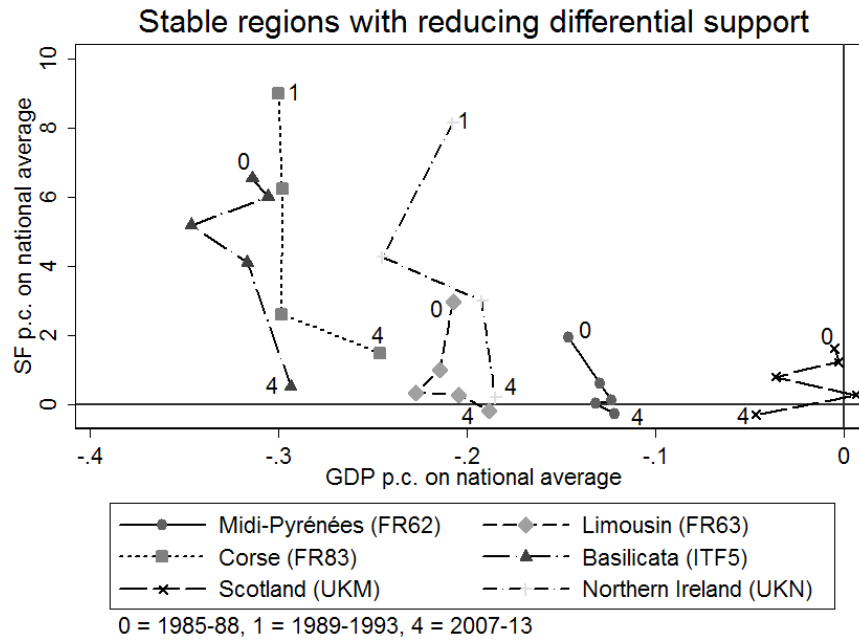


Fig. 5 Regions with reducing support

However, there are cases (Fig. 5) where regions that do not achieve any significant process of convergence, while the support provided by SF is reduced dramatically. This fact happen in different countries (FR, IT, UK), showing the fact that is not a nation-specific episode.

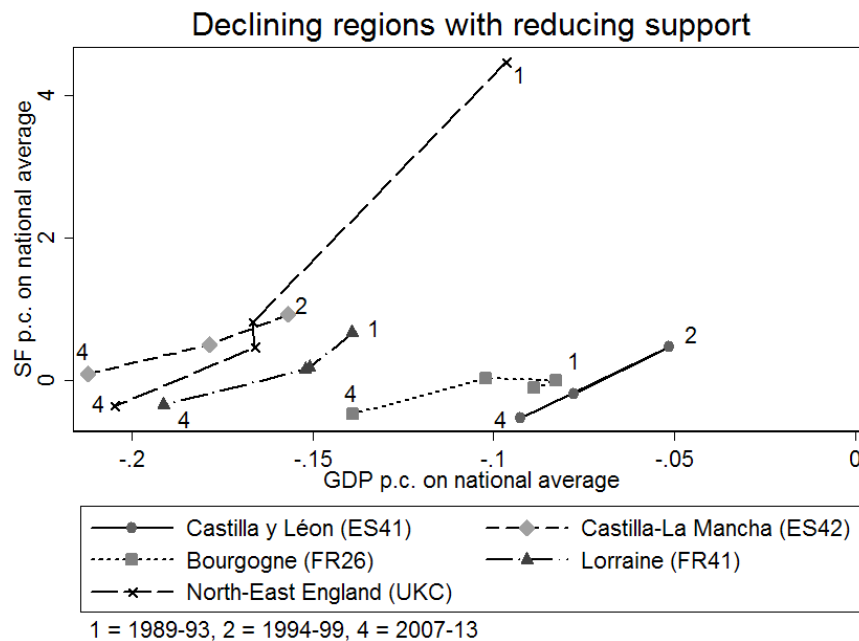


Fig. 6 Regions with reducing support and divergence

Finally, there are also some dynamics that might not be explained just considering economic dynamics. Specifically, in (Fig. 6) we can observe some regions that suffers both regional

divergence *and* strong reduction in support provided by SF. This fact shows clearly that the allocation does not depend just by an economic rationale or the abstract European criteria, but that there are also other relevant factors that have to be considered.

