

Market Correctives, Market Palliatives and the New Politics of European Economic and Regional Development

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Abstract¹

The *New Economy* dominates current thinking on EU and national level economic and regional policy goals. European integration thus drives a political economy of regionalism that—far more than traditional divisions between labor and capital—defines the principal economic players in the *New Europe*. The *New Economy* drives a radical shift in EU policy from *cohesion* or *redistribution* toward *innovation promotion*, affecting both distributional struggles and policy approaches at the EU, national and subnational levels. Shifting strategies pose significant challenges at supra-national, national and subnational governance levels with important implications for future EU economic and regional development policy goals. The increasing concentration of funding on less advanced economies is eroding the policy's support base, potentially threatening its original intent and purpose.

Keywords: European integration, regionalism, New Europe, regional development, economic interests, Central and Eastern Europe.

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National governments and subnational regions face new challenges in today's increasingly integrated European marketplace. Propelled forward by European market integration—and globalization more generally—the increasing spatial differentiation of economic development drives the rise of both national and subnational economic and political regionalism. The resulting increased concentration of economic activity in both the more advanced regions of Europe and the more advanced areas of the New Member states further accentuates existing state and regional spatial economic geography. The consequences of this emerging economic geography are multiple. Though many argue an 'ever closer' and 'undivided' Europe² lies at the heart of the struggle for European Union (EU), few comprehend the profound interest divergence arising from this territorial delineation of interests at the heart of policy-making in the *New Europe*.

Interest divergence is evident on many levels of EU policy making, from the terms of the Eastern Accession, to the EU's evolving competition policy and the politics of environmental protection.³ Part of a much broader re-orientation in EU economic policy thinking, the *Lisbon Agenda* and the *Sapir Report*⁴ lay bare the core of current EU distributional struggles and raise questions about the future outlook for EU regional and national-level economic policy goals. Far from representing a rollback of the state and an acceptance of neo-liberal market principles,⁵ this debate addresses the divide between *innovation-oriented* and *redistributive* policy goals and represents a paradigm shift with potentially significant and long-term implications for the future of EU growth management and the fortunes of individual states and subnational regions.

Two questions motivate this article. The first is what factors best explain interest divergence over the EU's regional development goals. Current EU regional development and national-level economic policy reforms should arguably be seen in the context of the increasingly *regional* dimension of economic development as expressed in *New Economy* models. New Economy models emphasize the importance of both national and subnational regions in economic development, the growing role of the *knowledge-based economy* and the importance of *external increasing returns* in structuring economic and geographic (or territorial) behavior. These developments have had a profound influence

² The references here are of course to Dinan (2005) and Vachudova (2005). Similar grand design views are expressed in Kopstein and Reilly (2006).

³ See Ellison (*forthcoming*, 2006a, and 2006b).

⁴ For more on the Lisbon Agenda, see European Commission (2000). For the Sapir Report, see European Commission (2003).

⁵ 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).

on economic policy-making and distributional struggles across and within states. Considerable debate has arisen in particular over the appropriate use and targets of EU-funding, the possible *re-nationalization* of EU public spending, as well as political decentralization vs. state-centered control of EU and national level resources.

Second, what does this mean for the future of EU regional policy goals and in particular the interests of less developed economies in the European Union? Though the *Sapir Report* 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 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,⁶ the persistence with which the Directorate General for Regional Policy (DGRegio) has insisted upon the compatibility of Lisbon and Regional Policy goals suggests the divide between divergent developmental aims.⁷ As argued herein, the goal of achieving a *productive* and *innovation-oriented* economy is at odds with the goals of *cohesion* and *redistribution*.

For the less advanced regions of Europe—in particular sub-national regions in the NMS’s—*equity vs. efficiency* tradeoffs (Martin, 1999) threaten the well-established tradition of promoting economic and social cohesion. The more the EU broadens its membership base to a wide range of less developed economies,⁸ the more competing and contradictory claims on EU resources emerge. The consequence of EU enlargement across countries of increasing economic disparity is the concentration of EU SCF’s on an increasingly select group of states. As fewer and fewer advanced core states benefit from the SCF’s, the more the policy’s support base is gradually eroded. As the EU continues to grow in size, the potential result is the withering away of its redistributive mechanisms.

This article has implications for a broad range of literature. For one, it suggests intergovernmental models of European integration provide a first best explanation of the EU political process. In contrast to much recent work,⁹ states and the interests of actors within (not *across*) states describe the principal groundwork of EU decision-making. Second, it suggests European economic integration and its broad impact on the increasingly regional and subnational dimension of economic development promotes a broad scale redefinition of the principal economic actors and may encourage us to

⁶ See Ellison (2006b), Dunford (2005: 977), Hall (2005: 970). Indeed many have argued that the functional-redistributive 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, the quite broad distribution of funds across multiple states suggests that politics rather than variation in the level of economic development or more functional market corrective strategies are the principal explanation. The conclusions of this article and Ellison (2006b) provide strong support for this perspective.

