

**The impact of European regional policy -
Sociological institutionalism and “policy learning”**

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The impact of European regional policy on regional policy in Southern Italy and Eastern Germany

Abstract: The paper will argue that a combination of sociological institutionalism with theories of social learning is better suited to explain the varieties of the impact of European regional policy than generalisation based on historical and rationalist institutionalist approaches. It will distinguish three modes of interaction between the European and the domestic arena: policy learning, policy experimentation and policy conflict. European regional policy encompasses the two areas of structural funds and state aid control and follows the paradigm of "endogenous development", the principles of partnership and competitiveness and a certain set of procedures. Whilst in Southern Italy policy learning took place with regard to both European policy areas, in Eastern Germany structural funds induced a process of policy experimentation, but state aid control led to intense policy conflict between all the actors in Germany and the European Commission.

I. Introduction

This paper will argue that in the field of regional development policies generalisations about the impact of European policies which are based on rationalist institutionalist and historical institutionalist approaches have only limited explanatory power. I will propose a combination of sociological institutionalist concepts and theories of social learning that seems better suited to explaining the different impacts of European policies. In particular, I will argue that Europeanisation – for the purpose of this paper defined as the impact of European policies on domestic policies¹ – is better understood as a dynamic process, in which European regional policy is judged according to the existing national policy paradigm. A well-entrenched policy paradigm undermines the legitimacy of European policy. The failure of a policy paradigm can, however, confer a high degree of legitimacy to European policies and, in the process of social learning, domestic actors can gain legitimacy and use the support of European authorisation to push for a of policy change.

The empirical basis of this paper is the impact of European regional policy on regional policies in Southern Italy and Eastern Germany. The reason for this choice is twofold. Firstly, European regional policy has often been selected as having the greatest impact on domestic structures. As the second largest European policy, it encompasses a third of all

European Union expenditures and around 0.5 per cent of European GDP. In addition, European regional policies are regarded as much more innovative than the largest programme, the Common Agricultural Programme, and more prone to generate theoretical conclusions. Indeed, European regional policies are the core area of multi-level-governance approaches. Secondly, Southern Italy and Eastern Germany are among the most important underdeveloped areas in Western Europe (Locke and Trigilia 2000), and therefore a policy field in which domestic and European policy priorities meet and, possibly, clash. Despite their differences, Italy and Germany face the same challenges in closing the economic gap between two geographic parts of the same nation state, in which the less developed part reaches only some 60 per cent GDP per capita of the more developed part².

In what follows, I will first link the theoretical debate among the three institutionalisms to the analysis of regional policies and propose a combination of sociological institutionalism with theories of social learning (2). Next, I will analyse European regional policies as a policy regime (3) examine its impact in Southern Italy (4) and Eastern Germany (5) and lastly draw conclusions related to the theoretical debate (6).

2. The impact of European regional policies - institutionalist approaches

To start with, I will refer to two areas or dimensions of European regional policies, structural funds and state aid control. The latter is not an explicit regional policy, but has a significant effect on it, as the evidence shows (cf. Thielemann 2002). This, however, is problematic for a rationalist institutionalist understanding of Europeanisation in this policy area. Rationalist institutionalist approaches often focus on the mechanism of differential empowerment of domestic actors (as well as on institutional veto points). However, two diametrically opposed positions can be found in the literature: intergovernmentalists analyse the strengthening of the national executives, whilst neofunctionalists refer to the empowerment of subnational actors. These two opposing positions are not without some

¹ For an analysis of the different definitions of Europeanisation cf. Olsen (2002)

² In 2000 southern Italy reached 54,6 per cent GDP per capita of northern and central Italy, whilst eastern Germany reached 60.5 per cent of GDP per capita of western Germany.