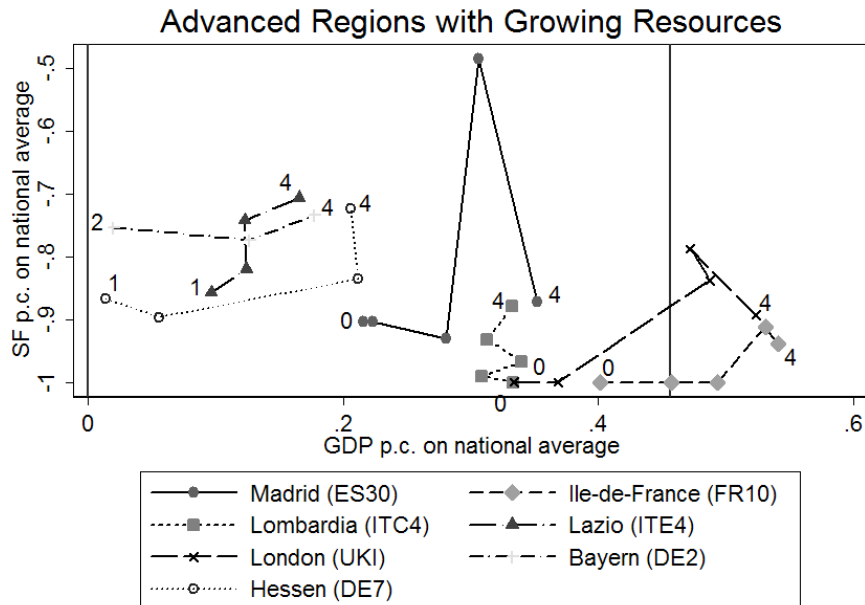


Fig. 6 Regions with growing support

On the other side of previous cases, the dynamics of core and most advanced regions show a clear trend toward a divergence moving their level of GDP toward right. Furthermore, there is also a general trend toward a rise in the support provided by SF. It is relevant to notice also that these regions are the most populated. This means that a rise in the per capita allocation in a big region determine strong reduction in smaller regions, considering absolute values of funds.

All the cases presented in this section shows some critical knots of the EU regional policy. Firstly, the support provided by the SF is heterogeneous and might be strongly differentiated among regions in the same countries, in different countries and cycles. Secondly, the support in term of funds is not always proportional to the level of (under)development. Even though the GDP is just a proxy of the level of development and other indicators should be involved in the analysis, this is the main benchmark used at the EU level to define the level of development of regions and all those indicators tend to be substantially correlated. Thirdly, the support provided by the SF in favour of regions is not constant and it is (relatively) independent from economic trends within each member state. All these arguments suggest the idea of a policy that is more a sum of national policy with a limited coordination, rather than a common supra-national policy.

4.5 The effect of decentralization and politics on the allocation of the SF

In order to understand the effects of different institutional framework in the redistribution of resources, regions have been classified in three categories according to their level of autonomy. The indicator proposed of regional autonomy (Hooghe, et al., 2008) are calculated on national basis in order to distinguish three categories of institutional framework: “Regional agencies” (level 0) where regions are not provided by any kind of government, but just with some administrative units depending from the national government, “Regional Government” (level1) in the case of regions with semi-autonomous governments, and “Regional State” (level 2) in the case of federal countries. This classification based on 3 typologies overcome limits imposed by the dichotomy centralized-federalist state which has become too simplistic. Finally, regions are distinguished by the ‘objectives’ where they are eligible.

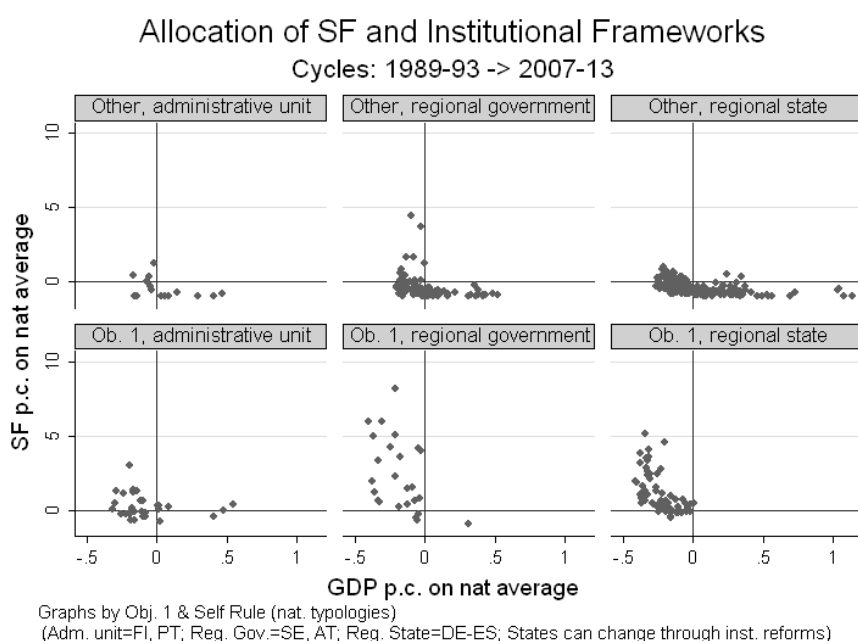


Fig. 7 Distribution of funds according to institutional frameworks

Considering the previous graph [Fig. 7], we can observe two main facts. Firstly, regions without any kind of administration are unable to use their ‘voice’ and the redistribution of funds in their favour is strongly limited. Secondly, if regions have a government, then they can use their own voices in order to promote their interests, consistently with the idea of TCA. However, this opportunity is reduced in the third case because in a federal system richer state-regions tend to limit inter-regional redistribution of resources. These results seem consistent in both cases, Objective-1 regions and the others, also if in the second case the relevance is reduced given the limited amount of resources allocated.

