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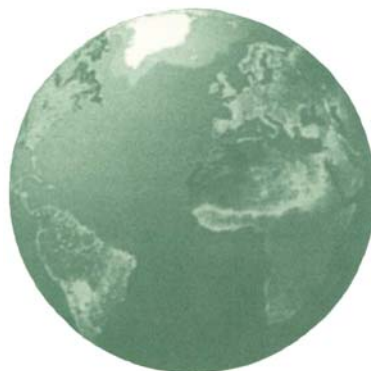
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MARKET CORRECTIVES, MARKET PALLIATIVES AND  
THE NEW  
POLITICS OF EUROPEAN INDUSTRIAL AND REGIONAL  
DEVELOPMENT



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## SUMMARY<sup>\*</sup>

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This paper argues that the *New Economy* paradigm and the interests of the more advanced EU Member states dominate current thinking on EU industrial and regional policy. European integration is driving a political economy of regionalism that—far more than traditional divisions between labour and capital—decisively defines the contours of “economic interests” in the *New Europe* and has the most significant impact on EU, national and subnational policy approaches. The *New Economy* paradigm is driving a radical shift in EU policy from *cohesion* or *redistribution* toward *innovation promotion* and affects distributional struggles at the EU, national and subnational levels. This shift has important implications for future EU industrial and regional development policy goals. On the one hand, shifting strategies pose significant challenges at the national and subnational levels. While political decentralization dominates current discourse, national governments—in particular perhaps in the New Member states (NMS’s)—are more likely to favour centralized control over national and regional spending priorities. On the other hand, seemingly at the expense of the NMS’s, the increasing concentration of EU funding on a large number of less advanced economies is eroding the policy’s traditional support basis.

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## INTRODUCTION

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Reform of European Union (EU) regional and industrial policy has been discussed at length in recent years. The run-up to the completion of the 2007–2013 Framework Perspective is in part responsible. Much effort has been expended to demonstrate both how EU funds might best be put to use, as well as to argue that the shape and form of previous funding may not be well-suited to promoting long-term economic growth and development in today's Europe. The *Lisbon Agenda* and in particular the *Sapir Report*<sup>1</sup> have launched a debate that may forever change the face of EU regional policy. In particular, this debate addresses what I shall call the divide between *innovation-oriented* and *redistributive* policy goals. Part of a much broader and more general re-orientation in economic policy thinking, this debate lays bare much of the core of current EU distributional struggles and raises questions about the future outlook for EU regional and industrial policy more generally.

The shift from *redistributive* to *innovation-oriented* thinking parallels a broad range of shifts taking place both within the EU framework and elsewhere. For the EU, the manifestation of such change can be traced back to gradual reforms of EU industrial policy and the rise of controls on state aid spending. The shift from *sectoral* support (*i.e.* direct subsidies to firms or declining economic sectors) toward spending on more *horizontal* and universal policy goals—in particular on *physical* and *human capital* (*i.e.* infrastructure, education/training and R&D)—was initiated with reforms of EU industrial policy goals in the early 90's. In parallel, EU policy has progressively circumscribed the arena of

state intervention at the national level and has used competition policy, restrictions on state aids and even the Economic and Monetary Union's (EMU's) convergence criteria to promote compliance with the general paradigm shift in industrial policy.

Though tempting to think of this shift as a movement in the neo-liberal direction commensurate with the rollback of the state and an acceptance of the predominance of the market,<sup>2</sup> such characterizations of the re-writing of EU industrial and regional policy fail to comprehend that the *Lisbon Agenda* and the *Sapir Report* promote a broad re-focusing of the role of state intervention—not its demise. In concert, the *Lisbon Agenda* and the *Sapir Report* represent attempts to reform EU funding and are generally supportive of a positive role for state intervention. This should not suggest that the strategic thinking underlying these documents represents just more of the same old industrial policy framework long characteristic of EU economies. In important ways, the combination of these (and successor) documents represents a paradigm shift with the potential for a significant and long-term impact on the future of EU growth management.

Two questions form the basic focus of this paper. The first concerns how best to explain these gradual shifts in policy. As argued in this paper, current reforms in the practice of EU regional development and industrial policy should be seen in the context of *New Economy* models of economic development. While others are tempted to see changes in the EU framework as either a response to globalization or a consequence of European integration and the relative decline in labour power, this paper argues instead that the major impetus of these reforms is best understood within the context of models of *economic geography* and *endogenous growth*.

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<sup>1</sup> For more on the Lisbon Agenda, see European Commission (2000). For the Sapir Report, see European Commission (2003).

<sup>2</sup> A broad range of literature appears to make this assumption (see for example: Hooghe, 1998; Streeck, 1999; and the neo-Gramscian literature: Apeldoorn, 2002; Bieler, 2003; Bohle, 2006).

This approach emphasizes the importance of sub-national regions in industrial and regional development policy, as well as the *knowledge-based economy* and the potential for *external increasing returns*.<sup>3</sup> These models deeply influence how intellectuals and governments currently think about economic policy-making and provide the groundwork for this potential shift in economic strategy. However, the distributional impact of such models is not neutral, leading to significant public debates over the *re-nationalization* of public spending (read *subsidiarity*), political decentralization vs. state-centred control and the appropriate use and targets of EU-funding. Further, states and groups within states are likely to promote those models that best reflect their interests.

The second question focuses on what this means for the future of EU regional policy goals and in particular the interests of the less developed economies in the European Union. Though the *Sapir Report* itself did not envision the elimination of regional policy—the report recommends regional funding be “*concentrated*” on the less developed states (European Commission, 2003: 6)—the basic question raised is ultimately how to shift EU spending from *redistributive* to more *productive* and *innovation-oriented* policy goals. Though one can question the specifically *redistributive* content of previous EU regional policy,<sup>4</sup> the tenacity with which the Directorate

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<sup>3</sup> I adopt Krugman’s (1991) language here and distinguish in particular between increasing returns resulting from economies of scale and *external* increasing returns generated by the geographic concentration of economic activity. Only the potential for the latter example of increasing returns is the focus of this analysis.

<sup>4</sup> See e.g. Dunford (2005: 977), Hall (2005: 970). Indeed many have argued that the functional-redistributional content of the SCF’s is overwhelmed by distributional politics. Some see the SCF as side-payments in order to secure support for deeper integration (Carrubba, 1997; Lange, 1993; Marks, 1992). Moreover, it is tempting to point to the quite broad distribution of funds across multiple states and claim that politics rather than variation in the level of economic development or more functional models of economic development are the principal explanation.

General for Regional Policy (DGRegio) has insisted upon the compatibility of Lisbon and Regional Policy goals is alone suggestive of the divide between potentially divergent developmental aims.<sup>5</sup> As argued herein, the goal of achieving a *productive* and *innovation-oriented* economy competes and is potentially at odds with the goals of *cohesion* and *redistribution*.

In this general context, the more the EU broadens its membership base to a broad range of less developed economies,<sup>6</sup> the more likely it becomes that competing claims placed on EU resources will be rendered contradictory and problematic. As the EU increases in size and economic disparity, structural and cohesion fund (SCF) policies become further concentrated on a select group of countries. If cross-country economic disparities were less pronounced, a much wider range of countries would presumably benefit from the EU’s SCF’s thereby strengthening public support. But as disparities increase and more and more funds are concentrated on less developed states and regions, fewer and fewer core states are able to take advantage of the SCF’s and the net contributor status of some states thus weighs more heavily. This gradually removes a broad range of more advanced states and regions from the policy’s support base and this in turn may erode future support for EU redistributional mechanisms. Though the consequences of such trends are naturally difficult to predict, such policy features may well begin to wither away as the EU grows in size.

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<sup>5</sup> This objective has occupied much of the current public relations work of DGRegio Commissioner Danuta Hübner (see e.g. the series of speeches posted on the DGRegio website in early March, 2006). Moreover, DGRegio commissioned a substantial study on the topic completed by the Danish Technology Institute (Danish Technology Institute, 2005).

<sup>6</sup> Just how many enlargements remain on the horizon and what geographic contours will define the future borders of the EU remains to be seen. For the time-being, the EU has undertaken to negotiate with Turkey, Croatia and Macedonia. But many potential future members stand in the wings.