empirical evidence drawn from European regional politics to bolster their arguments. State aid control can be and has been an instrument for strengthening central control, for “hollowing out, but hardening the state” (della Sala 1997). However, structural funds have, to some extent, empowered regional actors, although the less developed regions have had difficulty in making full use of them due to a lack of institutional capacity (Bailey and de Propris 2002). How can we reconcile these perspectives? To add another point, both predicted consequences of Europeanisation are not necessarily and in all cases to be found. State aid control has not been used by the national government in Germany to control the (spending of the) regions, but has led to a clash between regional and national government, on the one hand, and the European Commission, on the other. As the cases of Germany and Italy will show, which level will be empowered or receive additional decision-making power depends on domestic policy conflicts as well as domestic coalitions. Furthermore, it remains to be seen whether empowerment is an adequate concept for the description of policy change.

Historical institutionalists, for their part, resort to the mechanisms of path dependency and inertia of institutional arrangements to explain outcomes in this area. The clash between institutions at the national and European levels is due to their “goodness of fit” or “misfit”. This, too, poses empirical and theoretical problems. Firstly, what happens after this clash? For example, Boerzel (1999; 2001) has analysed the clash between intergovernmental structures at the European level and federal and autonomy structures in Spain and Germany, which challenged the territorial distribution of power. In a second step she resorted to notions of sociological institutionalism, that is, to informal rules that determined how to deal with that clash of institutions as well as the ensuing conflicts between the different levels of government. Secondly, empirically it has often been argued that there is a good fit between the styles of European policy and German policy, since Germany is a federal and semi-sovereign state (Bulmer 1997). If we accept the claim that there is a good fit, the call for a re-nationalisation of regional policies in Germany comes as a surprise.

I will suggest regarding European regional policy as a policy regime with an attendant policy paradigm as well as norms, principles and procedures that domestic actors can refer to in the domestic arena. The basic framework is the notion of a process of policy diffusion taken from sociological institutionalism that postulates institutional adaptation through which rules, norms and practices are incorporated and which replace existing norms and practices. This definition of institutions includes “the symbol systems, cognitive scripts, and moral templates that provide the frames of meaning guiding human action” (Hall/Taylor 1996:947) that constitute a policy paradigm together with its norms and principles as well as the procedures and formal rules that determine the use of its instruments.

This definition is compatible with the definition of Europeanisation by Radaelli, who refers to “processes of (a) construction, (b) diffusion and (c) institutionalisation of formal and informal rules, procedures, policy paradigms, styles, “ways of doing things” and shared beliefs and norms which are first defined and consolidated in the making of EU decisions and then incorporated in the logic of domestic discourse, identities, political structures and public policies” (Radaelli 2000:3).

Two objections have been made to this approach. Firstly, this definition has been criticised for portraying regional policy as being unidirectional and not taking into account interactions between the European and domestic levels and the initiatives of the latter. Recent research, for instance, has come to the conclusion that the central position of the European Commission as “policy entrepreneur” has been overestimated (Kohler-Koch 2002). Secondly, the framework of institutional isomorphism has been criticised for not being able to explain variations in institutional adaptation within similar environments (Boerzel 1999:23). I will argue that a combination of sociological institutionalism, together with the notion of social learning, can fill this lacuna. Domestic actors foster the adoption and diffusion of a set of norms, procedures and a policy paradigm and can use the support by the Commission. It may be of less importance and hard to give evidence, to show whether a specific policy originated in either the domestic or the European con-

text. This paper will demonstrate that the co-operation of actors at different territorial levels can be successful in the domestic context.

A set of norms, principles and procedures can be highly influential in the process of “social learning”. As the seminal work by Hall (1993) has highlighted, social learning occurs when the policy change exceeds the fine adjustment of the instruments as well as the change of instruments, and includes a change of paradigms. There are two important factors which can help to account for social learning: the first is the failure of the old paradigm: “The most important influence in this learning process is previous policies itself” (Hall 1993:21). The second is the emergence of a new coalition which refers to a common set of principles and interpretations framing a policy approach. The new paradigm implies a different discourse, a different system of ideas and standards. Although this paradigm is, as Hall emphasizes, knowledge-based it is supported by interest coalitions.

