Gary Marks, "Structural Policy in the European Community"

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it is important in promoting and enforcing the movement toward greater competition in financial services. In the opinion of Commission observers, the Banking Advisory Committee has been marked by an increasing sense of independent "European" identity and a commitment to completing the single market.

In the emerging structure of financial regulation, the Banking Advisory Committee assumes additional responsibilities in the Second Banking Directive (and in a related directive dealing with capital ratios). In making "technical adaptations" to implement the directive, the Commission proposes draft language to the committee, which, using the weighted voting procedures followed in the European Council, then votes whether to approve the Commission's proposal. The measures are adopted if the committee approves. Otherwise, the proposal is submitted to the council, which has three months in which to veto the Commission's proposal.[82]

82. This is an instance of *comitology*, the assigning of quasi-legislative powers to committees that nominally advise the Commission. In a wry commentary, Blumann has suggested that better terms might be *comitomanie* or *comitolatrie*. Claude Blumann, "La Commission, Agent d'Execution du Droit Communautaire: La Comitologie," in Jean-Victor Louis and Denis Waelbroeck, eds., *La Commission au coeur du système institutionnel des Communautés européennes* (Brussels: Institut d'Etudes européennes, Université de Bruxelles, 1989), pp. 49–70.

Chapter 6

Structural Policy in the European Community

GARY MARKS

ONE OF the central elements of 1992 is a structural policy to increase "economic and social cohesion" in the European Community by "reducing disparities between the various regions and the backwardness of the least-favored regions."[1] The call for greater regional equality within the Community is not in itself new, but, for the first time, it has been accompanied by a serious financial commitment. In recent years a significant shift of resources to the three Funds responsible for regional integration has taken place (the European Regional Development Fund, the European Social Fund, and the Guidance Section of the Agricultural Guidance and Guarantee Fund). Following the general admonition of the Single European Act, in February 1988 the European Council agreed to double, in real terms, the resources available to the Funds between 1987 and 1993. By 1993 the budget appropriations for the Funds will increase to ECU 14 billion (European currency units), or about 25 percent of the total Community budget. At Maastricht a separate, legally binding protocol provides for additional regional aid and budgetary reform, and the treaty itself includes a new cohesion fund to help the poorest member states—Spain, Portugal, Greece, and Ireland – shoulder the cost of environmental and infrastructural projects.

I would like to thank my fellow contributors to the Brookings project on 1992 and my collaborators on the Consortium for 1992 for their numerous suggestions and crticisms. I am especially indebted to several administrators in the Commission of the European Communities for their aid and to Jeffrey Anderson, Michael Shackleton, and Helen Wallace for comments on this chapter. The remaining faults are my own.

1. Single European Act, 1986, article 130a.

Alongside this impressive budgeting expansion there have been fundamental innovations in the administration of the structural Funds. The Fund administrations are coming to play a pivotal role in allocating resources and in developing and monitoring programs. For the first time the administrations are creating policy networks that encompass subnational governments and private interests in individual regions.[2]

The reforms of the structural Funds raise basic questions about the distribution of authority and decisionmaking power across the Community, member states, and regional governments. To what extent are the Community institutions responsible for structural policy developing independence from member states? Do these institutional innovations indicate a fundamental shift in European political integration? Is it possible to discern the outline of a new political order, a Europe of the regions, in which states are outflanked by subnational governments dealing directly with Community-wide bodies? Or is a new political disorder emerging that escapes previous conceptualizations of the European polity?

To explain the growth of funding for structural policy I adopt a state-centric perspective, focusing on member states conceived as unitary actors. But in coming to grips with the changing relations of power and authority involved in the reforms of the structural Funds, I adopt a more open-textured, multilevel perspective in which EC institutions are seen as independent political actors, and member states appear as complex political institutions in contested national and regional political arenas.

This contrast is not the result of ambiguity about what the European Community or the state really is but instead reflects different explanatory strategies for contrasting political phenomena. Member states dominate the allocation of resources within the EC, and if one wishes to explain the growth of the budget for structural policy, a state-centric model is a useful theoretical starting point.[3] The allocation of scarce resources within the

2. These innovations are only beginning to receive systematic attention either in the scholarly literature (of which there is very little) or in the news sources. Apart from writings cited elsewhere in this chapter, the major expression of intellectual interest in the structural reforms is the current project on the European Community and the regions conducted by Giuliano Bianchi, Rolf Jurgen Grote, Robert Leonardi, and Raffaella Y. Nanetti and others at the European University Institute, Florence.

3. See Helen Wallace, "Negotiations and Coalition Formation in the European Community," *Government and Opposition*, vol. 20 (Autumn 1985), pp. 453–72, for a discussion of theoretical approaches to different bargaining contexts. Wallace points out that a game theory approach based on unitary and rational actors is appropriate in a few situations, including the EC budget.

EC usually has a transparent zero-sum character, and this leads to intense bargaining among member states. If this interaction were the sum total of the European Community, then one might describe the Community merely as a set of rules within which member states make decisions. But there are also several policy sectors, including the internal market, the environment, the legal system, and structural policy, in which EC institutions can be autonomous and powerful. In these sectors member state governments must vie with supranational and, in some cases, subnational governments. Thus instead of assuming that member states have political control of the decisionmaking process, one must examine whether such control exists, and to the extent it does, one must ask how that is changing.

The Growth of the Structural Funds

The demand for a reduction of regional inequalities was present at the origin of the European Community. The preamble to the Treaty of Rome stated that member states are "anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favored regions."[4] But while the legal framework for subsequent development existed, no plans were put forward for achieving this goal. The founders of the Community believed that greater regional equality could be achieved as a by-product of economic integration and growth and so did not feel the need to target individual regions directly. It was also stressed that poorer regions would benefit disproportionately from two Community-wide programs: the European Social Fund, which assists worker retraining in high-unemployment sectors, and the European Investment Bank, which provides low-interest loans.[5] In addition, the political impetus for a regional fund was limited among the original six member

4. Preamble, Treaty of Rome, 1957.

5. See John Mawson, Mario Ruis Martins, and John T. Gibney, "The Development of the European Community Regional Policy," in Michael Keating and Barry Jones, eds., *Regions in the European Community* (Oxford: Clarendon Press, 1985), pp. 20–59; Willem Molle and Jean Paelinck, "Regional Policy," in Peter Coffey, ed., *Economic Policies of the Common Market* (St. Martin's Press, 1979), pp. 146–71; and Marja-Liisa Kiljunen, "Regional Disparities and Policy in the EEC," in Dudley Seers and Constantine Vaitsos, eds., *Integration and Unequal Development: The Experience of the EEC* (St. Martin's Press, 1980), pp. 119–222. In addition, the European Coal and Steel Community provided aid for regions that had difficulties in reconverting to other activities, and the European Agricultural Fund provided funds for modernization in agricultural areas. However, the overall effects of the European Agricultural Fund are not progressive among member states according to Jan de

states. Only Italy contained a sizable region, the Mezzogiorno, which was far less developed than the rest, and the problems of this region could be dealt with in an ad hoc manner. It was not until the early 1970s, when Britain and Ireland—both with severe regional problem areas—were negotiating to join the EC, that Italy's long-standing call for a regional policy was galvanized into a new European Regional Development Fund.[6] The budget of the ERDF grew steadily, if unspectacularly, from its establishment in 1975 until the decision to double the proportion of the budget devoted to the lagging regions.[7]

Can Side Payments Explain the Doubling of Structural Funds?

The most straightforward explanation for the growth of the structural Funds is that they are a side payment or bribe paid by the wealthier members to the poorer peripheral members of the EC in return for their assent to the 1992 package of economic liberalization. Although the structural Funds aid some industrially declining regions in the wealthier countries, including parts of the Saarland in western Germany, the overall effect of the policy is to transfer resources from Belgium, Denmark, Germany, France, and the Netherlands to Greece, Spain, Ireland, Italy, and Portugal, with the United Kingdom remaining more or less neutral.

Table 6-1 sets out hypothetical payoffs for one rich and one peripheral country, say Germany and Portugal, respectively. Given that the cooperation of both countries is necessary to create a unified competitive market and that the combined welfare of these countries is increased by doing so, then the key to economic liberalization is finding some way of distributing the benefits so that both countries will be impelled toward a combined optimal solution. If one assumes that the benefits of 1992 are highly skewed and that some countries stand to lose (B), they will demand some kind of

Veer, "National Effects of CAP Trade Liberalization," in Second Tarditi and others, eds., *Agricultural Trade Liberalization and the European Community* (Oxford: Clarendon Press, 1989), pp. 99–109; and Kenneth J. Thomson, "Budgetary and Economic Effects of CAP Trade Liberalization," in ibid, pp. 110–19.

6. Claude André, Jean-François Drevet, and Eneko Landaburu, "Regional Consequences of the Internal Market," in *Contemporary European Affairs: 1992 and After*, vol. 1 (1989), pp. 205–14.