This paper proceeds as follows. The first section provides an overview of the factors explaining the general paradigm shift in EU industrial and regional development policy. The second section analyzes the impact of this shift on the 2007–2013 Framework Perspective. A brief discussion and conclusions follow.

## PARADIGM SHIFT? COHESION, REDISTRIBUTION AND INNOVATION PROMOTION

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Resource struggles (in particular over capital) and re-distributional struggles (in particular over fiscal expenditure) are destined to remain strongly intertwined with future debates and policy-making struggles in the New Europe. Textbook analyses of international trade suggest that the costs of economic adjustment can easily be overcome by the redistributive transfer of resources from winners to losers. Politically this has always been difficult to achieve (Rogowski, 1989). Why this happens has long troubled political economists. In the EU context, rather than redistribute and mitigate the costs arising from economic integration, the recent accession of 10 New Member States (NMS) has instead been used to shift the burden of adjustment to the Central and East European states. Few EU redistributional tools were used—in particular in the early years of accession and enlargement—to dampen the blow of economic adjustment in Central and Eastern Europe and much has been done to protect Western markets, thereby increasing the burden on Central and East European economies (Ellison, 2006, 2005a, 2005b).

Competition between states over scarce resources (in particular capital) and EU redistributional funding (in particular the SCF's and the Common Agricultural Policy (CAP)) motivates the attempt to retain

what little direct financial advantage states receive from EU membership and to reduce potential losses. The institutional structure of the European Union however tends to reinforce the position of the large, economically more advanced states over that of smaller, less advanced states. This makes it possible—at least in terms of economic adjustment costs—for the larger and more economically advanced states to reap more of the rewards while the smaller and economically less advanced states bear a greater share of the burden of economic adjustment. Thus the coincidence of political and economic power is likely to lead to less than favourable outcomes for smaller and—in particular—less advanced states in the EU.<sup>7</sup>

Such claims may seem strident and even out of character with an EU literature that suggests—in the aggregate—that all countries benefit from European integration. The intergovernmentalist literature however has long implied the likelihood that the gains from European integration are at best likely to be uneven, though it has seldom investigated this likelihood in great detail.<sup>8</sup> Given variation in the relative economic and political power of states, policy outcomes should presumably reflect that political dynamic. Thus while—in the aggregate—we should generally expect all states to gain from European integration, we still might expect some states to gain more than others. *Side-payments* have long been conceived as the mechanism by which more powerful states have been able to buy-off or compensate those likely to win

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<sup>7</sup> This may seem surprising to some, since smaller states are often seen as winners in the EU context. As more trade dependent states they gain from market integration with their fellow EU Member States and their weighted qualified majority voting power—relative at least to their population shares in the EU—in the Council of Ministers has traditionally been greater. Such arguments however ignore both the role of blocking minorities (more easily manipulated by the larger states) and the population rule introduced with the Nice Treaty—which again greatly strengthened the political weight of the larger states (Ellison, 2005a).

<sup>8</sup> See in particular Moravcsik (1999) and Moravcsik and Vachudova (2003).

less from economic integration (see *e.g.* Lange, 1993; Marks, 1992). Moreover, uncertainty and the substitution of perceived for real gains greatly increases the range of potential variation in the impact of policy outcomes, making it possible that some states lose not only on individual features of European integration but also in the aggregate (Ellison, 2006; Ellison and Hussain, 2003).

*New Economy* models designate the mix of *endogenous growth* and *economic geography* models popularized in particular by Krugman (1991). The impetus for this approach lies in attempts to explain and model technological progress and its impact on economic growth—otherwise typically assumed to be external or exogenous to the process of economic development. Both the *endogenous growth* and *economic geography* schools explain technological progress as a function of dynamics internal to more competitive economies and regions.<sup>9</sup> Endogeneity implies that technological progress is itself a function of the factors driving economic growth. Economic geography models focus on the geographic nature of the localized factors generating technological progress, as well as factors limiting the geographical range over which knowledge or technological progress is spread.

*New Economy* models cast new light on the geography and driving forces of economic growth and development. Observations from this literature have begun to have repercussions both for theorizing about the shape and substance of EU, national and subnational-level regional policy tools and goals,<sup>10</sup> as well as the institutional framework within which they are formulated. One of the principal contributions of the New Economy Models with respect to regional policy and national (or

supranational) development goals is to question the nature of the linkage between regional, subnational development policy and the nature and structure of economic growth and development. A broad scale rewriting of industrial and regional development goals has been afoot in the European Union for some time. Intentionally or not, the *Sapir Report* dealt a considerable blow to previous regional policy initiatives. Since that time, DGRegio appears pinned between the competing agendas of regional development and the onslaught of *growth and competitiveness* and *Lisbon Agenda* policy orientations. A book-length Danish Technological Institute (2005) study commissioned by DGRegio was dedicated to exploring the compatibility between regional development and *Lisbon* goals. Most recently, Regional Policy Commissioner Danuta Hübner has spent considerable time giving speeches on the significance of *Lisbon* goals for regional development.<sup>11</sup>

Theories of endogenous growth and concepts of regional clustering (or the agglomeration of economic activity) promote an increasing emphasis on the potential to facilitate regional, geographically-localized spillover effects. Considered innovation promoting and technology producing, these localized effects are thought to lead to higher economic returns based on the exploitation of knowledge-related scarcities. As a result, the nature and structure of policies directed toward national macro-level subnational regional development goals has undergone considerable revision. In particular, European industrial policy goals exhibit a gradual shift away from their previous *sectoral* structure and direct forms of redistribution (*e.g.* subsidies to firms and the support of declining industries, income support and the like). Instead, emphasis is now placed on more *horizontal* forms of assistance with broad economic application. In particular, such forms of government intervention focus on the role of physical and human capital (or

<sup>9</sup> I draw here most explicitly from Gardiner *et al.* (2005: 1049-1050). For recent work, see also Brakman *et al.* (2005) and Baldwin and Martin (2004). This approach has generated lively interest since Krugman's initial publication.

<sup>10</sup> See, in particular, Bachtler and Wishlade (2005), Martin (2003), and Baldwin and Martin (2004).

<sup>11</sup> See, for example, the series of speeches listed on DGRegio's website given in early March 2006.

infrastructure and training/education), and on the role of other innovation enhancing policies (e.g. R&D).<sup>12</sup>

Phrased in this manner, the radical shift in development strategies and goals is only moderately perceptible. Yet, what is under attack is the long tradition of EU policy orientations that have tended to focus more resources on agriculture, declining industries and lagging regions.<sup>13</sup> As many appear to argue, if Europe is to become more productive, it must shift more of its resources to more productive economic activities. Following Streeck (1999), this is part of a more generalizable phenomenon occurring at the level of the state as well. Streeck emphasizes the current national government practice of promoting *productive assets* (physical and human capital, education, R&D, infrastructure, etc.) at the expense of *redistributional spending* (transfer payments, unemployment insurance and other forms of income maintenance). The basic emphasis is similar. Competitiveness concerns drive a broad re-orientation of state-level strategies of economic management. Thus this phenomenon is occurring at both national and supranational levels of policy-making in the EU.

Though the specifically *regional* character of this shifting policy orientation is perhaps less obvious on the surface, New Economy models in particular prompt a comparatively radical rethinking of the compatibility of national and regional policy goals. These models have—in particular—focused attention both on the importance of agglomeration economies and their clustering of economic activity and on the importance of regions insofar as such clustering tends to exhibit a particularly regional character. However, one should not confuse (as some of the litera-

ture appears to do) the focus on the regional clusters of economic activity with the previous focus on regional policy and regional development in the less advanced regions of Europe. The one strategy is focused on promoting dynamic regional growth—in particular in regions that already exhibit a positive propensity to support such growth—while the other is more clearly focused on an attempt to reverse patterns of economic decline or stagnation in lagging regions. The outcome is likely to be an increasing degree of competition between *growth promoting* and *cohesion inducing* public policy goals or, as phrased at the outset of this paper, between *innovation-oriented* and *redistributive* policy goals.