Basing my arguments on this approach, I will, in the following, seek to distinguish between three different possible reactions to a clash between policy regimes at the European and national levels; these three reactions are policy learning, policy experimentation and policy conflict.

(i) Policy learning

Policy learning occurs when the old paradigm of policies has failed and there is a winning domestic coalition to take over the new paradigm of policies, which adopts the norms and procedures associated with the new paradigm. In the interpretation suggested here, the implementation of norms and procedures may be more difficult than the acceptance of a new paradigm, which may be used in particular for the purpose of political communication.

(ii) Policy experimentation

Policy experimentation takes place when there is one domestic actor or more who can introduce new norms and procedures, that is, policy instruments, with the support of the

European Commission. However, the old paradigm remains, existing alongside the newly introduced policies which belong to a different paradigm.

(iii) Policy conflict

Policy conflict is the result when the policies at the European level do not find (relevant and influential) support at the domestic level. A coalition of domestic actors will struggle against the European level, will at best resort to coping strategies and might even try to reform the policy at the European level.

In the following section I will characterise the policy paradigm, principles and norms and procedures of European regional policy, before I go on to analyse the interaction of European regional policy and national regional policy.

3. European regional policies: a policy regime with a paradigm, norms, principles and procedures

There is near-unanimity that European structural funds aim to foster a new paradigm of regional development³, although the efficiency of the implementation process is often debated. Not only did the reform of the structural funds in 1988 lead to a tremendous increase in resources, but the Commission also spearheaded a general process to reform regional policies. The Commission referred to a policy discourse, which was influential in the academic world and compatible with the emergence of regionalist demands. As Armstrong and Taylor have, rather laconically, put it, the “indigenous growth approach became popular in the 1980s and 1990s” due to the shortage of investment potential and the fashionable emergence of an “enterprise culture” (Armstrong/Taylor 2000). In addition, a comprehensive theoretically-oriented literature emerged with regard to the economic potential of industrial districts and of a “decentralised industrial order” (Herrigel 1993) and local and regional governments were regarded as of decisive importance for

³ For a very critical (even cynical) view cf. McAleavy/Rynck (1997, 2001). This does not exclude an analysis which relates the introduction and strengthening of European regional policies to “side-payments” in intergovernmental negotiations (Pollock 1995). Even if regional cohesion policies have been agreed on as

processes of “flexible specialisation” (Piore/Sabel). It has even been argued that “the dogma that regions are resurgent as a result of global transformations implied by the growth of informational economies has almost reached the point of orthodoxy” (Lovering 1999:386). The embeddedness in this discourse has led to a positive, sometimes even enthusiastic, evaluation of European regional policies in the social sciences (Leonardi 1995, Bufacchi/Garmise 1995, cf. Hooghe/Keating 1994). The Commission became a “policy entrepreneur” and aimed at developing norms and procedures for the implementation of structural funds which would foster endogenous development.

Tab.1: Policy paradigms in regional policy

	Inward investment	Endogenous development
Overarching policy goal	Reducing regional disparities	Building institutional capacity
Instruments	<p><i>Norms and principles</i></p> <ul style="list-style-type: none"> • State guidance of capital investment • Centralised allocation <p><i>Procedures</i></p> <ul style="list-style-type: none"> • State consent on applications 	<p><i>Norms and principles</i></p> <ul style="list-style-type: none"> • Support for projects to foster endogenous potential • Decentralised responsibility <p><i>Procedures</i></p> <ul style="list-style-type: none"> • Public-private partnerships in the programming of interventions

In particular, European regional policies refer to the policy goal of “endogenous development”, that is the institutional capacity building at the regional and sub-regional levels to foster the development of endogenous potential. Although a reduction of inequalities in economic development is the ultimate aim, an increase in economic development is seen as a long-term objective, but only as a result of increased endogenous potential. In this regard, it contrasts strongly with the old “inward-investment approach” which accords the utmost importance to attracting capital from outside the region, thereby strengthening exports and employment. At the same time, the inward-investment ap-

side-payments to gain consent for the establishment of the Single Market, this says nothing about their inherent character and consequent development.

proach is based on the central steering of investment flows and has often been linked, firstly, to the economic and social integration of underdeveloped regions and, secondly, to an increase in living standards in these areas.