7. In 1975 the ERDF was allocated ECU 257.6 million, 4.8 percent of total EC spending. In 1987 its allocation was ECU 3,311 million, 9.1 percent of total EC spending. Commission of the European Communities, *The Regions of the Enlarged Community: Third Periodic Report on the Social and Economic Situation and Development of the Regions of the Community, Summary and Conclusions* (Luxembourg, 1987).

Table 6-1. *Hypothetical Payoffs Resulting from Economic Liberalization and Structural Policy*[a]

Country	*Status quo pre-1992 (A)*	*1992 (B)*	*1992 + structural policy (C)*
Germany	x	x + 10	x + 6
Portugal	y	y − 2	y + 2

a. x and y are constants.

side payment in return for their agreement to go along. Hence one should expect to see some policy mix along the lines of C, combining economic liberalization with a side payment (that is, structural policy) paid to potential losers.

The economic basis for the model sketched above is the hypothesis that the weaker economies on the periphery of the EC—Northern Ireland, Ireland, Portugal, Spain, southern Italy, and Greece—are vulnerable to liberalized competition with the far stronger economies of the core. Though it is generally agreed that the aggregate effects of 1992 are beneficial for the EC as a whole—most estimates of the positive net impact on the gross domestic product of the EC are in the range of 4 to 6 percent—the distributional effects of 1992 are uncertain and contested.[8]

According to neoclassical economic theory, an increase in the geographic scope of competition will tend to equalize factor prices in the affected regions.[9] Poorer countries and regions will benefit as labor moves to higher-wage areas and firms relocate in low-wage areas. However, several arguments have been put forward in the scholarly literature and in EC reports that suggest this scenario is overoptimistic.[10] Although

8. For estimates of the total net impact of 1992, see Paolo Cecchini, with Michael Catinat and Alexis Jacquemin, *The European Challenge: 1992, The Benefits of the Single European Market*, tr. John Robinson (Aldershot: Wildwood House, 1988).

9. Richard A. Bilas, *Microeconomic Theory*, 2d ed. (McGraw-Hill, 1971), chap. 11; and Bo Södersten, *International Economics* (Harper and Row, 1970), chap. 5.

10. The chief arguments are as follows. First mobility of labor within the EC after 1992 will be constrained by continuing linguistic and cultural diversity. The opening up of a European economic market is not expected to replicate the development of national markets based on more homogenous populations, which precipitated large migrations of labor to high-wage and high-employment areas. In any case, large migration flows in response to job opportunities are likely to have significant social and political costs for regions that lose skilled labor and for those that must accommodate the incoming population. Depopulated regions face economic and communal obsolescence; magnet regions face overcrowding and tension between local and immigrant populations. See Iain Begg, "European Integration and Re-

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the Fund administrations avoid making precise predictions about the distributional consequences of 1992 across regions and member states, their reports stress the potential downside for the weaker regions and economies:

> Peripheral areas . . . are, in many cases, quite remote from the major demand and supply centers and are much less densely populated than the Community as a whole. . . . The special problems they face stem in part from their location, with which are associated higher transport costs, longer transport and travel times, longer delivery periods, higher storage costs, fewer opportunities to achieve size-related cost savings, and more difficult access to information. These factors hamper exploitation of the development opportunities and incentives arising from the internal market.[11]

gional Policy," *Oxford Review of Economic Policy*, vol. 5 (Summer 1989), pp. 90–104; and Allan M. Williams, *The Western European Economy: A Geography of Post-War Development* (London: Hutchinson, 1987), p. 259.

Second, the assumption about capital mobility in response to cheap labor is vitiated in key sectors, including most technologically innovative industries that rely on a sophisticated communication infrastructure and a pool of highly skilled labor. Recent studies have emphasized the difficulties of attracting private capital to declining industrial areas and less-developed regions. Evidence also shows that capital mobility within the Organization for Economic Cooperation and Development during the postwar period has been relatively limited. For a discussion of the difficulties faced in structural policy designed to attract high-technology industry, see Nils Diederich and Ulrich Hilpert, "Statliche Politik and Nicht-Intendierte Konsequenzen," unpublished proposal, Free University of Berlin, July 1989; and Ulrich Hilpert, ed., *State Policies and Techno-Industrial Innovation* (London: Routledge, 1990). See also Andrea Boltho, "European and United States Regional Differentials: A Note," *Oxford Review of Economic Policy*, vol. 5 (Summer 1989), pp. 105–15.

Creation of a competitive market within the EC will take place in the virtual absence of fiscal and welfare policies that have countered regional disparities in European societies that previously developed national markets. The present conception of 1992 includes a common market in the absence of equalizing fiscal and social instruments (including progressive direct taxes, welfare transfers, and public expenditure) that have accompanied such markets in the past. The potential for regional disparities will be exacerbated if, as planned, member states integrate their monetary policies, thus denying less developed countries strategic devaluation as a means of promoting exports. See Dudley Seers, "Theoretical Aspects of Unequal Development at Different Spacial Levels," in Seers and Vaitsos, eds., *Integration and Unequal Development*. In addition, harmonization of labor regulations to avoid "social dumping" would deprive backward areas and countries of differential advantages in the final cost of labor. See, for example, Herbert Giersch, "EC 1992: Competition Is the Clue," *European Affairs*, vol. 3 (Autumn 1989), pp. 10–17.

11. Commission of the European Communities, *Regions of the Enlarged Community*, p. ix.

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However, to know that the policy is grounded in an evaluation of potential economic costs and benefits across regions does not reveal why it was enacted. Fairness is only one consideration, and by no means the most important one, in determining which policies are enacted and which are not. Moreover, in this case potential losers are in the minority. The major recipients of structural aid, regions on the southern and western peripheries of Europe, encompass only about one-fifth of the EC's population. Except for the Italian Mezzogiorno, the poorest regions are in countries that are recent members of the EC; as a result, they have had less opportunity to shape the Community's institutions in their favor. To explain the shift in resources to the poorer regions, one must analyze the economic implications of 1992 in the context of the decisionmaking process in the European Community.

Economic concerns about the distribution of the costs and benefits of 1992 were particularly forceful because it has rarely been possible for a majority of member states to enforce policy changes on a minority. The effective mode of decisionmaking in the EC from the Luxembourg Compromise of 1966 until modified by the Single European Act has been unanimity voting. The challenge for innovators has thus been to find ways of paying off recalcitrant member states by combining issues in such a way that every member state benefits.[12] In contrast to the familiar politics of majority voting, which is driven by the need to create majority coalitions, the politics of unanimity voting is one of creating bundles of issues to distribute potential gains so that no voter wishes to block the legislation.[13]

12. The Single European Act has introduced modified majority voting, except when member states' essential national interests are affected. However, the conditions under which this concern is true are determined by member states themselves. The logic of the analysis runs along similar, though weaker, lines when applied to modified majority voting. On the institutional evolution of decision rules in the EC, see Helen Wallace, "The Best Is the Enemy of the 'Could': Bargaining in the European Community," in Tarditi and others, eds., *Agricultural Trade Liberalization*, pp. 193–206; and the chapter by Guy Peters in this volume. Discussions of the consequences of unanimity voting are found in James M. Buchanan and Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (University of Michigan Press, 1962); and Dennis C. Mueller, *Public Choice II* (Cambridge: Cambridge University Press, 1989). My approach contrasts with the analysis of unanimity voting in H. Wayne Moyer, "The CAP in a Single Market: Magnitude, Significance and Obstacles," paper presented at the annual meeting of the American Political Science Association, 1989.

13. The logic of the situation is essentially the same if a temporal dimension is added to the model. Under iterated unanimity voting, a voter wishing to veto will have to take into account the negative effects of this vote on future relations with other voters, as well as the present costs and benefits of the legislation.

Politically, the growth of the structural Funds is explained by this model as a side payment to potential loser member states that could otherwise have blocked economic liberalization and the overall gains it was expected to bring. The countries that will gain significantly from the growth of the structural Funds—Greece, Spain, Ireland, Italy, and Portugal—encompass a minority of the total population of the EC, yet because their assent to the package of economic reforms was necessary for its passage, they were powerfully positioned to demand a side payment.[14] According to the model sketched above, this side payment reflects the expected costs of 1992 for the peripheral economies of the EC. Economic liberalization generated both the prospect of losing ground by weaker economies and an overall economic gain that could finance side payments without any real sacrifice by the rich.

This simple model of decisionmaking helps explain the rachetlike character of institutional change in the EC, in which sustained blockage is punctuated by complex and far-reaching reform. On the one hand, unanimity rules lead to extended stalemate, where every conceivable innovation is blocked by recalcitrant voters. On the other hand, when change comes, it is in the shape of complex agreements that shift the status quo on several fronts simultaneously. Thus economic liberalization is decisive not only on its own account but also because it involves expected benefits large enough to finance side payments to those who believe they will not benefit. The shift in Community resources to the structural Funds can be seen as a *forced spillover*, in which the prospect of a breakthrough in one arena created intense pressure for innovation in others.