⁷ 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 spring 2006). Moreover, DGRegio commissioned a substantial study on the topic completed by the Danish Technology Institute (Danish Technology Institute, 2005).

⁸ 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.

⁹ See for example the forthcoming special edition of the *British Journal of Politics and International Relations* (2008) on the role of “economic interests”.

redefine how we think about “economic interests”. Rather than defining these in terms of the *factors of production*—i.e. labor and capital—*New Economy* models emphasize the territorial dimension of interests and their expression through national, subnational regional and even supranational actors.

This article proceeds as follows. The first section provides an overview of the factors explaining the general paradigm shift in EU economic and regional development policy. The second section briefly outlines the structure of interests resulting from the New Economic model. The third 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

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. Though politically difficult to achieve, textbook analyses of international trade suggest the costs of economic adjustment are easily overcome by redistributive transfers from winners to losers (Rogowski, 1989). Though EU redistributive tools could have dampened the blow of economic adjustment in the 10 New Member States (NMS)—in particular in the early years of accession and enlargement—far more has been done to protect Western markets, and shift the burden to Central and East European economies (Ellison, 2006b).

Competition between states over scarce resources—in particular capital, labor and EU redistributive funding (e.g. the SCF’s and the Common Agricultural Policy (CAP))—motivates the attempt to retain the more tangible financial advantage states receive from EU membership and to reduce potential losses. The institutional structure of the European Union however may reinforce the position of large, economically more advanced states over smaller, less advanced states, thus making it possible for the larger and more economically advanced states to reap more of the rewards while smaller and economically less advanced states bear a greater share of the burden of economic adjustment. The coincidence of political and economic power may lead to less than favorable outcomes for smaller and—in particular—less advanced EU Members states and regions.¹⁰

The intergovernmental literature has long implied—though seldom investigated in adequate detail—the likelihood that the gains from European integration are uneven.¹¹ Given variation in the relative economic and political power of states, policy outcomes presumably reflect that dynamic. In the aggregate, while *all* states are expected to gain from European integration, *some* states may gain *more* than others. *Side-payments* are typically conceived as the mechanism by which more powerful states have been able to

¹⁰ Since smaller states are often seen as winners in the EU context, this may surprise some observers. 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.

¹¹ See in particular Moravcsik (1999) and Moravcsik and Vachudova (2003).

buy-off or compensate losers from economic integration (Lange, 1993; Marks, 1992). However, uncertainty and the substitution of perceived for real gains greatly increases the potential range of variation in policy outcomes, suggesting that states may inaccurately predict the benefits of European integration and lose not only on individual features but also in the aggregate (Ellison, 2006b; Ellison and Hussain, 2003).

New Economy models designate the mix of *endogenous growth* and *economic geography* models popularized in particular by Romer (1994), Krugman (1991) and Lucas (1990). *External increasing returns*¹² derive from the geographic clustering of firms. Economic geography models in particular highlight the *territorial* nature of localized factors generating technological progress. Territorial effects arise both from local *spillovers* generated by the geographic concentration of economic activity, as well as from factors limiting the potential geographic range over which knowledge or technological progress is spread (see Leamer and Storper, 2001; Scott, 2000; Martin, 1999; Storper, 1992).¹³

For the purposes of this article, *New Economy* models cast new light both on the forces driving economic growth and development and on their territorial impact. Observations from this literature have repercussions both for theorizing about the shape and substance of EU, national and subnational-level regional policy tools and goals,¹⁴ as well as the institutional framework within which they are formulated. *New Economy* models question the linkage between regional development policy and the nature and structure of the factors promoting economic growth and development (Martin, 1999). Theories of economic geography and endogenous growth promote increasing attention to regional clustering and the promotion of regional, geographically-localized spillovers. In doing so, they have two negative implications for conventional regional development policies. First, they focus attention on pre-existing geographic concentrations of economic activity—in particular more economically advanced regions. And second, by promoting innovation-promotion oriented policies, they draw attention away from redistributive-type policies.

The nature and structure of European, macro-level and regional development goals has undergone considerable revision in the past two decades. European economic policy goals have exhibited a gradual shift away from their previous *sectoral* structure and more direct forms of redistribution (e.g. subsidies to firms and the support of declining industries, income support and the like). Emphasis is now placed on more *horizontal* forms of assistance with broad application, in particular on the role of physical

¹² I adopt Krugman's (1991) language and distinguish in particular between increasing returns resulting from firm-level economies of scale and *external* increasing returns generated by the geographic concentration of economic activity. The implications of the latter are the focus of this analysis.