Brakman *et al.* (2005) in particular note the considerable regularity in the structure of regional economic growth and disparities. EU and national-level regional policy has frequently met with failure. Significant differences in the level of economic development persist across Europe's regions, despite repeated and long-term efforts to turn them around (e.g. the Italian Mezzogiorno and East Germany), propelling many to ask why EU or national level resources should be allocated to policies that do not always seem to bear fruit.<sup>14</sup> A number of authors thus point to *equity vs. efficiency* trade-offs with respect to national and regional economic policy goals (Brakman *et al.*, 2005; Lackenbauer, 2004; Bachtler *et al.*, 2003; Martin, 1999). In their view, if agglomeration is crucial to the nature and character of economic development, then transferring resources to less developed regions is likely to slow the rate of economic development in advanced regions and accordingly may even fail to achieve their desired effects in less advanced regions. The diversion of resources to economically less advanced regions may thus slow rather than speed up the process of economic development.

<sup>12</sup> Early discussion of the shift toward horizontal measures can be found in “Industrial Policy in an Open and Competitive Environment: Guidelines for a Community Approach” (COM(90) 556) and “An Industrial Competitiveness Policy for the EU” (COM(94) 319 final).

<sup>13</sup> This point is clear from the Sapir report (European Commission, 2003: 79, 126).

<sup>14</sup> For recent overviews of the literature on the relative success of regional policy, see Jouen (2005: Annex) and Funck and Pizzati (2003).

The likely outcome of such observations is either an interest in revising policy approaches directed toward less developed regions or an interest in reducing government intervention in regions that are on the decline and increasing it in regions on the rise.<sup>15</sup> Moreover, it is not uncommon in this literature to come across the observation that promoting growth in the more developed regions is likely to promote growth in the less advanced regions (see Brakman *et al.*, 2005; Scott, 2000; Storper, 1992). As Scott argues, “*geo-economic space*” is made up of a “*central nucleus*” and a “*hinterland*” of variable size (2000: 48). Implicit in his argumentation is the notion that the welfare of the *hinterland* or more remote regions—though excruciatingly unclear where such regions begin and end<sup>16</sup>—is dependent upon and pulled along by the welfare of the core regions. In this regard, the *New Economy* disadvantages redistributive policy and favours more targeted and potentially more *supply-side* oriented policies focused on the development of human and physical capital (education, R&D and infrastructure). In doing so, it sparks fears of its seemingly *conservative edge*. This policy orientation ultimately threatens to diminish not only the specifically *redistributive*, but also the *regional* content of regional development policy.

Efficiency motives provide strong incentives for both national governments and regions to exercise greater control over economic development strategies. For national governments, both EU-based and national-level regional development strategies—in particular those focused on cohesion and redistribution—potentially drain resources away from more advanced states and regions. While all states are broadly

similar in this regard, the level of economic development across states generates variation in policy interests. For *more advanced states*, such observations drive an interest in promoting Lisbon-type objectives over more traditional forms of regional development. Lisbon-type objectives, however, embody implicit challenges, both to the interests of less developed states and regions and to the future of regional policy more generally. For *less advanced states*, regional development policies are clearly preferable over Lisbon-type goals where this means portends a greater concentration of funding on less developed states. At the same time however, in the domestic arena the specifically regional focus of regional development strategies may potentially draw resources away from emerging economic clusters and potentially upset the fine balance between regional and national level economic restructuring and overall economic development. If the dispersion of resources designed to promote overall development leads to an overall decline in rates of economic growth, national governments will then presumably favour agglomeration promoting policies over regional redistribution. Less advanced states in particular are thus faced with significant equity vs. efficiency tradeoffs and are torn between the objectives of *cohesion/redistribution* and *innovation promotion*.

Due to efficiency concerns, states in particular are likely to be torn between *innovation promotion* and *cohesion/redistribution* and are also likely to favour greater centralization in the institutional structure that oversees the making of economic management policies at the national level. Increasing demands for decentralization (whether their origin is the Commission or the regions themselves), in particular over EU funds, are likely to be paralleled by increasing national government attempts to maintain control—at least as long as politically feasible. Less advanced states in particular have strong incentives to side with growth-club constituencies in the more advanced regions,

<sup>15</sup> Brakman *et al.* (2005), for example, explicitly make this recommendation.

<sup>16</sup> One way of thinking about this problem is to ask how it fits the European case which Scott does not directly address. For example, should one think of central nuclei and a hinterland at the national or European level? The relevant unit of analysis here is of course terribly important in terms of its policy implications.



since these are presumably more likely to attract important resources for the state—in particular government revenues and improved employment.

The role of the EU and the subnational regional level in attempting to foster greater decentralization at the regional level may well be rendered somewhat ambiguous in this general context.<sup>17</sup> The current trend—even in the framework of EU funding and the institutional management of these funds—seems to run in the opposite direction. For one, the EU has begun shifting more of the redistributive funding away from the *structural* and toward the *cohesion* elements of the SCF. This has the impact of increasing the role and importance of the state over the regions. Moreover, while DGRegio has tended to emphasize the importance of regions, current efforts likewise place considerable emphasis on the coordination of regional and state-level economic strategies,<sup>18</sup> once again pushing the emphasis toward the state level. For another, EU co-financing requirements ultimately favour national level institutions, since approval of such funds tends to depend on national or min-

istry-level support for individual projects.<sup>19</sup> Finally, despite an initial interest in greater decentralization, during the period 2004–2006 the coordination and management of EU SCF funding was primarily left up to CEE states. Left to their own devices—in particular with the advantage of increased political centralization—states and national governments can more easily decide how best to allocate resources across regions. Thus the EU's indecisiveness and ambiguous approach to the politics of regional development allocates much of the political struggle over economic policy strategies to the national arena.

Efficiency motives are also likely to give rise to intense national level conflicts over resource distribution. The New Economy view of what drives economic growth raises explicit challenges for regions. Economically *more advanced regions*, on the one hand, are likely to lobby national governments in favour of regional development strategies that favour agglomeration and the development of greater innovation potential. Such regions may be at the forefront of national-level autonomy drives, but are less likely to be strong supporters either of national or supranational EU-level redistribution toward less developed regions. On the other hand, insofar as EU membership provides such regions with greater political autonomy and the ability to trade freely with the other regions of Europe, they are likely to be strong supporters of European integration.<sup>20</sup> Economically *less advanced regions*, on the other hand,—in particular in the less advanced states—are likely to become strong supporters both of more traditional forms of national-level and EU support and in

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<sup>17</sup> For many reasons, DGRegio is likely to find itself in a considerable state of turmoil. For one, such a paradigm shift ultimately entails shifts in the policy constituencies and *entrenched interests* built up over time for the purposes of institutional survival. At the same time, both the phenomenon of paradigm shift and the EU's changing membership basis distinctly threaten older constituencies. In this regard, DGRegio is likely to be torn between competing interests. Moreover, some of this process is likely to be mirrored at the level of the state. The Hungarian case presents an interesting example. The current National Development Office is now likely to be elevated to the status of a national ministry, completely side-stepping the existing Ministry of Local Government and Regional Development (from which half of its staff is now expected to be laid off in the context of the government's 2006 New Balance austerity program).

<sup>18</sup> The recommendation of the Danish Technological Institute's (2005) report, for example, strongly recommended that in order to pool the synergies of regional and state-level economic development strategies—and in particular in order to make Lisbon type strategies more compatible with regional development goals—it was important to coordinate and align them.

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<sup>19</sup> Co-financing tools—for example the EU's 50% co-financing requirement for structural funds is seen as a mechanism for forcing correspondence between regional and national level interests in economic development (Bachtler *et al.*, 2003: 16).

<sup>20</sup> This is the beauty of Alesina and Spolaore's (1997) argument that as nations become more economically integrated—or as free trade deepens and becomes more widespread—there are increasing incentives for regions to seek greater political autonomy from nation states.

particular of the EU redistributive framework. In addition, they may potentially become strong advocates of political decentralization. Advocating political autonomy, however, is less likely in a context where such regions are dependent upon the approval and resources of national governments—in particular for co-financing of EU-funded projects. But in the context of national government support for more advanced regional economic clusters—less advanced regions—withstanding the ambiguities noted above with respect to EU-level loyalties<sup>21</sup>—may eventually see the EU as a haven for the defense of regional interests and as a vehicle through which they can gain greater political control over resources.