A model focusing on side payments as a forced spillover is useful for understanding previous key episodes of policy innovation in structural policy in the EC. The debate about the creation of some institutional mechanism for regional subvention in the early 1970s, culminating in the establishment of a Regional Fund in 1975, took place in the wake of the first enlargement of the Community with the addition of the United Kingdom and Ireland. Both countries had endemic regional problems that led them to side with Italy in its long-standing demand for a Community regional policy. At the same time the budgetary process in the EC virtually ground to a halt as Britain demanded special treatment because of its position as a large net contributor to the budget. Although the creation of

14. The United Kingdom does not stand to be a net gainer from the growth of the structural Funds. Its share of ERDF funding from 1986 to 1988 was 16.42 percent, compared with its population share in the EC-12 of 17.6 percent.

a Regional Fund was rooted in a diffuse and long-standing commitment to economic cohesion, the timing of the innovation was driven by the need to consolidate a newly enlarged Community in a period of particularly hard national bargaining about relative contributions to the budget.[15]

The expansion of structural policy with the introduction of Integrated Mediterranean Programs (IMPs) in 1984 for Greece, southern Italy, and parts of southern France can also be seen as a forced spillover. These states demanded a side payment to offset the increased agricultural competition that was bound to result from the inclusion of Spain and Portugal in the Community. The outcome was a new form of integrated structural policy targeted at the regions that had the most to lose.[16]

The side-payment model sketched out above provides an elegant explanation of the growth of structural policy in the EC. But it is problematic in one important respect. Though the logic of the model is powerful, the effects of 1992 for the poorer peripheral countries in the EC are ambiguous. The view that economic liberalization will hurt the weaker economies in the EC is contested. A recently published study of the distributional benefits of economic liberalization published in *Economic Policy* finds that Portugal, Greece, Spain, and, to a lesser extent, the United Kingdom stand to gain the most. With the removal of nontariff barriers, Portugal, Greece, and Spain will be able to further specialize in labor-intensive commodities, such as shoes and textiles, for which there are still untapped economies of scale. In contrast, available economies of scale have for the most part already been realized in the northern countries. The study concludes that "the main beneficiaries of the 1992 programme are . . . likely to be the Southern European countries, both in terms of exploiting comparative advantage and in terms of exhausting scale economies."[17]

Economic data on the past performance of individual countries and regions in the EC do not confirm the picture of a widening gap between rich and poor (table 6-2). During the past two decades the four states that have the weakest economies, with a per capita gross national product of

15. See Helen Wallace, "Distributional Politics: Dividing Up the Community Cake," in Helen Wallace, William Wallace, and Carole Webb, eds., *Policy-Making in the European Community*, 2d ed. (Chichester: John Wiley and Sons, 1983), pp. 81–113.

16. Commission of the European Communities, *Les Programmes Intégrés Méditerranéens* (Luxembourg: Office for Official Publications of the European Communities, May 1989).

17. Damien J. Neven, "EEC Integration towards 1992: Some Distributional Aspects," *Economic Policy*, no. 10 (April 1990), pp. 14–62; quotation on p. 46.

Table 6-2. *Real GDP per Capita in EC Member States, 1960–88*

Country	*1960–88*	*1960–68*	*1968–73*	*1973–79*	*1979–88*
Belgium	3.0	3.9	5.3	2.1	1.7
Denmark	2.5	3.8	3.3	1.6	1.7
France	3.0	4.2	4.6	2.3	1.4
Germany	2.7	3.1	4.0	2.5	1.7
Greece	4.1	6.7	7.8	2.6	0.9
Ireland	3.1	3.8	3.5	3.3	2.0
Italy	3.5	5.0	3.9	3.2	2.2
Luxembourg	2.4	2.1	4.9	0.7	2.5
Netherlands	2.3	3.5	3.7	1.9	0.7
Portugal	4.0	5.7	8.9	1.3	1.8
Spain	3.7	6.4	5.7	1.1	1.9
United Kingdom	2.2	2.3	3.0	1.5	2.0
Average for Greece, Ireland, Portugal, Spain	3.7	5.7	6.5	2.1	1.7
Total EC	2.8	3.8	4.2	2.1	1.7

Source: Organization for Economic Cooperation and Development Economic Outlook, *Historical Statistics 1960–1988* (Paris, 1990), table 3.2.

less than 75 percent of the EC average—Portugal, Greece, Spain, and Ireland—have grown at an annual per capita rate of 3.7 percent, compared with a 2.8 percent rate for the EC as a whole, even though the population increased more rapidly in the poorer societies. The relative gains of the four peripheral countries were concentrated in the 1960s and early 1970s. Their combined economic growth from the early 1970s is neither better nor worse than the average of EC member states. Although the aggregate evidence does not suggest that absolute differences between rich and poor countries have narrowed significantly, it is important to note that absolute levels of economic welfare before the 1992 reforms (the constants x and y in table 6-1) are irrelevant for the side-payment theory just discussed.

This picture is consistent with the available regional data, summarized in table 6-3. Between 1973 and 1982 the poorest regions of the EC experienced greater economic growth, absolutely and per capita, than the richest regions. Both population and employment increased faster in the poorest regions than in the richest. The differences are not large, particularly when Spain and Portugal are included, and it is clear that even if these trends continued, it would take decades for the gap to disappear. However, once again, there are few signs that the economic position of

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Table 6-3. *Regional Growth in Real GDP, Population, and Employment in the Twenty-five Strongest and Weakest EC Regions, 1973–82*
Average annual percent change

Area of growth and years	*Average of regions*[a]					
	EC-10[b]			*EC-12*		
	25 weakest	*25 strongest*	*All*	*25 weakest*	*25 strongest*	*All*
Real GDP per capita						
1973–79	2.4	2.2	2.1	...	...	...
1977–82	2.0	1.3	1.3	1.4	1.3	1.2
1973–82	1.8	1.7	1.5	...	...	...
Real GDP						
1973–79	3.0	2.3	2.4	...	...	...
1977–82	2.5	1.6	1.6	2.1	1.6	1.6
1973–82	2.4	1.8	1.7	...	...	...
Population						
1973–79	0.6	0.1	0.3	...	...	...
1977–82	0.4	0.2	0.3	0.7	0.2	0.3
1973–82	0.5	0.1	0.3	...	...	...
Real GDP/employment						
1973–79	2.2	2.5	2.2	...	...	...
1977–82	1.9	1.6	1.6	2.5	1.6	1.8
1973–82	1.7	2.1	1.8	...	...	...
Employment						
1973–79	0.8	−0.2	0.2	...	...	...
1977–82	0.6	−0.03	−0.02	−0.4	−0.03	−0.3
1973–82	0.6	−0.3	−0.1	...	...	...

Source: Commission of the European Communities, *The Regions of the Enlarged Community. Third Periodic Report on the Social and Economic Situation and Development of the Regions of the Community, Summary and Conclusions* (Luxembourg, 1987), p. 131.
a. Level 2 regions ranked by real level of GDP per capita at beginning of each period.
b. All EC members except Spain and Portugal.

the weaker economies is deteriorating either in absolute terms or relative to the EC as a whole.

A detailed report written for the Commission of the Economic Communities in 1988, based on data for 1977–83, finds that although peripheral regions have one-third of the EC's population and only one quarter of its gross domestic product, along with 39 percent of its unemployment, they have also had higher rates of per capita economic growth and employment growth in recent years. Absolute income levels are lower than the average for central regions in 98 percent of the peripheral regions, but 83 percent of the peripheral regions have had growth rates higher than the average for central regions.[18]

These data do not settle the issue, but they do raise serious doubts about the view that the structural Funds are a side payment to losers. To attempt to predict the distributional consequences of economic liberalization would reach far beyond the present chapter. However, an essential point has already been made, namely, that the distributional consequences of economic liberalization are contested and, above all, uncertain. Economic theory speaks on the regional distribution of economic growth with more than one voice; we do not know if we can extrapolate past trends into the future; and the international economic context within which 1992 will be played out is unpredictable.[19] To accept the explanation of side payments as just discussed and as assumed in the literature on structural policy, one must be prepared to make the highly dubious assumption that winners and losers can be distinguished in advance of the process of economic liberalization.

Rethinking Side Payments

There seem to be two ways to develop a more convincing explanation. First, one can try to formulate the side-payment explanation on a more subtle and convincing basis by building uncertainty about outcomes into the model itself and arguing that the poorer societies were paid because of their greater vulnerability to any given economic loss should it occur. Second, one can argue that the structural Funds were a response to new conceptions of fairness and equality that intensified demands for redistribution on behalf of the poorer societies and created a greater willingness to concede such demands on the part of the richer societies.

There are plausible grounds for believing that the risk of economic recession is harder for a less affluent society to bear. In the first place

18. David Keeble, John Offord, and Sheila Walker, *Peripheral Regions in a Community of Twelve Member States* (Luxembourg: Commission of the European Communities, 1988), pp. 104, 111.