¹³ Theoretical controversy remains over the factors driving external increasing returns, ranging from the *Marshallian* effects related variation in the size of the available labor pool (Krugman, 1991), to informal informational exchanges (Leamer and Storper, 2001; Scott, 2000; Storper, 1992;) to variation in the level and share of human capital (Lucas, 1990; Romer, 1994). Empirical evidence suggests the most significant impact of globalization and market integration (or the reduction of barriers to trade) is regional variation in levels of economic development, in particular at the subnational level (Sala-I-Martin, 2002; Martin, 1999; and Quah, 1996), a phenomenon perhaps best explained by *New Economy* type models of economic development.

¹⁴ See in particular Bachtler and Wishlade (2005), Martin (2003), and Baldwin and Martin (2004).

and human capital (or infrastructure, R&D, training and education).¹⁵ Reform of EU regional development goals follows in the footsteps of these economic policy reforms. Intentionally or not, the *Sapir Report* dealt a considerable blow to past regional policy initiatives. Pinned between the competing agendas of regional development and the onslaught of *growth and competitiveness* and *Lisbon Agenda* policy orientations, a variety of EU, national and subnational-level actors are directly impacted.

Though the radical shift in development strategies and goals is perhaps only moderately perceptible, the long tradition of EU and national level policy orientations focusing resources on agriculture, declining industries and lagging regions has been placed under fierce pressure.¹⁶ As many argue, if Europe is to become more competitive, it must shift more resources to more competitive 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). Competitiveness concerns drive a broad re-orientation of economic management strategies. Moreover, this phenomenon is occurring at both the supranational EU, national and subnational level of policy-making.

The specifically *regional* character of shifting policy orientations is less obvious. Yet New Economy models prompt a comparatively radical rethinking in particular of the compatibility of national and sub-national regional policy goals. These models focus attention both on the importance of agglomeration economies and their clustering of economic activity, as well as on the importance of regions insofar as such clustering tends to exhibit a particularly regional character. One should not however confuse 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. *New Economy* models are focused on promoting dynamic regional growth—in particular in regions exhibiting a positive propensity to support such growth—while the regional policy and development primarily attempts to reverse patterns of economic decline. An increasing degree of competition between *growth promoting* and *cohesion inducing* public policy goals or, as phrased at the outset of this article, between *innovation-oriented* and *redistributive* policy goals is the likely outcome. Moreover, this competition exhibits a decidedly *territorial* character.

The prospects of Europe's less developed regions are further frustrated by significant regional variation in long-term levels of economic development. Repeated failures to turn some regions around (e.g. the Italian *Mezzogiorno* and East Germany), propel many to ask why EU or national level resources should be allocated to policies that only sometimes bear fruit.¹⁷ Some thus point to *equity vs. efficiency* trade-offs with respect to national and regional economic policy goals (Brakman et al, 2005;

¹⁵ 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).

¹⁶ This point is clear from the Sapir report (European Commission, 2003: 79, 126).

¹⁷ For recent overviews of the literature on the relative success of regional policy, see Jouen (2005: Annex) and Funck and Pizzati (2003).

Lackenbauer, 2004; Bachtler et al, 2003; Martin, 1999). 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—by diverting valuable resources—fail to achieve their desired effect in less advanced regions.

Revising policy approaches directed toward less developed regions or reducing government intervention in regions on the decline are likely outcomes of such observations. In fact, promoting growth in the more developed regions is often seen as the key to promoting growth in the less advanced regions (see Brakman et al, 2005; Scott, 2000). As Scott argues, “*geo-economic space*” is made up of a “*central nucleus*” and a “*hinterland*” of variable size (2000: 48). Implicit is the notion that the welfare of more remote regions—though excruciatingly unclear where such regions begin and end¹⁸—is dependent upon and pulled along by the welfare of the core regions. In this regard, *New Economy* models disadvantage redistributive policy and favor more targeted and potentially more *supply-side* oriented policies focused on the development of human and physical capital (education, R&D and infrastructure), potentially diminishing the *regional cohesion* and *redistributive* content of development policies.

Thus the efficiency motives deriving from the economic geography in New Economy models 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, variation in 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 may be preferable over Lisbon-type goals where this implies a greater concentration of funding on less developed states. In the domestic arena however, the specifically regional focus of regional development strategies may potentially draw resources away from emerging economic clusters and upset the fine balance between regional and national level economic restructuring and development. If resources are ultimately diverted away from policies promoting economic development, national governments will eventually favor agglomeration promoting policies over regionally defined strategies. Thus less advanced states are 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 favor greater centralization in the institutional structure that oversees the making of economic

¹⁸ One way of thinking about this problem is to ask how it fits the European case. For example, should one think of central nuclei and a hinterland at the national, subnational or European level? The relevant unit of analysis here is of course terribly important with respect to policy implications.