At the same time, there are important caveats to the *New Economy* approach. For one, faster economic growth in Europe's peripheries appears as a potential contradiction to New Economy models and provides some support for neoclassical approaches. Slow growth in Europe's core has been one of the driving forces behind the interest in re-orienting European policy approaches toward the Lisbon agenda. While it is beyond the parameters of this paper to respond adequately to this debate, even some of the more avid and astute proponents of New Economy approaches provide occasionally contradictory data with surprisingly little commentary. Martin, for example, builds an argument around the New Economy approach but then provides data to suggest that the peripheries grew more rapidly over the period 1995–1999 (2003: 22).<sup>22</sup>

Others have likewise noted that although less advanced regions are fre-

quently assumed to benefit less from economic integration and EU membership, the evidence to support this claim is at best mixed. Thus Hooghe and Keating, for example, voice a degree of skepticism about the *core-periphery* model (1994: 369). Such findings generate further uncertainty in the calculation of which regions are likely to win and lose from the process of economic integration and EU membership. Moreover, some countries and regions have met with considerably more success than others, suggesting that other factors also play a role—in particular, the specific institutional features of individual countries and regions. Variation in the economic success of Irish, Spanish, Portuguese and Greek regions, for example, is difficult to explain only on the basis of EU-funding.

Admittedly, the above analysis flies in the face of more conventional views of what is driving the re-orientation of national and EU-level regional and industrial development policy orientations. Some appear to see the Lisbon Agenda as an attempt to rebuild a compassionate consensus around the social market economy and the European Social Model—later blown apart by the *Kok Report* in favour of a more economically deterministic approach to development.<sup>23</sup> This may however fully misconceive the parameters of the current economic and political debate. The view expressed herein suggests instead that the *Lisbon Agenda*, as an explicit representation of the *New Economy* logic, explicitly challenges the core assumptions of the European social market economy—in particular its emphasis on a cohesion producing redistributive agenda as opposed to the goals of innovation promotion. Moreover, while others construe the debate in terms of the decline of *coordinated market economies*, in particular in the framework of globalization and European integration (Hooghe, 1998; Streeck and Schmitter, 1991; Streeck, 1999), this paper argues instead that the paradigm

<sup>21</sup> To the extent that the European Commission continues to lean in the direction of national-level control of EU-funding, this may greatly limit the ability to and of course interest of less advanced regions in promoting their ties to the European Union.

<sup>22</sup> Martin does argue that while there is economic convergence across states, there is economic divergence across Europe's regions. However he essentially neglects the larger question of what explains convergence across the states of Europe.

<sup>23</sup> See e.g. Zsuzsa Ferge's editorial: "A fejlesztési terv és a társadalom", (*Népszabadság*, Augustus 30<sup>th</sup>, 2006).

shift in economic thought is the ultimate cause of much of the attempted re-orientation of economic policy tools from redistribution to innovation promotion.

Whether or not such a thorough reorientation or European industrial and regional development policy will succeed depends on the slowly changing structure of EU regional development constituencies and the interests and relative power of national governments. As argued at the outset, the longevity of EU regional development policies is largely a function of the relative disparities in economic development across the EU member states (the greater the economic disparities, the more likely such policies will be short-lived), of the relative policy inertia affecting much of EU redistributive policies and of the degree to which various actors are favoured by the EU institutional decision-making structure. The following section analyzes the likelihood of further policy reform on the basis of the 2000–2006 and 2007–2013 SCF allocations.

## THE POLITICS OF EU REGIONAL AND INDUSTRIAL POLICY REFORM

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As argued above, much of the debate over industrial and regional policy in the EU is in part driven by a desire to find ways of promoting national, supranational and subnational economic development objectives in Europe when the lion's share of EU funding is devoted to agricultural (*i.e. sectoral*) and regional targets. Though this section cannot adequately address the shape of interests at the subnational level—this has been left to a later paper—it does investigate why such strong challenges to EU regional policy have emerged at this point in time. This analysis is then followed by a discussion and analysis of the 2007–2013 Framework Perspective.

For one, slow economic growth in the advanced core of Europe has inspired considerable interest in a focus on government strategies that are more likely to reinvigorate existing patterns of economic growth and development. Moreover, previous projects intended to kick start European economic growth—in particular the Single Market program and the project of Economic and Monetary Union (EMU)—have long been completed and no longer occupy a major part of the EU's agenda. Further, the constraints of EMU, the convergence criteria and the Stability and Growth Pact—in particular in the absence of a more fully-developed EU fiscal tool—may lead the more advanced EU member states to seek alternative measures for funding regional development.

Debates on the relative value of EU regional vs. national level industrial and regional development policy likewise emerged as the EU braved the enlargement and more and more EU resources were progressively concentrated on a large number of less developed economies. In particular, the Eastern enlargement's *statistical effect* has resulted in the loss of structural and cohesion fund eligibility in most of the former cohesion and other old EU Member states, further promoting renewed debate.<sup>24</sup>

Strategic thinking on the best ways to promote European growth has further been strongly influenced by the above models of economic geography and endogenous growth. The *Lisbon Agenda* in particular begins to re-orient the EU's focus toward national and supranational-level policy frameworks with potentially growth promoting or efficiency enhancing features and to re-direct it away from regional policies that have a more redistributive or compensatory character—

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<sup>24</sup> The “*statistical effect*” refers to the former beneficiaries of the structural and cohesion funds who are currently being pushed above the 75% and 90% eligibility barriers due to the inclusion of a significantly large number of less developed economies in the EU's average GDP per capita.

correcting in particular for regional disparities.

The mix of these pressures creates incentives for states to pursue quite different strategies of regional development. Rather than transfer resources to the less advanced NMS's, many of which are already growing at a good clip, political expedience—in particular with respect to the domestic political context—suggests it is wiser to find ways to fund rapid innovation and technological change in the domestic framework. In important ways, this is precisely what the more advanced states have done. Given the failure to shift a significant amount of EU spending over to the Lisbon Agenda (and thus presumably away from the SCF's), the more advanced states in particular have lobbied to reduce overall EU spending.<sup>25</sup> Moreover, at the domestic level, individual states have begun to overhaul their regional spending priorities<sup>26</sup> and to revise their thinking on the advantages of EU level spending.<sup>27</sup>

For the more advanced states, the Lisbon goals must be seen as a mechanism for re-orienting EU-level spending priorities and thereby re-directing some of their focus to the more advanced states. In this regard, an emphasis on Lisbon-type goals is likely to mean that the NMS's must share more of the EU's resources with the more advanced states. While the *Sapir Report* did not explicitly propose more resources be dedicated to the more advanced states, early versions of the revised 2007–2013 Framework Perspective in particular provided for a significant shift in spending toward the strategies of growth

<sup>25</sup> The single most important document in this regard is the *Joint Letter* signed by the UK, France, Germany, Austria, the Netherlands and Sweden that proposed the imposition of this 1% ceiling on EU expenditure (December 15<sup>th</sup>, 2003).

<sup>26</sup> For a critical approach to the UK case, see Fothergill (2005).

<sup>27</sup> The UK's vision of future EU regional policy is expressed in *A Modern Regional Policy for the United Kingdom* and recommends both concentrated EU regional policy spending on the least advanced states along with a re-nationalization of regional policy for the more advanced states (Department of Trade and Industry, 2003: 25-8).

and competitiveness (see also Jouen, 2005: 11).

The less developed NMS's, on the other hand, are likely to favour SCF funding over Lisbon strategy type funding. The problem is not so much that the *Lisbon Agenda* is counter to their needs. Elements of the *Lisbon Agenda* may help the CEEC's to firm up ties in particular between domestic and foreign firms and to further promote the development of innovation-oriented economies. But in this respect the NMS's face diverse sets of interests. On the one hand, they would like to develop greater potential for increasing return's type industries and economic sectors. As intended by the *Lisbon Agenda*, the promotion of R&D is one key means of achieving this goal. On the other hand, the CEEC's likewise have declining regions that are greatly in need of more traditional forms of regional support oriented in particular toward the modernization of infrastructure, the improvement of skill levels and efforts to boost overall levels of (foreign) investment—*e.g.* through the use of targeted investment promotion strategies favoured occasionally even by more advanced states.<sup>28</sup> Here, Lisbon type strategies may be less suited to regional levels of economic development.