19. There are many other sources of uncertainty. For example, the levels of external tariffs for the EC as a whole are unknown, and this information is likely to be critical for the distribution of gains and losses across regions according to Cambridge Economic Consultants, "The Regional Impact of Policies Implemented in the Context of Completing the Community's Internal Market by 1992," Final Report to the Commission of the European Communities (n.d.).

poorer societies lack a cushion of affluence against economic downturns. A large proportion of the wages of many workers in those societies is spent on meeting basic needs for food, clothing, and shelter, and a loss of real income, or at worst unemployment, must hit them especially hard. Generally speaking, the less affluent a society is, the more its citizens will be sensitive to a given percentage change in their consumption. This response is reinforced because poorer societies are less able to fund welfare systems to counter the effects of economic adversity. For the poorest countries in the EC the 1992 project is part of an acute struggle to develop a decent standard of economic well-being.

The hypothesis that the least affluent member states face disproportionate costs as a result of the uncertainties of economic liberalization also has a political basis. The countries with the most severe regional problems—Portugal, Spain, Greece, and Ireland—are recent members of the Community and as a result are particularly prone to a negative political fallout if their hopes for economic growth as a result of economic liberalization are shattered. Although support for the Community has developed within the core EC-6 members over three decades, mass publics in the new member countries are just now becoming accustomed to the idea.[20] Because citizens in the poorer member countries have expanding opportunities to compare their life chances with citizens elsewhere in the Community, their expectations may rise faster than their governments can fulfill them. Despite the fears voiced by many economists that the weaker regions may suffer as a result of 1992, mass publics in the least affluent countries tend to be more, not less, optimistic about the effects of the economic liberalization.[21] For governments in these societies, the economic risk associated with 1992 seems particularly threatening. If these countries suffer as a result of 1992, the fundamental political issue of the benefits of EC membership will be raised in a particularly direct and transparent fashion. Without the political capital of support for the EC built up over decades, 1992 may turn out to be a harsh test for the most recent members of the Community.

20. According to Eurobarometer polls, overall support for membership of the EC remains on average lower among publics in the newer members than in the EC-6, although the gap has been narrowing in recent years. This is true even if one excludes the two more affluent newer members, the United Kingdom and Denmark, where levels of support for membership have been particularly low.

21. Commission of the European Communities, "Awareness of '1992': The Single Market," *Eurobarometer: Public Opinion in the European Community*, no. 30 (December 1988), table 3, p. 20.

Finally, three southern members—Portugal, Spain, and Greece—are facing the uncertainty of economic liberalization while undergoing the fundamental political transition to liberal democracy. On the one hand, this transition provides a source of legitimacy for membership in the European Community. Membership is viewed as a confirmation of new-found democratic status.[22] But on the other hand, governments in these societies are particularly vulnerable to economic dislocation, especially when it can be blamed on prior political choices. The possibility of economic dislocation arising from fundamental changes in the competitive environment is a challenge for even the most stable democracy; for a newly established democratic regime it can be daunting.[23]

An explanation for the growth of the structural Funds focusing on the differential costs of economic risk adds complexity to the side-payment model. But the model has one major advantage: it does not rest on the questionable assumption that winners and losers can be distinguished in advance of the implementation of 1992. Instead of sweeping the unpredictability of the process aside, it builds unpredictability into the explanation and poses the question whether the risks of the policy fall more on some societies than on others.

Demands for Redistribution

A second approach, which is by no means mutually exclusive with the focus on risk, is to explain the growth of the structural Funds as a result of changing conceptions of fairness leading to new demands and a new willingness to meet those demands. For several centuries conceptions of justice, freedom, and equality have been monopolized by the modern state as the only practicable arena for achieving the good society. But there are signs that this mind-set is changing. Many educated younger people, particularly those active in the EC, regard the state as just one of several legitimate arenas for achieving the public good.[24]

22. Edward P. Moxon-Browne, "Spain and the European Community in the 1990s," paper presented at the 1989 Conference of the European Community Studies Association, George Mason University, May 1989.

23. See, for example, Wolfgang Merkel, "Vom Ende der Diktaturen zum Binnenmarkt 1993: Griechenland, Portugal und Spanien auf dem Weg zurück nach Europe," *Aus Politik und Zeitgeschichte*, no. 51 (December 14, 1990), pp. 3–14.

24. Ronald Inglehart, *Culture Shift in Advanced Industrial Society* (Princeton University Press, 1990), pp. 417–21.

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Demands for a regionally redistributive policy are reinforced by the severity of regional disparities in the enlarged Community. While economic inequalities among the original EC-6 were fairly narrow, those among the newly enlarged EC-12 are extremely wide. These contrasts are reflected at the regional level. Of the thirty-two regions with the greatest economic problems (as identified by the EC's synthetic index) all but eight are found in Portugal (counted as one region), Spain, or Greece.[25] Regional disparities within the EC are far greater than among states in the United States.[26] At the extremes, the per capita gross domestic product of the poorest regions, including Thrakis in Greece, and southern Portugal, is just one-sixth that of Groningen or Hamburg.

The sheer existence of such disparities does not, of course, mean that they will mobilize demands for redistribution. Most injustices are politically dormant. It seems likely, though, that the thrust of the 1992 package, its focus on liberal economic reforms in an attempt to increase productivity and growth, helped mobilize demands for a more egalitarian distribution not simply of the immediate benefits that 1992 was expected to bring but of the European economic pie as a whole. Given that the poorer societies were essential partners in the creation of the integrated market, why, one might ask, should they not derive a fairer share of the benefits of the international division of labor? At the same time, the deepening of the institutions of the EC made the stark inequalities that exist seem less inevitable and therefore more pressing. Little time is spent worrying about inequalities that are acts of nature, but those that seem to be under human control can provoke intense conflict. In this case, the creation of more powerful European political institutions has extended the sphere of the political (and thus of potential disagreement and conflict) to encompass issues that were formerly believed, quite accurately, to be beyond human manipulation.

While state-based realpolitik dominates the Council of Ministers, many proponents of regional policy in Brussels and Strasbourg are motivated by ethical concerns about regional disparities that have long been influential within individual states. A frequently voiced argument is that regional

25. Commission of the European Communities, *Regions of the Enlarged Community*, pp. 169–75.

26. The Gini coefficient for the EC-12 divided into fifty-nine regions is 0.13, while that for the forty-eight contiguous United States is 0.072. Boltho, "European and United States Regional Differentials."

disparities should be tackled because they are a barrier to further integration.[27] Underlying this practical concern is the realization that if the Community is to gain the loyalty of individual citizens, it must provide for the expression of basic moral concerns for justice and equality that have formerly been confined to nation states. These arguments have frequently been expressed in the European Parliament, which has become closely identified with the cause of structural spending in the poorer regions. Regional and social items fall under the quarter of the budget that is deemed "noncompulsory expenditure," and as a result the European Parliament has been able to increase spending in this area.[28]

Reform of the Structural Funds

The growth of funding for the weaker regions has been accompanied by some fundamental reforms of the decisionmaking procedures of the structural Funds. The Funds are in the process of being transformed by several open-ended, more or less contested innovations, whose consequences are likely to be only partly those intended by the makers.

The main institutional and procedural reforms are as follows:[29]

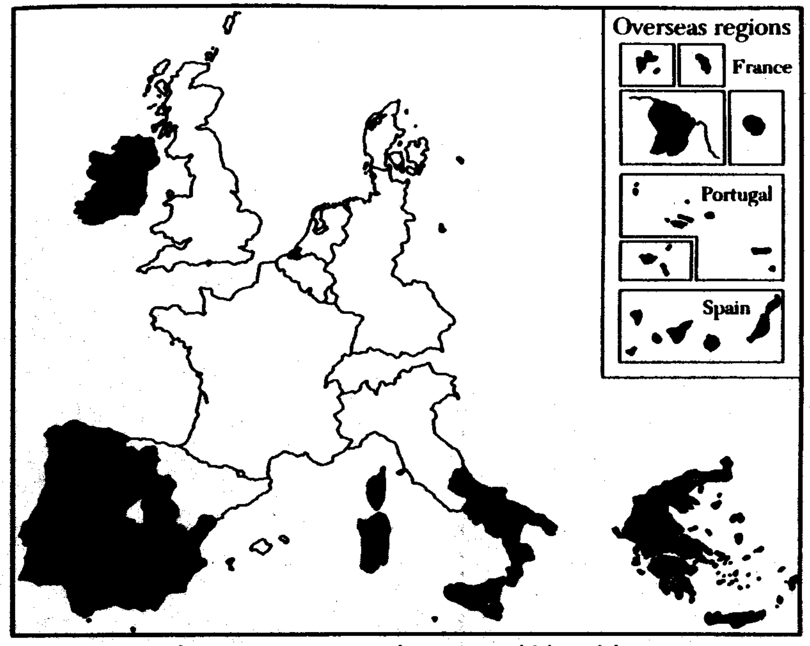
Elaboration of explicit priorities for the overall distribution of the structural budget. These priorities are justified as a necessary step in transforming structural policy into an instrument with real economic impact by focusing spending in those regions with the worst problems. The

27. David Coombes, "The Politics of Scale: European Economic Integration, Spatial Disparity, and Local Development," paper presented at the May 1989 Conference of the European Community Studies Association, Fairfax, Va.; and Harvey Armstrong, "Community Regional Policy," in Juliet Lodge, ed., *The European Community and the Challenge of the Future* (St. Martin's Press, 1989), pp. 167–85. For a general statement along these lines, see Lynn Krieger Mytelka, "The Salience of Gains in Third-World Integrative Systems," *World Politics*, vol. 25 (January 1973), pp. 236–50.