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

The role of the subnational regions—and any genuine EU or national level effort at supporting their development—may be rendered more ambiguous in this context.¹⁹ The current trend—even in the framework of EU funding and the institutional management of these funds—runs 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 subnational regions. Further, while DGRegio has emphasized the importance of regions, current efforts place considerable emphasis on the increased coordination of regional and state-level economic strategies,²⁰ once again favoring greater centralization. For another, EU co-financing requirements favor national level institutions, since approval of such funds frequently depend on national or ministry-level support for individual projects.²¹ Finally, 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. In this regard, the EU's approach to the politics of subnational regional development has allocated much of the political struggle over economic policy strategies to the national arena.

Efficiency motives thus give rise to intense national level conflicts over resource distribution. The New Economy view of what drives economic growth raises explicit challenges for subnational regions. Economically *more advanced regions*, on the one hand, are likely to lobby national governments in favor of regional development

¹⁹ 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).

²⁰ 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.

²¹ 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).

strategies that favor agglomeration and the development of greater innovation potential. At the forefront of national-level autonomy drives, such regions are not 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.²²

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 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 the co-financing of EU-funded projects. But in the context of national government support for more advanced regional economic clusters—less advanced regions—*notwithstanding the ambiguities noted above with respect to EU-level loyalties*²³—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.

Many define the principal economic actors with reference either to the factors of production (labor and capital), or to conventional trade models (abundant and scarce factors), or with reference to the fortunes of declining and rising economic sectors.²⁴ Still others construe the major European political-economic debates 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). In contrast, I argue the future politics of Europe is defined by the politics of European, national and subnational regionalism. National and subnational regionalism—driven in particular by globalization, European integration and Europe’s increasingly pronounced economic geography—favors a new set of actors defined along a *territorial* (or *center-periphery*) dimension. More traditional actors—in particular labor, to a lesser extent capital—are compromised by the contradictions between the supranational character of European integration (and globalization), the state-centric structure of European industrial relations systems (Streeck and Schmitter, 1991) and the increasingly territorial definition of interests.

The rise of *knowledge* as a factor in production (Gilpin, 2001) reinvigorates the “*market corrective*” role of states, subnational regions and even supranational actors like the EU, propelling them into the role of competitiveness promotion. Remaining agnostic

²² This is the beauty of Alesina and Spolaore’s (1997) argument. As nations become more economically integrated—as free trade deepens and becomes more firmly embedded in a supranational framework—increasing incentives emerge for regions to seek greater political autonomy from nation states. Thus for example some explain demands for Scottish regional autonomy as a result of European integration (see Jolly, 2007).

²³ 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.

²⁴ For a detailed discussion of the variety of economic actors arising from the assumptions of various economic models, see Alt et al. (1996).

regarding arguments about the advantages of state interventionism,²⁵ there is less controversy over whether states are increasingly engaged in the role of investing in “productive assets”, adding “value” or creating the framework for the production of knowledge and innovation promotion. While competitiveness is the new *mantra*, it is wielded by states as well as national and subnational regional economic actors (firms and even labor).

Important caveats to the *New Economy* approach exist. 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 article to respond adequately to this debate, even some of the more avid 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 provides data to suggest that over the period 1995-1999 the peripheries grew more rapidly (2003: 22).²⁶ More recently, the less advanced NMS’s have tended to grow more rapidly than the more advanced OMS’s. Such findings are potentially inconsistent with *New Economy* models.

Although less advanced regions are occasionally assumed to benefit less from economic integration and EU membership—in particular in the New Economy, core-periphery framework—the evidence to support this claim is mixed. Hooghe and Keating voice a degree of skepticism about the *core-periphery* model (1994: 369). Such findings generate uncertainty in the calculation of the likely winners and losers from the process of economic integration and EU membership. Moreover, some countries and regions have met with more success than others, suggesting that other factors also play a role—e.g. 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 on the basis of EU-funding.

Distributional Politics: The 2007-2013 Framework Perspective in Context

Concluded every seven years, the EU’s multi-annual Framework Perspectives govern the distribution of EU funds across the Member states. The following 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. The following analyzes 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. The development interests of the more advanced states had a profound impact on the EU’s distribution of resources and had a significantly negative impact on the share of resources made distributed to the NMS’s.

²⁵ Krugman (1987) in particular criticizes the ability of states to intervene effectively.

²⁶ 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.