The mix of industry needs of more and less advanced states and regions may help to explain much of the divergence of interest in EU policy goals. More advanced states and regions are far more likely to have strong interests in Lisbon type strategies and goals—in particular investment in infrastructure, R&D and human capital. Less advanced states and regions, on the other hand, are far more likely to depend upon infrastructure investments and investment promotion schemes for attracting firms (see Ellison, 2005b). While human capital investments may contribute to economic development and potentially attract capital, the less developed the region, the

<sup>28</sup> See *e.g.* [www.Euractiv.com](http://www.Euractiv.com): “German Government Says it Knows Best what is Good for Growth” (April 12<sup>th</sup>, 2006).

more questionable the advantages. In this respect, less advanced countries and regions attempting to pursue more advanced levels of economic *development* may ultimately be constrained by EU development policy. This can occur on multiple levels: either via the intervention of EU-level state aid policies restricting investment promotion strategies, or via EU-level insistence on promoting Lisbon type strategies where these are inappropriate to the developmental goals of less advanced regions (Ellison, 2005b).

The Commission's SCF proposal for the 2007–2013 Financial Perspective in fact distinguishes between the usefulness of Lisbon type strategies for the CEEC's compared to the OMS's. While the Commission guidelines for regional policy urge states to earmark 60–75% of structural fund spending for Lisbon-compatible goals, this criterion was originally not intended to apply to the NMS's.<sup>29</sup> However, the final version of the 2007–2013 Financial Perspective requires all states to pursue Lisbon-style goals.<sup>30</sup> As Jouen notes, the overlap between the use of SCF-funding and the *Lisbon Agenda* is strongest in regions that are more advanced, while regions that lag behind tend to employ more diverse strategies of economic development (2005: 7). Ellison (2005b) likewise finds that sectoral (as opposed to horizontal) type approaches to economic development tend to be far more pronounced in the less advanced states than elsewhere in the EU.

### The 2007–2013 Framework Perspective in context

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The EU's multi-annual general Framework Perspectives concluded every seven years—including the 2007–2013 Framework Per-

spective—govern the overall distribution of EU funds across the Member states. The following analysis discusses the conclusion of the 2007–2013 Framework Perspective in the context of previous Framework Perspectives and the economic development interests of the NMS's. While many have argued that the CEEC's will be better off once they are EU members, the following provides an analysis of the degree to which distributional struggles related to innovation promotion as opposed to cohesion/redistribution have pervaded the formulation and conclusion of the 2007–2013 Framework Perspective. This analysis concludes that the development interests of the more advanced states have had a profound impact on the EU's distribution of resources and have had a negative impact on the share of resources made available to the NMS's.

The EU's multi-annual Framework Perspectives continue to be governed by unanimity.<sup>31</sup> Thus while any of the NMS's theoretically have the right to block decisions failing to meet with their expectations, the same is true for the more advanced states. While each Member state is in theory granted equal veto power, the relative voting power of individual Member states is not necessarily one-to-one. States with more to lose from failed agreements (as from threats of exclusion) are more likely to make greater concessions. Nor do the CEEC's as a potential voting block constitute a force that could stop policy proposals in other areas of EU policy regulated by qualified majority voting (QMV).<sup>32</sup> While it is beyond the parameters of this essay to discuss the issue of voting weights and relative power in

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<sup>29</sup> See COM (2004) 487 final.

<sup>30</sup> See [www.Euractiv.com](http://www.Euractiv.com): “Structural Funds get Lisbon Makeover” (July, 20<sup>th</sup>, 2006).

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<sup>31</sup> Recent attempts at EU institutional reform have not altered this fact. Though the *Constitutional Treaty* is now moribund, it should still be considered a reflection of the possible shape of future reform.

<sup>32</sup> While the CEEC's will be able to constitute a “blocking minority” in an EU of 27 members, in an EU of 25 members, they are 13 votes shy of a blocking minority. Moreover, the now moribund *Constitutional Treaty* would have ensured that even in an EU of 27, the CEEC's would remain many votes shy of a blocking minority.

more detail, an analysis of the conclusion of the 2007–2013 Financial Perspective provides an indication of the relative ability of the CEEC's to pursue their interests in the New Europe.

The initial Commission proposal for SCF expenditure published in February 2004 was reasonably generous and went some way toward meeting CEE demands for *equal treatment*. A far greater share of spending was to be concentrated on the less developed economies and the Commission had proposed a 31% increase in overall SCF spending over the entire period (see *Table 1*, also Bachtler and Wishlade, 2005: 6). By the conclusion of the December 2005 Summit under the UK presidency, this was almost cut in half. One of the principal factors in this outcome was insistence from the net contributor states on restricting the total level of EU expenditure to approximately 1% of EU GNI.<sup>33</sup> Given the unwillingness, in particular of France, to allow further significant reductions in the CAP expenditure, a good share of the cuts came out of the Structural and Cohesion Fund category.<sup>34</sup>

The Commission's February 2004 proposal foresaw a considerable shift in expenditure from the structural and cohesion fund category to the Competitiveness, Growth and Employment category (*Heading 1A*). As this category corresponds most closely to *Lisbon Agenda* type spending in the European Union, the original Financial Perspective proposal contained significantly larger potential transfers. This category would have more than doubled in size by the end of Financial Perspective 2007–2013. While more significant reductions ultimately came out of *Heading 1A* in the final version of the Financial Perspective,

<sup>33</sup> See the *Joint Letter* (December 15<sup>th</sup>, 2003), fn. 26.

<sup>34</sup> Though not surprising given both the relative political power of France in the European Union and historical precedent, significant French concessions on CAP reform would have gone a long way to satisfying many of the demands from developing countries at the Doha Round of talks in the WTO. More thoroughgoing WTO and EU reforms have now been postponed until 2008 or later.

this was paralleled by a significant drop in overall EU expenditure from 1.24% of EU GDP to approximately 1% of EU GDP. Thus what the larger more advanced net contributor states lose in EU expenditure is recouped through reductions in the EU budget.

The country level distributions exhibit a significant rise in CEEC SCF funding for 2007–2013 compared to the levels over the period 2004–2006. At the same time however, along with the overall downward push in total expenditure, there has likewise been a progressive upward creep in the number and size of individual allocations (*special provisions* and *transitional arrangements*) made to a broad range of Member States. The previous 4% of GDP threshold has been lowered still further (however slightly) and a number of countries have wrangled *additional envelopes* or *transitional* expenditures not present in prior drafts of the agreement.

Despite resistance from the European Parliament (EP) to the final package decided in December 2005, the final terms of the Inter-Institutional Agreement signed between the Council of the European Union and the EP only added 4 billion Euros to the total package. Just over 50% of this additional amount (2.1 billion Euros) was added to the budget of *Heading 1A*.<sup>35</sup> In this regard, an institution typically known for favouring *European integration* has oddly come to the defense of the OMS's.

More telling perhaps is the juxtaposition of the final 2007–2013 Financial Perspective with its historical antecedents—in particular Delors Packages I and II.<sup>36</sup> At that time, the old Cohesion countries (Spain, Portugal, Greece and Ireland) were able to achieve significant increases in EU SCF expenditure—in particular due to the simultaneous pursuit of the Single Market and

<sup>35</sup> See: “Mixed Emotions over EU Budget Deal” ([www.Euractiv.com](http://www.Euractiv.com): Apr. 7, 2006).

<sup>36</sup> I draw here liberally from Szemlér (2005).