28. See Michael Shackleton, "The Budget of the European Community," in Lodge, ed., *European Community*, pp. 129–47; and chapter 3 in this volume.

29. Bruce Millan, "Regional Policy in Europe of the 1990s," opening address to the International Congress on Regional Policy held in Madrid May 30-31, 1989; and Armstrong, "Community Regional Policy." The 1988 reforms are detailed in Council Regulation (EEC) No. 2052/88 of 24 June 1988, *Official Journal of the European Communities*, no. L 185 (July 15, 1988), p. 9; Council Regulation (EEC) No. 4253/88 of 19 December 1988, *Official Journal of the European Communities*, no. L 374 (December 31, 1988), p. 1; and Council Regulation (EEC) No. 4254/88 of 19 December 1988, *Official Journal of the European Communities*, no. L 374 (December 31, 1988), p. 15. The reforms are summarized in Commission of the European Communities, *Guide to the Reform of the Community's Structural Funds* (Luxembourg: Office for Official Publications of the European Community, 1989).

Figure 6-1. *Regions of the European Community Eligible under Objective 1 of the Structural Funds*[a]



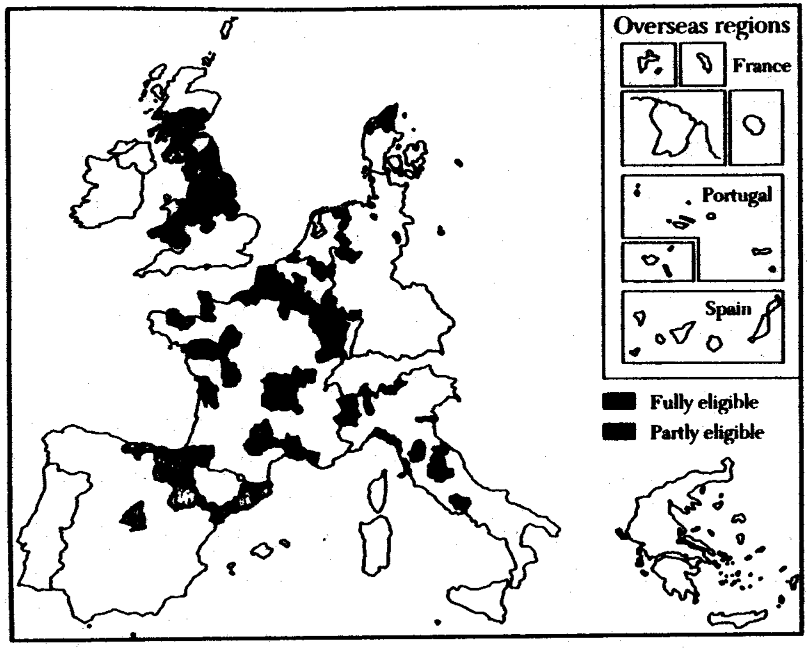
Source: Commission of the European Communities, *The New Structural Policies of the European Community*, European File (June–July 1990), p. 10.
a. Regions lagging behind in development.

following five priorities for structural spending were put forward by the Commission and approved by the Council of Ministers at the Brussels summit of February 1988.[30]

Objective 1 is to promote economic development in regions with a per capita gross domestic product of less than 75 percent of the EC average. The areas covered are Northern Ireland, Ireland, Portugal, large parts of Spain, Corsica and the French overseas departments, southern Italy, and Greece, which together encompass 21.5 percent of the population of the EC (see figure 6-1). Beginning in 1989 these regions were to receive

30. The objectives are drawn from Commission of the European Communities, *Annual Report on the Implementation of the Reform of the Structural Funds, 1989* (Brussels, 1990), pp. 1–4. See also Commission of the European Communities, "Good News for the Regions," *Information*, March 8, 1989.

Figure 6-2. *Regions of the European Community Eligible under Objective 2 of the Structural Funds*[a]



Source: EC Commission, *New Structural Policies*, p. 11.
a. Industrial areas in decline.

about 80 percent of the resources available to the European Regional Development Fund and the bulk of structural funding as a whole, ECU 38.3 billion of the total multiannual structural budget of ECU 60.3 billion for 1989–93, or 63.5 percent of total appropriations. The Funds are now able to meet up to three-quarters (from one-half before 1989) of the cost of approved measures in objective 1 regions, thereby reducing the burden on indigenous funding.

Objective 2 is to convert regions seriously affected by industrial decline. A total of sixty regions in the United Kingdom, France, Italy, Spain, Germany, Denmark, Belgium, and Luxembourg, encompassing between 16 and 17 percent of the population of the EC, are slated to receive structural aid under this criterion (see figure 6-2). The appropriation for 1989–93 is ECU 7.2 billion.

Objective 3 is to combat long-term unemployment, and objective 4 is to facilitate the occupational integration of young people. These objectives, which are combined for budgetary purposes, apply to the EC as a whole. Their appropriation for 1989–93 is ECU 7.45 billion.

Objective 5a is to speed up adjustment in agricultural structures, particularly marketing and processing, across the EC, and objective 5b is rural development in selected regions, particularly those regions covered under objective 1. Objective 5b is directed to fifty-six regions encompassing 5 percent of the EC's population. Appropriations for objective 5a and 5b for 1989–93 are ECU 3.415 billion and ECU 2.795 billion, respectively.

Change in emphasis from projects to programs. Rather than support individual projects proposed by member states, the structural Funds will increasingly combine their interventions in larger financial commitments running over longer periods of time (three to five years) for multifaceted programs called Community Support Frameworks (CSFs). This shift in emphasis was initiated by the Commission in 1984 with the development of Integrated Mediterranean Programs and was extended and refined in the 1988 reforms, particularly affecting the role of regional authorities. Whereas project funding is usually directed to roads, building, and other infrastructural investment, program funding includes diverse forms of aid for local industry and services (for example, direct productive investments in private industry, provision of consulting services, research and development, and technical and vocational training) designed to stimulate indigenous development. In contrast to project grants, which are straightforward financial transfers to member states for schemes that they would probably undertake in any case, programs allow the Funds themselves to shape policy. There are three categories of programs: national programs of Community interest drawn up as part of member-state regional aid schemes in the form of Community Support Frameworks (these include the IMPs); specific Community measures taken on the Commission's initiative outside of the regular budget; and Community initiatives conceived by the Commission: STAR (grants for advanced telecommunication services), VALOREN (grants for exploiting indigenous energy sources), RENAVEL (conversion of shipbuilding areas), RESIDER (conversion of steel areas), and, since 1989, RECHAR (to diversify the economic base of coal-mining areas), ENVIREG (to help lagging regions with their environmental problems), STRIDE (to increase regional capacities for research, technology, and innovation), INTERREG (to encourage cooperation between border regions), REGIS (to integrate peripheral island regions into the Community), REGEN (to integrate gas and electric transmission networks), EUROFORM, NOW, HORIZON (initiatives concerned with vocational training in the Community as a whole), PRISMA (to help lagging regions meet Community-wide quality standards), LEADER (to promote rural development), and TELEMATIQUE (to develop advanced telecommunications services in objective 1 regions).

Increased role for the Funds in allocating expenditures across and within member states. Fifteen percent of the ERDF budget (ECU 3.8 billion for 1989 to 1993) is at the discretion of the Commission for the Community initiatives just listed. The allocations for objectives 3 and 4 are determined by the ratio of the long-term unemployed and the number of unemployed under twenty-five years old in each member state to the number in the EC as a whole. The remainder of the structural budget is allocated among member states on the basis of broad ranges rather than fixed quotas. The ranges are wide: the difference between the lower and upper limit is roughly one-third the value of the lower limit.[31] A member state is entitled to the lower limit, but any transfers above this line are at the discretion of the Commission. In deciding where to target expenditures above the minimum margins, the Commission is directed to favor projects and programs that are deemed of value to the Community as a whole. Under new regulations agreed at the Brussels summit, the role of the Commission in policy formulation is formalized and enhanced. Member states submit detailed plans that become the basis for negotiations between the Commission, the member state, and the regional authorities concerned. As a result of these negotiations, CSFs are established for each region, and these are used by the Commission to make final decisions about levels of funding.

Coordination among the Funds. The notion of a structural policy encompassing the Regional Fund, Social Fund, and Guidance Section of the Agricultural Fund, as elaborated in the 1988 reforms, demands increased institutional coordination. The priorities for spending that came into force in 1989 apply to the entire budgets of these Funds, and in many cases the Funds must cooperate on individual programs. A new Directorate-General, DG XXII (Coordination of Structural Instruments), has been set up to coordinate the three structural Funds and link their interventions

31. Commission of the European Communities, *European Regional Development Fund: Thirteenth Annual Report*, pp. 74–75.

to those of other EC agencies, particularly the European Investment Bank, which makes extensive loans (ECU 7 billion in 1989) for income-generating projects.