The EU's multi-annual Framework Perspectives continue to be governed by unanimity.²⁷ Thus any of the NMS's theoretically have the right to block decisions failing to meet with their expectations. However the same is also 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 bloc constitute a force that could stop policy proposals in other areas of EU policy regulated by qualified majority voting (QMV).²⁸ While it is beyond the parameters of this essay to discuss the issue of voting weights and relative power in 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.

Much of the debate over economic and regional policy in the EU—in particular in the face of slow growth in Europe's more advanced core—is driven by a desire to promote national, supranational and perhaps subnational economic development objectives when the lion's share of funding is devoted to agricultural (i.e. *sectoral*) and regional targets. Though this article cannot adequately address interests at the subnational level (see Ellison, 2007), it does examine the emergence of strong national-level challenges to EU regional policy and their impact on national and supranational level EU politics. In particular, this section argues that the interest and role of national governments is central to understanding the evolving shape of EU regional policy.

The Eastern enlargement has arguably done the most to polarize debates on the relative value of EU regional vs. national level economic development policy goals. The progressive concentration of EU resources on an increasingly large number of less developed economies has disrupted a finely crafted compromise between the more and less advanced Old EU Member states. Resulting in the loss of structural and cohesion fund eligibility in most of the former cohesion and old EU Member states, the Eastern enlargement's *statistical effect* is one of the principal causes of renewed debate.²⁹

The mix of economic and statistical effect pressures provides strong incentives for states to pursue renewed strategies of regional development. Rather than transfer resources to the less advanced NMS's, many of which are growing at a good clip, political expedience—in particular with respect to the domestic political context—favors rapid innovation and technological change in the domestic framework. For the more advanced states, the Lisbon goals essentially fit this bill. The Lisbon agenda represents a mechanism for re-orienting EU-level spending priorities and thereby re-directing some of their focus to the more advanced states. An emphasis on Lisbon-type goals likely means the NMS's will have to share more of the EU's resources with the more advanced states.

²⁷ 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.

²⁸ While the CEEC's constitute a "blocking minority" in an EU of 27 members, in an EU of 25 members, they were 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.

²⁹ The "*statistical effect*" refers to the former beneficiaries of the structural and cohesion funds who were gradually pushed above the 75% and 90% of EU per capita GDP eligibility barriers due to the entry of a significantly large number of less developed economies in the EU.

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 and competitiveness (Jouen, 2005: 11).

The less developed NMS's, on the other hand, likely favor SCF funding over support for the Lisbon strategy. 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 (Ellison, *forthcoming*). On the one hand, they would like to develop greater potential for increasing return's industries. As intended by the *Lisbon Agenda*, the promotion of R&D and education are key means to achieving this goal. On the other hand, the NMS's face diverse sets of interests. Less advanced or declining regions may require more traditional forms of support. While the modernization of infrastructure and the improvement of skill levels may prove helpful in these regions, the promotion of R&D may prove less valuable. Moreover, targeted investment promotion strategies intended to boost overall levels of (foreign) investment—now significantly constrained by EU competition and regional policy (*ibid*)—may prove more fruitful.³⁰ As Ellison (*forthcoming*) finds, the regional development strategies pursued in the EU's former “*cohesion*” countries (Greece, Spain, Portugal and Ireland) were predominantly vertical as opposed to horizontal in character.

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 I below; also Bachtler and Wislade, 2005: 6). By the conclusion of the December 2005 Summit under the UK presidency, this amount was almost cut in half. One of the principal reasons was *net contributor* state insistence on restricting the total level of EU expenditure to approximately 1% of EU GNI. These states lobbied hard to reduce overall EU SCF spending³¹ and, at the domestic level, overhauled regional spending priorities and revised their thinking on the advantages of EU level spending.³² Given unwillingness to allow further significant reductions in CAP expenditure—in particular from France—the principal share of the cuts came out of the Structural and Cohesion Fund category.³³

³⁰ Ironically, even some advanced states would prefer to have more leeway to pursue investment promotion strategies. See www.Euractiv.com: “German Government Says it Knows Best what is Good for Growth” (April 12th, 2006).

³¹ See e.g. 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 15th, 2003).

³² 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). For a critical approach to the UK case, see Fothergill (2005).

³³ 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.