Table 1  
EU Budget for 2006 and Financial Perspective 2007–2013: February 2004 Proposal,  
December 2005 European Council Position and Final 2006 Totals  
(2004 prices)

	2006	2007	2008	2009	2010	2011	2012	2013	2007-2013
Structural and Cohesion Fund									
SCFs (February 2004)	38,791,000	47,570,000	48,405,000	49,120,000	49,270,000	49,410,000	50,175,000	50,960,000	344,910,000
Percent Change		22.6%	1.8%	1.5%	0.3%	0.3%	1.5%	1.6%	29.6%
SCFs (December 2005)	38,791,000	42,840,000	43,288,000	43,820,000	43,801,000	43,995,000	44,634,000	45,241,000	307,619,000
Percent Change		10.4%	1.0%	1.2%	0.0%	0.4%	1.5%	1.4%	15.9%
SCFs (April 2006)	38,791,000	42,863,000	43,318,000	43,862,000	43,860,000	44,073,000	44,723,000	45,342,000	308,041,000
Percent Change		10.5%	1.1%	1.3%	0.0%	0.5%	1.5%	1.4%	16.2%
Competitiveness, Growth and Employment									
C, G and E (Feb. 2004)	8,791,000	12,105,000	14,390,000	16,680,000	18,965,000	21,250,000	23,540,000	25,825,000	132,755,000
Percent Change		37.7%	18.9%	15.9%	13.7%	12.0%	10.8%	9.7%	118.7%
C, G and E (Dec. 2005)	8,791,000	8,250,000	8,860,000	9,510,000	10,200,000	10,950,000	11,750,000	12,600,000	72,120,000
Percent Change		-6.2%	7.4%	7.3%	7.3%	7.4%	7.3%	7.2%	37.7%
C, G and E (April 2006)	8,791,000	8,404,000	9,097,000	9,754,000	10,434,000	11,295,000	12,153,000	12,961,000	74,098,000
Percent Change		-4.4%	8.2%	7.2%	7.0%	8.3%	7.6%	6.6%	40.5%
Common Agricultural Policy									
	2006	2007	2008	2009	2010	2011	2012	2013	2007-2013
CAP (February 2004)	56,015,000	57,180,000	57,900,000	58,115,000	57,980,000	57,850,000	57,825,000	57,805,000	404,655,000
Percent Change		2.1%	1.3%	0.4%	-0.2%	-0.2%	0.0%	0.0%	3.2%
CAP (December 2005)	56,015,000	54,972,000	54,308,000	53,652,000	53,021,000	52,386,000	51,761,000	51,145,000	371,245,000
Percent Change		-1.9%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%	-9.0%
CAP (April 2006)	56,015,000	54,985,000	54,322,000	53,666,000	53,035,000	52,400,000	51,775,000	51,161,000	371,344,000
Percent Change		-1.8%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%	-9.0%

Sources: own calculations based on appropriations data from *Building Our Common Future* (COM(2004) 101 final: p. 29), the UK Presidency Conclusions on the Financial Perspective 2007–2013 (Doc 15915/05, CADREFIN 268, Dec. 19. 2005: Annex 1, p. 33), and the future budget of the European Union ([http://ec.europa.eu/budget/prior\\_future/next\\_fin\\_framework\\_en.htm](http://ec.europa.eu/budget/prior_future/next_fin_framework_en.htm)). Population data is from the Eurostat Online dataset.

EMU.<sup>37</sup> The EU's concurrent pursuit of important economic integration projects made it possible to leverage significant concessions on the SCF's.

A similar politically opportune context is lacking for the CEEC's. Moreover, several years of slow economic growth in Western Europe along with a greater concentration of Regional Development funds on Central and East European countries appears to have diminished Western Europe's appetite for greater SCF expenditure. Thus, the CEEC's have been left with little bargaining room. While the NMS's now enjoy full voting rights within the EU, they have not been able to achieve noteworthy concessions. Moreover, under existing voting rules, this is not likely in the future unless parallel integration projects can be leveraged for greater concessions. While the project of constitutional reform looms on the horizon, it offers little opportunity to effectively claim—as did the creation of the Single Market and EMU—that deeper integration involves high costs for the less developed economies. Thus, for the time being at least, no similar integration project of comparable magnitude is in sight.

A quick thumbnail multiple regression analysis of the SCF allocations across the 2000–2006 and 2007–2013 Framework Perspectives provides some methodological rigor to the above analysis.<sup>38</sup> In addition to the explanatory variables adopted in Ellison (2005a)—level of economic development (*pcdgp*), population (*pop*), unemployment (*un*) and share of public support for European integration (*pubsupp*)—the following additional independent variables are tested: the number of Member states at the time the distribution is decided (*numms*) and a dummy variable for New and Old Member states to test for the role of region (*region*). The dependent variable is the total annual amount of funding an individual state is eligible to

receive during the funding period.<sup>39</sup> Several multiple regression analyses are used to analyze the data.<sup>40</sup>

The results of this analysis provide important. For one, the role of region loses significance in the 2007–2013 distribution compared to that of 2000–2006 (see *Table 2*). In the first period, region has a strongly negative and highly significant effect of the SCF distribution—on average OMS's received 2.234 billion Euros more than NMS's. As illustrated in Ellison (2005a), the CEEC's were strongly disadvantaged in the first years of EU membership. This disadvantage disappeared in the 2007–2013 period and there is a slight advantage for CEEC's—on average NMS's receive 394 million Euros more than OMS's—though this coefficient is neither stable nor significant. While the Commission's proposal was the least discriminatory across states—reflected by a very small coefficient on the region variable and no consistency in this finding across states—the final 2007–2013 Framework Perspective tended to favour the NMS's. However, the increase in funding for the NMS's pales in comparison to the far higher amounts given to Western states during the 2000–2006 Framework perspective.

Per capita GDP, public support and unemployment all begin to approach significance and have a strong impact on the NMS distribution of funding under the 2007–2013 Framework Perspective (in the previous period, only country size (population) appeared to have any significant im-

<sup>37</sup> See in particular Lange (1993).

<sup>38</sup> More complete information on methodology, variable selection and data sources is provided in Annex I.

<sup>39</sup> For the NMS's, the annual amount is only calculated for the years of membership (2004–2006), as opposed to 2000–2006 for the OMS's. Since not all states are able to make full use of the available EU funds, the total amount of funding states are *eligible* to receive may differ from the amounts they are able to put to use.

<sup>40</sup> The same basic caveats that applied to the analysis in Ellison (2005a) apply here. Since the unit of analysis is the country, this analysis is inadequately sensitive to regional variation—in particular in the level of economic development, unemployment and public support for European integration. While cohesion funds are granted to states, structural funds are explicitly intended for regions.



impact on the distribution of funding). Oddly however, per capita GDP has the opposite effect from that predicted in the NMS's while public support has the opposite effect from that expected in the OMS's. The decision to allocate greater amounts of funding to the more advanced NMS's may relate to their greater potential to absorb EU SCF-funding. Population—or country size—continues to be the single most powerful explanatory variable across the NMS's under the 2007–2013 Framework Perspective. Along with the unusually high degree of fit for the NMS regression model (93% of the variance is explained), this suggests that politics continues to play much less of a role in the distribution of SCF-funding in the NMS's than in the OMS's.

The prediction that the number of Member states has a negative impact on total funding requires more attention. In the combined data, there is a positive though far from significant relationship between the number of member states and the allocation of EU funding. Each additional Member State adds approximately 10.6 million Euros to the total budget. However, much of the change here can be explained by the large and statistically significant increase in funding for the NMS's between the two periods. In general, funding levels for the OMS's have declined by almost the same amount relative to the number of Member states. This finding is commensurate with the intention of *concentrating* funding on the less developed states. However, as noted above, the increase in NMS funding pales in comparison to the dramatically preferential treatment of OMS's under the 2000–2006 Framework Perspective. Moreover, the relative impact of low levels of per capita GDP is surprisingly small and insignificant under the 2007–2013 Framework Perspective, suggesting that the OMS's are again receiving large shares of SCF-funding compared to the NMS's.

Figures 1A and 1B below confirm these general findings. Figure 1A provides data on both the actual SCF allocations and

predicted allocations<sup>41</sup> based on the logic defined by the regression equation derived from the complete set of Member states for the 2007–2013 Framework Perspective. Seven OMS's (Austria, Greece, Italy, Luxembourg, Portugal, Spain and Sweden) received substantially more than they would have received had this logic been applied more consistently across all states. However, for the NMS's the differences between the predicted and actual values are far more substantial. Apart from the Czech Republic, Hungary and Poland, the NMS's would have received significantly larger sums.