Increased role for regional authorities. In the project approach the Funds were conceived of as financial controllers, at arm's length from regional governments. But the 1988 regulations envisage a three-sided partnership of the Commission, member states, and regional authorities in drawing up, financing, and monitoring Community Support Frameworks. Under the reforms, representatives from regional governments are included in numerous and lengthy meetings, a legally mandated "direct dialogue," in which the Commission explores funding priorities, alternative means of financing CSFs, and effective means of implementing them.[32] For some CSFs, especially those detailing conversion policies in agricultural areas, the partnership has extended beyond the regional level to include affected local authorities. Besides its attempt to include subnational governments in the planning process, the Commission has also sought to increase the share of funding that is allocated directly to regional authorities by shifting emphasis away from large-scale infrastructural spending in favor of local development-oriented operations such as training, technical assistance, and direct investment in local business.

These reforms have been justified in terms of administrative efficiency and economic rationality, and to enforce the principle of additionality, in which programs receiving a grant from the Funds are supported by member states in addition to, and not as a substitute for, existing planned public expenditure. But they also share an interesting and consequential set of political bottom lines. First, they increase the autonomy of the Commission and the respective Directorates-General in allocating resources among individual programs and even among member states. Patterns of spending for the European Regional Development Fund from 1985 to 1987 reveal wide differences in the ability of member states to compete for funds in excess of their lower limits. Italy was allocated 30.9 percent of the margin resources, compared with its lower limit of 21.62 percent, while several other member states received shares of the margin at roughly the same rate as their lower limit. For example, the United Kingdom received 15.91 percent of the margin resources, compared with its lower limit of 14.6 percent.[33]

32. Commission of the European Communities, *Annual Report on the Implementation of the Reform of the Structural Funds, 1989*, p. 8.
33. Commission of the European Communities, *European Regional Development Fund: Thirteenth Annual Report*, pp. 73–74.

Second, the reforms of the structural Funds extend the EC's administrative reach into the regions and into individual programs in the regions. Although in the past the Funds were a straightforward device for financial transfers to member states, under the 1988 reforms Fund administrators are called on to actively formulate Community Support Frameworks with subnational government administrators. The program approach emphasizes what are called "immaterial" investments, investments that enhance indigenous entrepreneurial and management skills, especially of small- and medium-sized firms, as distinct from large-scale infrastructural investments. For the first time systematic efforts will be made to evaluate the ongoing performance of individual programs. Since 1989 the Funds have had a larger stake in the programs they help pay for. The cap on the EC's share of funding for particular programs will increase from 50 percent to 75 percent, and these funds will be made available as "global grants," managed by public or semipublic bodies in the regions. Together, these changes give the Funds substantial functions and power resources in the regions.

In short, the reforms have set in motion a process of institution building that strengthens the Commission; that attempts to technocratize—and in a narrow sense depoliticize—a key and growing policy area; and that, by creating direct links between the Funds and regional political institutions, challenges centralized decisionmaking within member states.

Outflanking the State?

Reforms in structural policy have created new possibilities for EC decisionmakers to deal directly with political actors in individual regions in creating, sustaining, and monitoring comprehensive development programs over several years or even decades. For the first time it seems possible to conceive of a practical basis for visions of a new European political order in which increasing centralization of decisionmaking in the EC is counterbalanced by the emergence of powerful regional institutions linked directly to the center. Are states now being outflanked on the one side by the transfer of authority to the EC and on the other by incentives for newly assertive and politically meaningful regional bodies? To put the issue in its sharpest form, is this the beginning of the end of the state in Western Europe?

This is the ideal of proponents of a "Europe of the regions," who have long argued that European states reflect neither the diverse cultures, languages, and identities of Europeans nor the most practical geographical

units of economic life in conurbations and regions that, like the Lille-Roubaix-Tourcoing region in France and Belgium, often span state boundaries. While the vision of a federal European Community has never really threatened the legitimacy of the state, a Europe of the regions accords with basic aspirations for enhanced participation in smaller political units that have been expressed by many young educated people across Western Europe. Such a conception has also been pressed by various geographically based cultural minorities. Welsh, Bretons, Basques, and Catalans have joined the Bureau of Unrepresented Nations set up in Brussels in 1977. A charter expressing the demand for a Europe of the regions has been signed by several cultural and ethnic parties, including Plaid Cymru, the Flemish Volksunie, and the Friesland party.[34] Germany's regional governments, the Länder, have demanded, and have been granted, observer status on several EC bodies.

Over the last two decades governments across Western Europe have experimented with ways to deconcentrate and decentralize decisionmaking to mollify ethno-linguistic minorities, bring policy provision nearer policy receivers, cushion demands on the state, and reduce the central tax burden.[35] Belgium has been transformed from a unitary into a federal polity; Italy, France, and Spain, previously highly centralized political systems, have created a comprehensive layer of regional government; and Greece, and to a lesser extent Portugal, has moved more tentatively in the same direction, mainly in response to the financial advantages of subnational participation in the EC's structural policy. Only Germany, which is a federal polity in a culturally homogenous society, has moved steadily in the opposite direction. Ireland remains highly centralized, though there are pressures for the creation of regional government, and in the United Kingdom recent conservative governments have restricted the autonomy of subnational governments and resisted demands for devolution.

Recent developments in the regions in response to the structural re-

34. Anne Daltrop, *Politics and the European Community*, 2d ed. (London: Longman, 1986), p. 119.

35. See Michael Keating, *State and Regional Nationalism: Territorial Politics and the European State* (London: Harvester-Wheatsheaf, 1988), chap. 8; Robert J. Bennett, ed., *Decentralization, Local Governments, and Markets: Towards a Post-Welfare Agenda* (Oxford: Clarendon Press, 1990); Mark Kesselman, "The End of Jacobinism? The Socialist Regime and Decentralization," *Contemporary French Civilization*, vol. 8 (Fall–Winter 1983–84), pp. 84–103; and L. J. Sharpe, "The Growth and Decentralization of the Modern Democratic State," *European Journal of Political Research*, vol. 16 (July 1988), pp. 365–80.

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forms indicate the potential for the mobilization of regional governments and regionally based interest groups intent on gaining direct access to EC decisionmaking. Virtually every regional government receiving significant structural funds is now directly represented in Brussels (and in many cases Strasbourg), where they shepherd their proposals through the Community political process, monitor EC regulations, and lobby the Commission and Parliament. Pan-European associations of regional and local governments, including the Association des Régions d'Europe and the Union Nationale des Villes et Pouvoirs Locaux, are now consulted by the Commission on matters of structural policy. For its part, the Commission has opened offices in several regions. The structural reforms have enabled local and regional governments to serve as the new interlocutors of the Commission, a role that challenges the traditional monopoly of national governments to mediate between domestic and international affairs.

It is perhaps tempting to extrapolate an emerging new order in these developments in which regional units come to displace national state structures. But one vital factor cannot be ignored: the responses of states themselves.[36] National governments have been adept at outflanking the reforms by channeling contacts through central ministries, constraining the autonomy of subnational governments, and challenging the legitimacy of EC intervention at the regional level.[37] Instead of offering a new institutional equilibrium to replace the system of state domination, 1992 and the reforms of the structural Funds are creating a dynamic and indeterminate situation characterized by conflicting conceptions of the scope and especially the locus of decisionmaking.[38] The reforms have created new and untried issues of governance and jurisdiction; they have spawned new

36. Steven D. Krasner, "Sovereignty: An Institutional Perspective," in James A. Caporaso, ed., *The Elusive State: International and Comparative Perspectives* (Sage Publications, 1989), pp. 69–96.

37. See Barry Jones, "Conclusion," in Keating and Jones, eds., *Regions in the European Community*, pp. 234–45.

38. Occasionally this slips out in the usually dry and unedifying official EC publications, as in the Commission's most recent *Annual Report on the Implementation of the Reform of the Structural Funds, 1989*: "This major operation brought together authorities which did not necessarily share the same views at the outset. It assembled, around the table of partnership, three different administrative levels (regional, national and Community). . . . Negotiation of the CSFs also provided the first real opportunity for exchanges between the Commission departments and regional administrations. The discussions were enriching for all and led to greater mutual understanding. An assessment of the partnership has to take account of the particular institutional structure of each Member State, which meant that in some cases i. was more limited than one would have wished" (p. 5).

arenas in which decisionmaking will take place; and they have multiplied the number and type of groups that contend for influence over substantive outcomes and, more important, for control over the decisionmaking process.