[Table I about here: SCF Financial Perspective 2007-2013]

The Commission's original February 2004 proposal foresaw a considerable shift in expenditure from the Structural and Cohesion fund categories to the Competitiveness, Growth and Employment category (*Heading 1A*). As this category corresponds most closely to *Lisbon Agenda* 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, representing a dramatic shift in EU spending priorities. In the final version of the 2007-2013 Financial Perspective, significant reductions ultimately came out of *Heading 1A*. However, 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 large, more advanced *net contributor* states lost in EU expenditure was recouped through reductions in EU budgetary contributions. Moreover, the December 2005 Summit contained some unusual adjustments to the EU's Common Budget, resulting in substantial reductions of the Austrian, German, Netherlands and Swedish contributions. Thus these top four net contributor states made substantial gains from this final agreement.³⁴

Compared to the levels over the period 2004-2006, CEEC country level SCF distributions exhibit a significant rise for the period 2007-2013. However, along with the overall downward push in total expenditure, there was a progressive upward creep in the number and size of individual allocations (*special provisions* and *transitional arrangements*) made to a broad range of OMS's. The previous 4% of GDP threshold was lowered still further (however slightly) and a number of countries successfully 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*.³⁵ In this regard, an institution typically known for favoring *European integration* came 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.³⁶ 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 important economic integration projects: the Single Market and EMU.³⁷ A similar politically opportune context is lacking for the CEEC's. Moreover,

³⁴ VAT contributions set at 0.30% for other countries were reduced to 0.225% for Austria, 0.15% for Germany, and 0.10% for the Netherlands and Sweden. Further both the Netherlands and Sweden were granted total reductions in their GNI contribution of 605 and 150 million Euros respectively. See the Presidency Conclusions on the Financial Perspective 2007-2013 (Doc 15915/05, CADREFIN 268, Dec. 19. 2005: 29). I am indebted to my colleague Miklos Somai for this observation.

³⁵ See: "Mixed Emotions over EU Budget Deal" (www.Euractiv.com: Apr. 7, 2006).

³⁶ I draw here liberally from Szemplér (2005).

³⁷ See in particular Lange (1993).

several years of slow economic growth in Western Europe along with a greater concentration of Regional Development funds on Central and East European countries diminished Western Europe's appetite for greater SCF expenditure.

Finally, the Commission's 2007-2013 Financial Perspective SCF guidelines originally distinguished between the usefulness of Lisbon-type strategies for the CEEC's and the OMS's. While these guidelines urged states to earmark 60-75% of structural fund spending for Lisbon-compatible goals, this criterion originally did not apply to the NMS's.³⁸ However, the final version of the 2007-2013 Financial Perspective required all states to pursue Lisbon-type goals.³⁹ As Jouen notes, the overlap between the use of SCF-funding and the *Lisbon Agenda* is strongest in the more advanced regions, while lagging regions tend to employ more diverse strategies of economic development (2005: 7).

Thus, little bargaining room remained. 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 thumbnail regression analysis of the SCF allocations across the 2000-2006 and 2007-2013 Framework Perspectives provides some methodological rigor to the above analysis.⁴⁰ In addition to the explanatory variables adopted in Ellison (2006b)⁴¹—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 funding eligibility.⁴² The data is analyzed using ordinary least squares (OLS).⁴³

The results of this analysis provide important insights into EU distributional politics. For one, the role of region loses significance in the 2007-2013 distribution compared to that of 2000-2006 (see Table II below). In the first period, region has a

³⁸ See COM (2004) 487 final.

³⁹ See www.Euractiv.com: “Structural Funds get Lisbon Makeover” (July, 20th, 2006).

⁴⁰ More complete information on methodology, variable selection and data sources is provided in Annex I.

⁴¹ The explanatory variables chosen in this model were those the EU argues matter with respect to the distribution of SCF's (the level of economic development, unemployment and the size of the affected population). In addition, following Carrubba (1997), Ellison (2006b) tests for the potential impact of declining public support for European integration on raising EU financial support.

⁴² 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.

⁴³ The same basic caveats that applied to the analysis in Ellison (2006b) 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.

strongly negative and highly significant effect on the SCF distribution—on average OMS’s received 2.234 billion Euros more than NMS’s. As Ellison (2006b) argues, the CEEC’s were strongly disadvantaged in the first years of EU membership. This disadvantage has moderated. In the 2007-2013 period there is a slight advantage for CEEC’s—on average NMS’s receive 394 million Euros more than OMS’s—though the coefficient is neither stable nor significant. While the Commission’s proposal was the least discriminatory across states—reflected by the very small negative coefficient on the region variable and no consistency in this finding across states—the final 2007-2013 Framework Perspective tended to favor the NMS’s. The rise in funding for the NMS’s however 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 impact on the distribution of funding. Oddly however, per capita GDP has the opposite effect from that predicted in the NMS’s (more advanced NMS’s received higher levels of funding). And public support has the opposite effect from that expected in the OMS’s (lower levels of support were negatively correlated with higher spending). 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 remains 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 politics continues to play much less of a role in the distribution of SCF-funding in the NMS’s than in the OMS’s or across the New and Old Member states.

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 consistent or significant relationship between the number of member states and the allocation of EU funding. Adding one additional Member State adds approximately 10.6 million Euros to the total budget. As an order of magnitude, however, this number is comparatively small. 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 greatly moderated impact of per capita GDP—the coefficient in considerably smaller than in the previous period and is far from significant—under the 2007-2013 Framework Perspective suggests the OMS’s are again receiving surprisingly large shares of SCF-funding.