Figure 1B is even more compelling. This figure provides data on both predicted allocations based on the logic defined by the regression equation derived from the OMS's. In this case only five OMS's (Austria, Italy, Luxembourg, Sweden and the UK) received more than they would have had the 2000–2006 OMS logic been consistently applied across all states. For the NMS's, the differences between predicted and actual values are more substantial and—apart from the same three countries—the NMS's generally would have received larger shares of SCF-funding. However, in this case, what is most striking is the overall magnitude of funding that the NMS's would have received. Based on the 2000–2006 OMS logic, total funding amounts (compare the values on the y-axis in Figures 1A and 1B) would have been approximately twice as large as those allocated according to the logic for the 2007–2013 Financial Perspective. Comparing the 2000–2006 OMS logic to actual (not *predicted*) figures for the 2007–2013 Financial Perspective, the NMS's would have received approximately 4.4 times more funding and the OMS's approximately 18.7 times less funding.

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<sup>41</sup> These predicted values and those that follow should be treated with some caution. While the goodness of fit is reasonably high when actual values for the NMS's alone are regressed on the range of independent variables included here, it is substantially lower when considering the actual values only for the OMS's or for all states (see the respective “adjusted  $r^2$ ” values in Table 2).

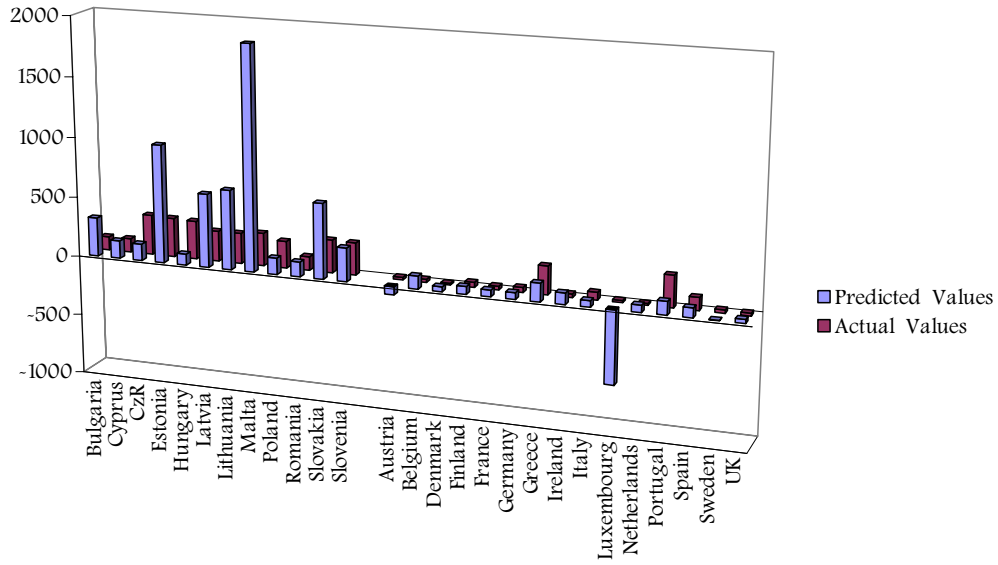
Table 2  
Explaining Variation in Structural and Cohesion Fund Allocations 2000–2006, 2007–2013 and Commission Proposal  
(2004)

	Framework Perspective 2000–2006			Commission Proposal 2004			Framework Perspective 2007–2013			Periods Combined (w/ Commission Prop.)		
	ALL	OMS	NMS	ALL	OMS	NMS	ALL	OMS	NMS	ALL	OMS	NMS
Population	0.00005 (3.94)	.00004 (2.51)	.0001 (30.1)	.00005 (3.08)	.00004 (3.3)	.0002 (10.18)	.00005 (3.27)	0.00003 (3.03)	.0002 (9.67)	.00005 (5.91)	.00004 (4.91)	.0002 (12.57)
Per capita GDP	-42.3 (-2.87)	-39.02 (-2.07)	-3.96 (-1.03)	-6.46 (-0.53)	-18.74 (-2.15)	27.12 (1.62)	-8.52 (-0.77)	-16.39 (-1.94)	26.66 (1.87)	-15.41 (-2.23)	-21.18 (-3.31)	22.36 (2.11)
Public Support	66.52 (2.70)	79.3 (2.38)	-1.71 (-0.45)	20.59 (0.82)	47.68 (2.31)	-49.63 (-2.28)	31.63 (1.25)	37.25 (1.96)	-62.51 (-1.86)	37.72 (2.75)	51.69 (3.75)	-39.31 (-2.56)
Unemployment	54.48 (0.73)	295.89 (1.50)	3.29 (0.3)	197.26 (2.0)	203.42 (1.56)	44.54 (0.75)	184.56 (1.96)	214.48 (1.67)	99.37 (1.86)	151.21 (2.91)	272.21 (3.17)	47.7 (1.28)
Region (E, W)	-2234.59 (-2.43)	-	-	-0.34 (-0.0)	-	-	394.87 (0.43)	-	-	-567.34 (-1.03)	-	-
# Member States	-	-	-	-	-	-	-	-	-	10.61 (0.26)	-52.84 (-1.26)	64.67 (1.92)
Commission	-	-	-	-	-	-	-	-	-	24.26 (0.06)	345.93 (0.88)	439.31 (1.28)
Adj. $r^2$	0.65	0.67	0.99	0.42	0.72	0.92	0.48	0.67	0.93	0.52	0.7	0.88
N	25	15	10	27	15	12	27	15	12	52	45	34

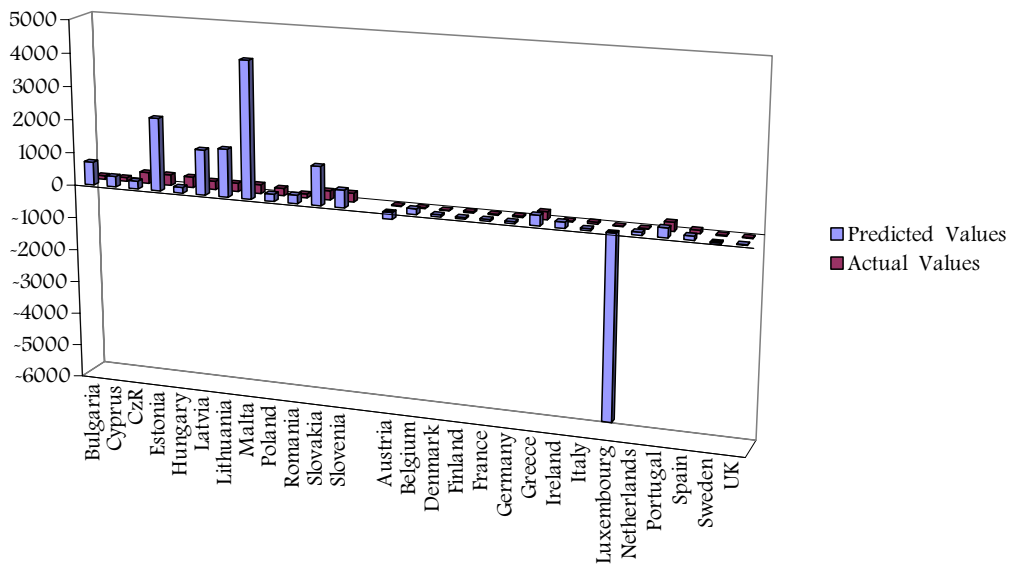
Sources: See Annex. (*t*-statistics in parentheses).

Figures 1A and 1B:  
The discrimination gap revisited

Actual and Predicted Annual 2007–2013 SCF Allocations  
(Based on General Logic for 2007–2013 Framework Perspective, Euros per Person)



Actual and Predicted Annual 2007–2013 SCF Allocations  
(Based on OMS Logic from 2000–2006 Framework Perspective, Euros per Person)



## DISCUSSION

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At least four issues will presumably remain at the centre of discussion in future reforms of EU redistributive politics. For one, contradictions between the *redistributive*, *cohesion-producing* and *innovation promoting* goals of EU regional development and industrial policy clearly need to be worked out. In particular, a better understanding of which policy tools work best at different levels of subnational regional economic development would be particularly helpful. Both policy approaches have positive features that should presumably be retained and improved.