Given the role of individual states in contesting outcomes, one should not expect convergence within the Community as a whole. Structural intervention in the regions seems to be leading to continued, and perhaps even enhanced, national differentiation that reflects varying strengths and types of regional government and varying state strategies and capacities.[39]

Member states are powerfully positioned in the constitution and decisionmaking process of the Community. Constitutionally, the European Community is a club of monolithic states.[40] To the extent that subnational units of governance exist in the Community, they do so at the behest of the member states. They have no legal standing independent of the states of which they are a part. This constitutional focus on the state and the central position of the Council of Ministers, composed solely of representatives of national governments, has led many observers to the conclusion that far from weakening the state, the creation of the EC has strengthened states, particularly in subgovernmental relations.[41]

In Ireland and Portugal, where central governments have pursued national rather than regional development programs, the EC's structural Funds are essentially engaged in regional policy without regions. These countries qualify in their entirety for objective 1 funding, and they have so far been successful in their refusal to countenance any regional focus for EC funding. In Ireland receipts from the European Regional Development Fund go directly into the Public Capital Program, a centralized fund that does not discriminate among regions. However, the Funds have been able to indirectly pressure member states through their discretionary control of a sizable share of the structural budget. Ireland has recently created subregions based on its counties so as to better compete for structural funds.[42]

39. See Thomas O. Hueglin, "Regionalism in Western Europe: Conceptual Problems of a New Political Perspective," *Comparative Politics*, vol. 18 (July 1986), pp. 439–58. Krasner, "Sovereignty," presents some general arguments to this effect (pp. 69–96).

40. Jones, "Conclusion," pp. 243–44.

41. L. J. Sharpe, "Fragmentation and Territoriality in the European State System," *International Political Science Review*, vol. 10 (July 1989), pp. 223–38.

42. Joseph E. Thompson, "The European Community and Northern Ireland," paper presented at the 1989 Conference of the European Community Studies Association, George Mason University, May 1989.

The double-edged politics involved in the creation of policy networks linking the regions and the EC are especially sharp in Britain. Since the mid-1980s competition for structural funding has intensified. With the adoption of discretionary allocations, the British government accepted the need for increased regional and local participation in framing budget requests. Community departments have been set up in local authorities in regions meeting objectives 1 and 2 criteria. Regional civil servants have begun to lobby directly in the EC through members of the European Parliament and by setting up their own offices in Brussels. The Northern Development Company, which was established in the northeast of England in 1986 to coordinate interests in the region, now provides information about funding opportunities in the Community and serves as a conduit for direct contacts between EC and local officials.[43]

But the national government has been determined to maintain a strong grip over the process as a whole. Local and regional authorities must work through the Department of Trade and Industry at Whitehall whether they wish to apply for a single project or for a comprehensive program. In fact, the British government refuses to recognize the difference between these types of funding: both are simply factored into the budget as a whole and effectively replace existing spending. The government views the structural Funds as a budgetary mechanism offsetting a portion of British payments to the EC. The perception is that the government, not the EC, should decide how this money should be spent. The justification for involving subnational governments in regional planning is simply to maximize the transfer of resources from Brussels to London. While it struggles to adapt to changing criteria of selection of programs by mobilizing local authorities in planning agencies, Whitehall finds itself opposing the basic thrust of the reforms, resisting "an additional layer of bureaucratic planning which in our view would result in the Commission imposing its own preferences on Member States' planning priorities." If the Department of Trade and Industry were to have its way, "There will never be a common Community regional policy in the sense that we already have a Common Agricultural Policy and a common commercial policy."[44]

43. Jeffrey J. Anderson, "When Market and Territory Collide: Thatcherism and the Politics of Regional Decline," *West European Politics*, vol. 13 (April 1990), pp. 234–57.

44. House of Lords Select Committee on the European Communities, European Regional Development Fund, *23rd Report* (1983-84) (London: Her Majesty's Stationery Office, 1984), p. 115.

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Predictably, the government has resisted the Commission's most recent attempts to decentralize structural planning. In November 1989 the secretary for trade and industry, Nicholas Ridley, refused to accede to the Commission's demand that local authorities play an independent role in creating development plans.[45] Community Support Frameworks forwarded to the Commission by the United Kingdom have emphasized centralized infrastructural spending—for example, to modernize the water industry—instead of creating local enterprise agencies and other ongoing concerns that would involve local government participation.

But once policy networks linking subnational governments to the EC have been created, there is no certainty that they can be dominated by national government. Local authorities are well aware that their interests diverge from those of the government. In the words of a leader of the Scottish local authority association, "The objectives and interests of local authorities individually—or perhaps in a local grouping—are not necessarily the same as those of government. Local authorities at present and no doubt under the amended regulations seek to attract maximum European funding into their areas. It is not necessarily an objective that, taken globally across the country, will commend itself to the Government."[46]

Until now, national governments have been fairly successful in protecting their prerogatives over regional policy. They exercise a constitutional monopoly mandated in the Treaty of Rome and in subsequent legal cases in the process of intermediating interests between subnational governments and the EC. The extension of the functions of the Community may even give some national governments an expanding role as the interlocutor between domestic and European interests. Moreover, national governments have important advantages in any direct conflict with subnational governments, deriving from their financial powers, legitimacy, and high levels of prior institutionalization.[47] The weight of these advantages varies from state to state and from region to region, but even in Germany, where subnational governments are strongest relative to the federal state, most observers argue that the EC has

45. Hazel Duffy and Anthony Moreton, "Challenge to EC Commission Plan for Regional Funds," *Financial Times*, November 20, 1989, p. 7.

46. House of Lords Select Committee, *23rd Report*, pp. 93–94.

47. Sharpe, "Fragmentation and Territoriality in the European State System."

consolidated the power of the central government at the expense of the Länder.[48]

Despite the entrenched position of national governments in the EC, the development of structural policy at the Community level has given subnational governments a new arena for pressing their demands. It is not at all surprising that regional governments and Community institutions should regard each other as useful potential allies in bargaining with member states.[49] Though member states retain considerable resources for regional policymaking, the growth of informal networks linking regions and the EC is a resource for subnational governments in mobilizing support behind regional claims and for the Commission in framing a European structural policy.

Sources of Uncertainty

This chapter has attempted to describe and analyze developments in structural policy that are in process and contested rather than fully realized. No one has yet seen the intended and unintended consequences of the reforms or their durability. Three sources of indeterminacy appear crucial: the geographical boundaries of the Community are unsettled, particularly for east central Europe; political relations between the major institutional actors in the Community are still in flux, with the possibility that member states will attempt to reassert their "sovereignty"; and, finally, implementation cannot be taken for granted. Implementing the structural reforms provides significant scope for administrative overextension and bureaucratic infighting among the Funds.

The inclusion of East Germany in the Community by virtue of unification with West Germany and the possible further enlargement of the Community to include east-central European states (Hungary and Czechoslovakia are the most likely candidates) make predictions of the future of structural policy, or of the EC in general, highly problematic. In the first place, it seems clear that policy coordination based on minimal reciprocity,

48. Gerhard Bahrenberg, "West Germany: From Decentralization in Theory to Centralization in Practice," in Robert Bennett, ed., *Territory and Administration in Europe* (London: Pinter, 1989), pp. 255–70; and Hans-Georg Gerstenlauer, "German *Länder* in the European Community," in Keating and Jones, eds., *Regions in the European Community*, pp. 173–90.

49. Fritz W. Scharpf, "Interorganizational Policy Studies: Issues, Concepts and Perspectives," in Kenneth Hanf and Fritz W. Scharpf, eds., *Interorganizational Policy Making: Limits to Coordination and Central Control* (London: Sage Publications, 1978), pp. 345–70.

let alone harmonization, would be much more difficult in an EC that encompasses parts of east central Europe. It seems reasonable to expect that the more *extensive* the EC becomes, the more difficult the task of institutionalizing *intensive* decisionmaking powers or political authority will be.

An opening to the East would greatly magnify the demands on structural policy. To some extent this challenge is already occurring with the integration of former East Germany into the EC. The Kohl government renounced any claim against current structural spending but agreed to a total of ECU 3 billion in additional structural spending for the period 1991–93. The cost would be much greater if other east-central European countries joined. Czechoslovakia and Hungary have a combined population of 26 million, and their inclusion in the EC along with eastern Germany would add another two-thirds to the population living in objective 1 regions. If the next likeliest eastern contender for membership, Poland, is included, the population of the less-developed regions doubles. An opening to the East would therefore internalize enormous regional problems that the present structural policy is not equipped to handle.

The consequences of developments in east central Europe for the EC are already being felt, particularly by the peripheral regions. The revolutions of 1989 and subsequent calls for large-scale aid and investment raise the specter of a zero-sum game between the southern and eastern peripheries of Europe for scarce international finance. If expected private German (and French) investment in Portugal, Spain, and Greece does not materialize, these countries may try to secure more investment through the channel of the Funds. Public figures in these countries have already voiced concern about the potential diversion of investment away from their economies to east central Europe. Bargaining among member states about the future size and distribution of the structural Funds may become more conflictual even if the EC does not open further to the East.

Despite the recent growth of the Commission's influence in allocating the structural budget across priorities and among member states, the member states dominate the budgetary process as a whole and may claim back the powers they have ceded to the structural Funds. The Funds have gained influence in the allocation process because they dispense the budget, but their role is still in flux. Member states tend to be jealous of whatever political benefits accrue from regional dispensations and are sometimes unwilling to advertise Community involvement in popular projects. To the extent that member states view the benefits of regional policy in zero-sum terms, the role of the structural Funds as an active participant rather than as a mechanism for bargains worked out among the member states is likely to be contested. In addition, member-state administrators complain about the complexity of the funding process for Community programs and argue that the structural Funds are merely another layer of bureaucracy.[50] If calculations of national outcomes continue to dominate budgetary politics, the leeway given the structural Funds may erode under the pressure of bargaining among member states.