[Table II: Explaining Variation in SCF Funding]

Figures 1A and 1B below confirm these general suspicions. Using the distributional logic derived by the regression equation for the combined set of Member states for the 2007-2013 Framework Perspective, Figure 1A provides data on both *actual*

and *predicted* SCF allocations.⁴⁴ 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. For the NMS's the differences between the predicted and actual values are even 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 applied consistently 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 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.

Discussion

At least four issues will likely dominate future discussion and reform of EU redistributive politics. For one, contradictions between the *redistributive, cohesion-producing* and *innovation promoting* goals of EU regional development and national-level economic policy clearly need to be worked out. In particular, a better understanding of which policy tools work best at different levels of national and 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 presumably 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

⁴⁴ 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 II).

herein, current strategies of economic development likely create strong incentives for centralizing the control of EU SCF funding in the hands of state level governments (see also Ellison, 2007). Significant domestic/national-level struggles over the use and implementation of EU funding will likely become more polarized.

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 and states of Europe. The real challenge in the future Europe may be how best to manage the competing interests of regions, states and subnational regions. 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 only reinforces the likely rivalry of these competing interests. The *re-nationalization* of economic and regional development policy—in particular in the more advanced states—provides one alternative policy proposal for the *New Europe*. However, the more advanced and savvy regions and states may ultimately decide not to forego the potential coordination of economic management that European integration and EU-level decision-making capacity enables.

Conclusion

Despite the inherently universalizing logic of globalization, economic space has simultaneously become smaller, more local with a distinctly sub-national, regional character. As foreshadowed more than two decades ago in *The Second Industrial Divide*,⁴⁵ regional structures of economic development are becoming more pronounced, a phenomenon likely to intensify as European political and economic 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, reduce EU expenditure, limit the potential range of NMS benefits and possibly even to consider withdrawal from the Union.⁴⁶ 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 by the emergence of economic regionalism and change in the strategic thinking about economic and regional policy goals.

Overcoming the costs of economic adjustment via redistributive transfers 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—have lobbied hard both to increase the weight of Lisbon Agenda type spending 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, Central and East European states will enjoy significantly higher expenditures than during

⁴⁵ Piore and Sabel (1984).

⁴⁶ This may be one way to interpret the French and Dutch rejections of the first *Constitutional Treaty*.

the first 3 years of EU membership (2004-2006). Due to the *concentration* EU SCF spending on the least advanced Member states, 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 the allocations will be enough to compensate the NMS for the costs of economic adjustment, provide an adequate foundation for continued economic structuring and assist them in fulfilling the requirements of compliance with the EU regulatory framework is more problematic. The financial and regulatory demands of EU membership are significant. Several of the NMS's (and some of the OMS's) have already 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.

Distributional struggles are likely to test the limits of the *New Europe* for years to come. As noted at the outset, the future consequences of this general trend are difficult 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, as the EU grows in size, its characteristic policy features may gradually 'wither away', with the EU looking more and more like a trading club and less like a political union.⁴⁷ This outcome coincides broadly with conventional speculation about the contradictions between widening and deepening. On the other hand, the alternative is that EU regional policy gradually be adapted to respond more strongly to the needs and interests of the more advanced EU Member states. Predictably, the more advanced states will either lobby hard for reform of the existing status quo, attempt to reduce the overall amount of EU expenditure, lobby to limit the future boundaries of the EU or ultimately threaten withdrawal from the union. In some ways, all four of these possible outcomes seem to be occurring, though the severity of any rupture is overstated.

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⁴⁷ For a contrasting viewpoint, see Kopstein and Reilly (2006).

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

| Structural and Cohesion Fund | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2007-2013 |
| SCF's (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% |
| SCF's (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% |
| SCF's (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 | | | | | | | | | |
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2007-2013 |
| 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). Population data is from the Eurostat Online dataset.