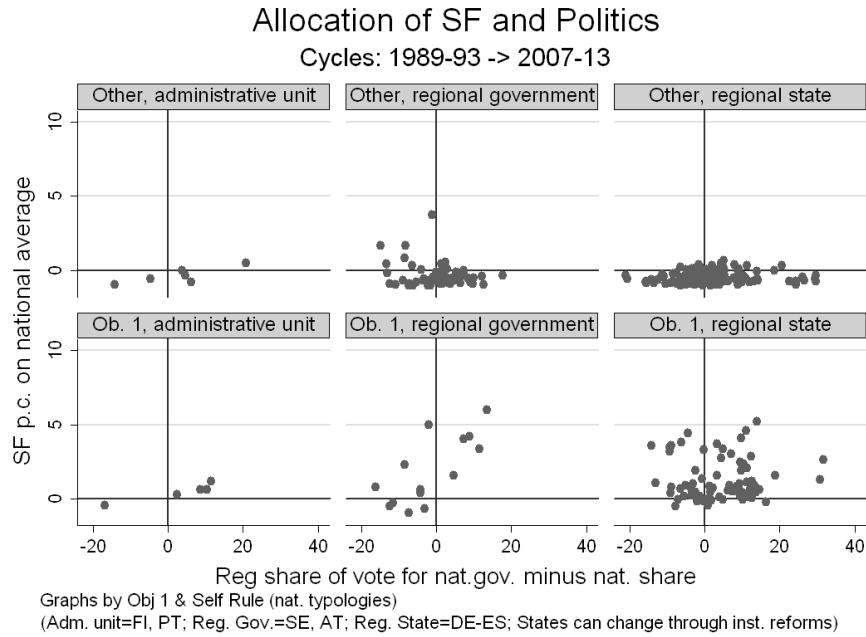


Fig. 8 Distribution of funds according to institutional frameworks

In order to understand in which way this dynamics work, the level of development have been substituted by the share of votes collected by national governments in each region in comparison with the national share of vote¹³ [see Fig. 8]. In the graph, we can observe a clear ‘pork barrel politics’ in the case of regional governments within Objective-1 because in that case regions can use their voice to influence the central government, and then benefit from the allocation of SF. However, in the case of more federalist state this effect seems reduced because, probably, federal government is a less relevant actor to be influenced by regional stakeholders. Finally, in the case of not-Objective-1 regions there is not the evidence of a significant effect, probably because the available resources are limited and do not provide adequate incentive for TCA.

¹³ The introduction of political variables reduce dramatically the sample given the constraints imposed by data availability.

5 Conclusions

In this paper, the main characteristics of the SF policy have been presented, showing the mechanism of inter-regional re-distribution of funds. The focus has showed the limited coordination among EU member states for the use of the SF and the effects determined by a weak institutional framework. Furthermore, assuming the ‘territorial collective action’ (TCA) theory (Cheshire & Gordon, 1996; Olson, 1965), it has been shown the fact that regions might determine distortions in the allocation of funds, according to their institutional and political context. In the empirical analysis, some national and inter-national cases of heterogeneity and distortions have been shown.

Even though this paper do not consider the problem of the effectiveness of the SF, it has been shown that the economic rationale of the policy suffers a strong bias determined by an inadequate institutional framework. Even though the level of GDP is the main driver for the allocation of funds as must be considering the EU agreements, institutions and politics have significant effects on the allocation of funds, suggesting the existence and importance of the TCA. Even though the presented political model has been extremely simplified, the effects seem evident and consistent with the general theory.

The policy implication of this analysis is that if the EU is interested in a inter-regional redistributive policy, then it will be necessary an extra-effort to provide an adequate set of stronger institutions, mainly via a centralization of powers at the EU level to enable a stronger redistributive policy.

Finally, the theoretic challenge of the analysis of the role of institutions for territorial economic development is still open because the case of the EU regional policy cannot be considered as general and further development in the general theory are necessary. In terms of evaluation of the regional policy, it is still unclear which results we might expect via a support for lagging regions that is constant in time or a ‘shock-strategy’ with strong investments concentrated in a limited period. Clearly, the GDP level might not be the only indicator for these policies, however, there is a lack in the attention for the effects of different temporal evolution of regional policies. The analysis will be improved using more complex econometric methods. Finally, there is the constant problem for the absence of a counterfactual in the analysis of regional policies.

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