In the absence of a deeply rooted and generally held sense of Europeanness among mass publics, it is very difficult for the structural Funds to legitimate an extension of their powers of redistribution among member states. Ultimately, the role of the structural Funds, alongside other EC institutions, will be constrained by cultural identifications, and these are likely to change only slowly. In the absence of strong external legitimation, the appearance of an autonomous role for the structural Funds governed by technocratic standards and an overarching European interest may really be a dressing up of conventional national bargaining. In some cases it is evident that technocratic standards are elaborated post hoc to justify bargains hammered out in the Council of Ministers.[51]

Finally, the reforms present administrative tasks that the Funds are ill-equipped to handle. The structural reforms place a heavy reliance on policy coordination and DG XXII has been established with this purpose in mind. Effective coordination demands power, and it is still unclear whether this new, very small Directorate-General will have the authority to fulfill its responsibilities. Some insiders have suggested that DG XXII should be elevated above the three structural Funds by being made responsible to the president of the Commission. At present, DG XXII is dependent on the intangible resource of "moral leadership." There is significant potential for institutional conflict between DG XXII and the larger, more established Directorate-Generals.

The expansion of the responsibilities of the structural Funds has not been matched by an increase in the numbers of administrators or by the

50. House of Lords Select Committee, *23rd Report*, p. 13.

51. For example, one middle-level bureaucrat I spoke to was told to manufacture a technocratic justification for Britain's 38 percent share of ERDF assistance under objective 2.

hiring of people with regional expertise. The problem is particularly severe in the Regional Fund (DG XVI). In the past the administrators of DG XVI acted as financial controllers for projects that were designed and carried out by member states or regional bodies. With the shift to a program approach, the need is to find people who are competent to go to the regions, explore potential sites and programs, and monitor their subsequent performance. The Funds are chronically understaffed, and the staff they have are poorly equipped to carry out their new functions.[52]

Conceptualizing the European Community

One of the clearest things to emerge from an overview of structural policy in the EC is that it is in flux: new conceptions of the role of the Commission are being pressed into institutional form; subnational governments are being mobilized in unconventional ways; and states are responding to financial incentives offered by the Funds and to various internal demands, including the desire for control over relations between subnational governments and the Community. Some very basic, and perhaps surprising, features of the emerging political landscape are visible now, and it would be well to make them explicit in concluding this chapter. Instead of the advent of some new political order, however distant, one finds an emerging political disorder; instead of a neat, two-sided process involving member states and Community institutions, one finds a complex, multilayered, decisionmaking process stretching beneath the state as well as above it; instead of a consistent pattern of policymaking across policy areas, one finds extremely wide and persistent variations. In short, the European Community seems to be part of a new political (dis)order that is multilayered, constitutionally open-ended, and programmatically diverse.

A distinctive characteristic of the process of structural reform is its open-endedness. Instead of posing a new federal political order as the eventual outcome of the process, the reforms increase uncertainty and conflict by creating new functions, challenging central state bureaucracies, and mobilizing regional interests. The structural reforms challenge both state control of regional policy and state monopoly of intergovernmental relations. Unprecedented policy networks are being created that link

52. This point was raised by several fund administrators in interviews. See also House of Lords Select Committee, *23rd Report*, p. 13.

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the EC directly to regional governments and interests. It would not be surprising to see regional governments and regionally based private groups across different member states forming coalitions to press their common interests in the EC. But, at the same time, it seems unlikely that a tidy polity will emerge at either the supranational, the national, or the subnational level.[53]

The structural reforms are the outcome of conscious institutional creativity, yet they are not modeled on a prior plan for creating a new political system. The reforms are inductively problem driven, not deductively constitution based. As a result, there is no sense of finality about them. This is not to deny that regional policy, and European integration in general, has taken place within an ongoing debate between alternative conceptions of a European polity, encompassing, for example, a Europe of the regions in which states would wither away, a federated Europe tying together existing member states, a free-trade Europe dominated politically by autonomous member states, and so forth. But these models of the good polity have not determined the reform process. They are attempts to abstract general principles or tendencies from the process of European integration, rather than architectural master plans. In practice, structural policy, and arguably many other policy areas, have been open-ended in a way that has escaped those who have thought of grand architectural plans or final destinations.

Structural policy, unlike policy areas that have dominated thinking about European integration in the past, cannot usefully be conceptualized as a two-sided process between member states and the European Community. The outcome cannot be understood as some point along a continuum ranging from a loose confederation of strong member states on the one side to a federal Euro-state on the other. Formulations constrained to member states and Community institutions miss a critical element of the whole picture: the role of subnational governments. Instead of a two-sided process, a far more complex, open-textured, and fluid situation is emerging in which subnational governments interact with the EC and cross-nationally. Policymakers are confronted not simply with the issue of how much decisionmaking to centralize in Brussels but with how disparate levels of government both within and beyond the national state fit together.

53. The result may be the kind of bargaining described by Leonardo Parri, "Territorial Political Exchange in Federal and Unitary Countries," *West European Politics*, vol. 12 (July 1989), pp. 197–219.

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The polar conceptions of a Europe of the regions versus a state-dominated Europe are unsatisfactory not because something in-between is emerging but because elements of both may coexist in a conceptually untidy, multilayered polity. The Weberian conception of the state, rooted in the monopolistic control of the legitimate means of coercion within some given territory, reveals less and less about the realities of political power and decisionmaking in Western Europe. Visions of a Europe of the regions have an air of unreality about them because they do not explain how existing states will wither away.

There is little reason to believe that the experience of structural policy will be replicated in other policy areas in the EC. On the contrary, there are enormous contrasts across policy areas within the EC. If the experience of policymaking within member states is any guide, there is no reason to assume that such contrasts are just a transitional phase. Throughout its existence the EC has been oriented as a means to discrete, diverse, contested, and contingent goals that have been specific to particular policy areas.[54] The result is an immensely complex and variegated structure, or, more accurately, a set of structures, that reflects the logic of numerous individual policy areas and the consequences of their intricate connections. If one tries to discern a pattern of governance, one finds variations ranging from a virtual unitary suprastate in the sphere of trade barrier regulation to loose coordination of virtually autonomous member states in most fields of education policy to multilayered intergovernmental relations in structural policy. The institutional structure of provision in each policy area reflects the logic of individual programs and the distribution of power among their providers and recipients more than constitutional structure.[55] Policy diversity is a fundamental and enduring characteristic of the EC. The overall shape of the Community is the result of the accretion of numerous bargains about specific policies and their institutional frameworks.[56]

54. In this context Haas speaks of the "autonomy of functional contexts." Ernst B. Haas, "International Integration: The European and the Universal Process," *International Organization*, vol. 15 (Summer 1961), p. 376; see also Haas, "The Study of Regional Integration: Reflections on the Joy and Anguish of Pretheorizing," in Leon N. Lindberg and Stuart A. Sheingold, eds., *Regional Integration: Theory and Research* (Harvard University Press, 1971), pp. 3–42.

55. John B. Goodman, "Do All Roads Lead to Brussels? Economic Policymaking in the European Community," paper prepared for the American Enterprise Institute's conference on the United States and Europe in the 1990s, Washington, March 1990.

56. Helen Wallace, "National Bulls in the Community China Shop: The Role of National

With some exaggeration, one can say that the European Community, like the modern state, has been created self-consciously with respect to its parts but not to its whole.[57]

Government in Community Policy-Making," in Wallace, Wallace, and Webb, eds., *Policy-Making in the European Communities*, pp. 33–68.

57. I explore the comparison between European integration and state-building at more length in "Structural Policy, European Integration, and the State," paper presented at the meeting of the Consortium for 1992 at the University of North Carolina, March 1991.

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Chapter 7

The Politics of the Social Dimension

PETER LANGE

MUCH OF THE attention given the 1992 process of European economic integration has focused on the aggregate benefits of a fully developed internal market. This positive attention marks a shift away from Europe's preoccupation with "eurosclerosis" and "europessimism" in the mid-1980s, toward a renewed faith in Europe's future. The Cecchini report of 1988 with its predictions of substantial European benefits in growth and employment from integration is the fullest expression of this new "euro-optimism." Yet it is also clear that a fully integrated and barrier-free internal market, and the attached commitment to reduce and eventually to eliminate barriers to external trade, is likely to have significant *distributional consequences*.

From a political standpoint, these effects should be understood in sectoral, territorial, and class terms. Some sectors, or some firms within them, will reap substantial and relatively immediate benefits from less costly access to other European markets and are likely to respond well to exposure to international competition. Others can be expected to suffer, at least in the short run. There is also good reason to believe that these sectoral and firm effects will, at least in the beginning, benefit some regions of the European Community much more than others.[1] Thus, even

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1. Tommaso Padoa-Schioppa and others, *Efficiency, Stability, and Equity: A Strategy for the Evolution of the Economic System of the European Community* (Oxford University Press, 1987).