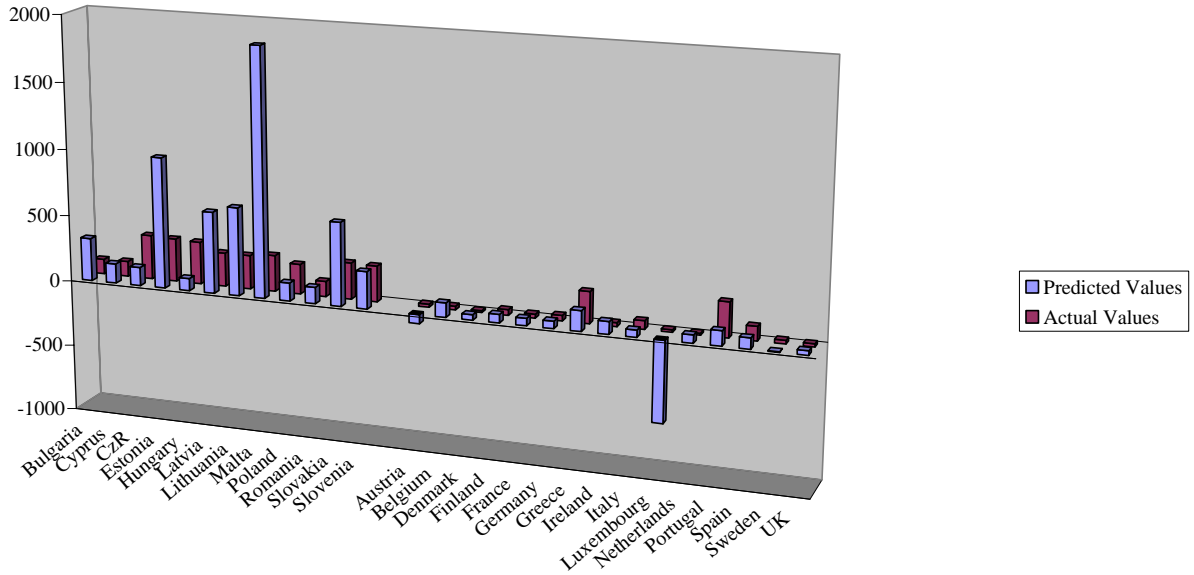
**Table II: Explaining Variation in Structural and Cohesion Fund Allocations
2000-2006, 2007-2013 and Commission Proposal (2004)**

| | 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. r² | 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 |

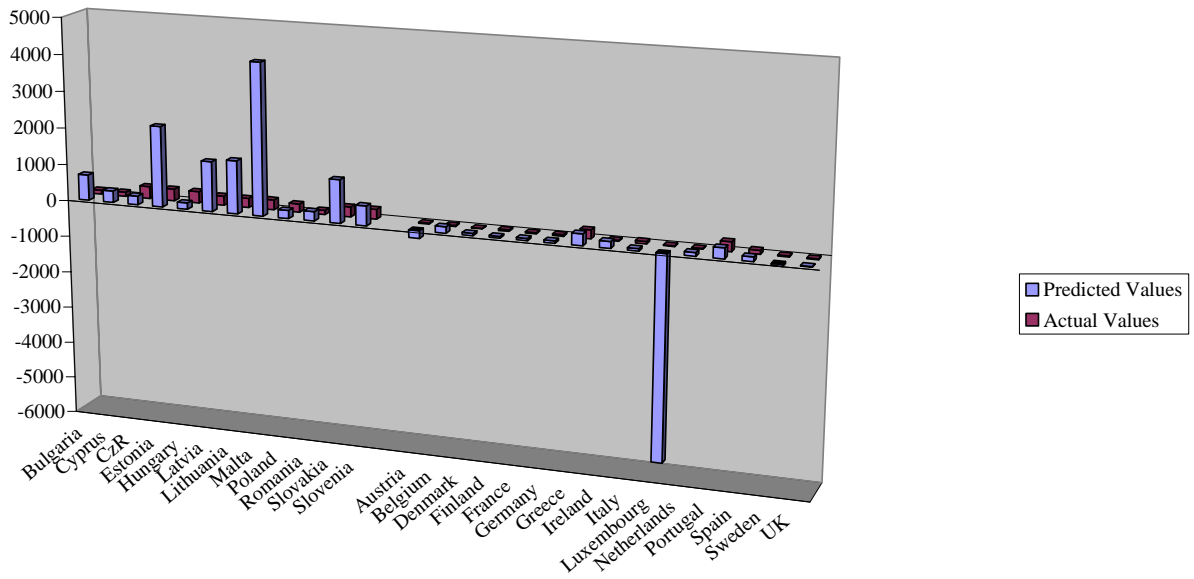
Sources: See Annex. (*t*-statistics in parentheses).

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)



ANNEX:

Dependent Variable:

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:
 - European Commission, Working for the Regions: (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.
- 2004 Commission Proposal:
 - Ostensibly from the European Commission.⁴⁸
- 2007-2013:
 - Own calculation of total indicative allocations across categories (available in the *Official Journal* L243/34-36, L243/39-43, and L247/28-29; Sept. 6th and 9th, 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.

⁴⁸ Considerable secrecy surrounded these initial figures. The table of proposed allocations used in this analysis stems from a private secondary source and allegedly from the Commission itself. It is almost identical to a table published in Jouen (2005: 29). At the time of the proposal, the Commission disavowed the existence of any such table.