For another, future policy efforts need to resolve or improve upon the problem of variation in and balance between the interests of more and less developed states. As suggested herein, due to the increasing degree of concentration of SCF funds, neglecting this problem may ultimately lead to the future withering away of EU SCF policy. Support for these policies—in particular in the context of slow growth in the European core economies—is likely to be eroded by domestic and national level interests in economic development in the more advanced states. However, accommodations should ultimately not be made at the expense of the NMS's.

Third, the big question at the national and EU-level remains how best to distribute available funds to the sundry interested groups and parties and what political, economic and social logic and institutional structure should govern that distribution. As suggested herein, current strategies of economic development are likely to create strong incentives to further centralize the control of EU SCF funding in the hands of central or state level governments. This phenomenon—in particular to the extent that it is promoted by evolving EU-DGRegio policy strategies—is likely

to give rise to significant domestic/national-level struggles over the use and implementation of EU funding. Since these funding amounts are not insignificant, one can expect domestic national-level political battles over funding to become more pitched and feverish.

It may be possible to resolve these issues with more decisive approaches to the institutional management of regional development funding. However, to some extent I remain agnostic on this point. Further political decentralization of the regional management of EU SCF-funding may potentially result in a lower level of coordination with national-level objectives, having the potential impact of diminishing the benefits of such policies. Moreover, in many of the CEEC's, commensurate regional level political structures are either underdeveloped, rendering the further decentralization of administrative control problematic. On the other hand, increasing the degree of centralization is likely to have the opposite effect of distancing policy goals from regional needs and interests. There is a substantial literature suggesting that the role of regional, subnational information networks may be crucial to the success of regional development plans and projects.

Finally, the ultimate challenge in the future EU may well be the equitable and/or efficient distribution of resources between the more and less developed regions of Europe—irrespective or even devoid of the role of states. The real challenge in the future Europe may be how best to manage the competing interests of regions and less so of states. As this analysis suggests, the more advanced regions of Europe have very different interests in European governance than the less developed regions of Europe. Increasing economic disparity across these regions—caused in part by the introduction of new and less developed Member states—only reinforces the likely rivalry of these competing interests. The *re-nationalization* of industrial and regional development policy—in particular in the more advanced states—provides one alter-

native policy proposal for the *New Europe*. However, it is ultimately difficult to imagine that the more advanced and savvy regions and states would ultimately allow the potential economic management coordination tool that European integration and EU-level decision-making capacity represents go to waste.

## CONCLUSION

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Despite the inherently universalizing logic of globalization, economic space has at the same time become smaller, more local and taken on a distinctively sub-national, regional character. As intimated several years ago in a trend-setting book *The Second Industrial Divide*,<sup>42</sup> regional structures of economic development are gradually becoming more pronounced, a phenomenon that is only likely to be intensified as European economic and political integration progresses. More and more, EU policy is beginning to reflect this shift in economic structure. The gradual paradigm shift outlined above has led states to lobby for reform, attempt to reduce overall expenditure, limit the potential range of new member country benefits and possibly even to consider withdrawal from the Union.<sup>43</sup> While the declining cohesion of coordinated market economies may explain some of this shift from *redistribution* to *innovation promotion*, a more significant share is easily encompassed under the rubric of change in the strategic thinking about industrial and regional policy goals.

Whether the costs of economic adjustment can easily be overcome by the redistributive transfer of resources from winners to losers is rendered problematic both by thinking on the appropriate strategies

to pursue in order to achieve greater levels of economic development, as well as by the institutional and political structure in which such policies are created. The large and more advanced states—most of them *net contributors* to the EU budget—and regions of Europe have lobbied hard both to increase the weight of Lisbon Agenda type spending in the EU and to reduce overall expenditures on the SCF.

This notwithstanding, the transition from the 2000–2006 to the 2007–2013 Framework Perspectives will benefit the NMS's. At least for the next seven years, the Central and East European countries will enjoy significantly higher expenditures than was the case for the first 3 years of EU membership (2004–2006). The (perhaps marginal) *concentration* EU structural and cohesion funding on the least advanced Member states ultimately means that the NMS's will be the principal recipients for the upcoming framework period. Per person, these states will on average receive 237 Euros per year compared to 64 Euros per year for the OMS's. What will happen with future framework periods is more complicated and depends both on how the European economy performs in the coming years and on how many states are able to gain membership status by 2014.

Whether or not the allocations made to the NMS's will be enough to compensate them for the costs of economic adjustment and the requirements of compliance with the EU regulatory framework is more problematic. The financial and regulatory demands of EU membership are significant and already several of the NMS's (and some of the OMS's) have been the target of the EU's *excessive budget deficit* procedure. Central and East European expenditures on EU membership are high and the project of economic restructuring and adjustment is far from complete.

The consequence is that distributional struggles are likely to test the limits of the *New Europe* for many years to come. As noted at the outset, the future consequences of this general trend are difficult

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<sup>42</sup> Piore and Sabel (1984).

<sup>43</sup> This is possibly at least one way of interpreting the French and Dutch rejections of the *Constitutional Treaty*.

to predict. As with all reforms and innovations, the politics of European integration are likely to slow the process, leading to piecemeal, incremental change. On the one hand, it is possible that as the EU grows in size, its characteristic policy features will gradually ‘wither away’, and the EU will look more and more like a trading club and much less like a political union.<sup>44</sup> This outcome coincides broadly with conventional speculation about the contradictions between widening and deepening. On the other hand, the alternative seems to be that EU regional policy will be gradually adapted to respond more strongly to the needs and interests of the more advanced EU Member states. The mechanism by which any of these outcomes is likely to come about is that the more advanced states will lobby hard for reform of the existing status quo, attempt to reduce the overall share of expenditure in the EU, lobby to limit the future boundaries of the EU or ultimately even threaten to withdraw from the union. In some ways, all four of these outcomes seem to be occurring, though the severity of any rupture is greatly overstated.

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<sup>44</sup> For a contrasting viewpoint, see Kopstein and Reilly (2006).

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## ANNEX

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### Dependent variables:

Total Allocation of Structural and Cohesion Funds. All data used are annual amounts derived by dividing the total allocation by the appropriate number of years. All data are in millions of Euros at 2004 prices.

- \* 2000–2006:
  1. European Commission, Working for the Regions: ([http://ec.europa.eu/regional\\_policy/intro/working4\\_en.htm](http://ec.europa.eu/regional_policy/intro/working4_en.htm)). The figures for the NMS's include the lump-sum payments allocated with the accession agreement, see e.g.: [http://ec.europa.eu/enlargement/archives/pdf/enlargement\\_process/future\\_prospects/negotiations/eu10\\_bulgaria\\_romania/financial\\_framework\\_en.pdf](http://ec.europa.eu/enlargement/archives/pdf/enlargement_process/future_prospects/negotiations/eu10_bulgaria_romania/financial_framework_en.pdf).
- \* 2004 Commission Proposal:
  2. Ostensibly from the European Commission.<sup>45</sup>
- \* 2007–2013:
  3. Own calculation of total indicative allocations across categories (available in the *Official Journal* L243/34-36, L243/39-43, and L247/28-29; Sept. 6<sup>th</sup> and 9<sup>th</sup>, 2006).

### Independent variables:

- \* Population: Data is for the years 2001, 2003 and 2004 (from the Eurostat online database).
- \* Per capita GDP: real per capita GDP at PPP's, data for the years 2001, 2003 and 2004 (from the Eurostat online database).

- \* Public Support for EU membership: data is for the years 2002 (February), 2004 (February) and 2005 (Oct.-Nov.) and has been taken from the Eurobarometer (2004, 2005) and the Candidate Country Eurobarometer (2002).
- \* Unemployment: Data is for the years 2002, 2003 and 2004 (from the Eurostat online database).
- \* Region: NMS=1, OMS=0
- \* Number of Member States: 15 for the period 2000–2006 and the Commission's 2004 proposal, 25 for the period 2007–2013. The Commission's proposal appeared in February, before the official date of membership in May, 2004.
- \* Commission: if the proposal stems from the Commission, Commission=1, "0" if the proposal derives from a final agreement between the Council of Ministers and the EP.

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<sup>45</sup> Considerable secrecy surrounded these initial figures. The Commission table of proposed allocations used in this analysis stems from a private secondary source, but is almost identical to the table published in Jouen (2005: 29). At the time of the proposal, the Commission disavowed the existence of this table, or refused to make it public.