The endogenous development paradigm aims at establishing microstructures such as the building of knowledge-transfer networks, business services, vocational training facilities and local and regional capital supply (Armstrong/Taylor 2000, cf. Herrigel 1993, Nanetti 1996). In addition, it implies that decision-making power should be decentralised to lower territorial levels and be part of a mobilisation of actors which leads to a close co-operation between public and private actors.

Structural funds have been the first European policy to have acknowledged the right of regional actors to take part in the decisions. Its principles are the partnership between different territorial levels of government, and subsidiarity, on the one hand, and the inclusion of social actors in the process of programming, on the other. Procedures which have been developed in implementing the structural funds use instruments, for example, *ex-ante* and *ex-post* evaluation and incentives for efficiency, such as the reward reserve, which is allocated to the most successful projects.

Although part of competition policy and, therefore, under the responsibility of DG IV, state aid control has also had a significant impact on European regional policies⁴. Some authors (Smyrl/Behrens 1999) have argued that there is a contradiction between these two policy components, which is indicative of the shift in policy ideas on European integration. Smyrl and Behrens argue that the pre-1988 theoretical concepts of the Commission have been strongly influenced by Myrdal's concept of cumulative causation. Regional policy has been justified by a basic market failure leading to agglomeration effects in the better-off regions and to cumulative disadvantages in the lagging regions. This approach has allegedly been replaced by the neo-liberal project of the Economic and Monetary Union and, as a consequence, increasing tensions between the responsible DGs. How-

⁴ Yuill, Bachtler and Wishblade even claim that "for most of the history of the Community, DG IV, the Competition Policy Directorate-General of the Commission, has had more impact on regional policy in the member states than had the Regional Policy Directorate DG XVI" (1997:122).

ever, I will argue that a coherent justification can be given for the compatibility of competition policies within the framework of regional policies. Firstly, limiting state subsidies is not on balance a constraint for lagging regions. On the contrary, the control of state subsidies provides them with an advantage, because other regions are prevented from entering a subsidy-competition race. Regional actors have become increasingly aware of this effect.⁵ Secondly, the claim can be made that state aid, in particular state aid to attract inward investment, is not the most powerful strategy for fostering regional development, but is, at best, a complementary strategy in fostering endogenous potential. This rationale can be found in the European regulations for the different areas; such regulations set much stricter limits on subsidies for large companies than for small and medium enterprises; subsidies for large companies are basically limited to objective-1 areas.

In the following I will examine the impact of European regional policies, structural funds and state aid control, on the processes of social learning and policies for Southern Italy and Eastern Germany.

European policy	Southern Italy	Eastern Germany
State-aid control	Case 1	Case 4
Structural funds	Case 2	Case 3

4. Regional policy for Southern Italy

The 1990s witnessed a substantial policy change in the regional development policy for Southern Italy. Italian regional policies for the *Mezzogiorno* have been a dramatic failure and contributed to the demise of the First Republic in Italy. The extraordinary intervention in the South was based on (i) a leading role for the state in the late industrial development of Italy, although formally exercised by independent agencies,

⁵ Interview at the representation of Saxony in Berlin 26.9.02

and (ii) a strong centralisation of state intervention. The *cassa per il mezzogiorno* received funds from the Italian state in addition to the ordinary government spending; it operated outside ordinary central and local administration and enjoyed considerable autonomy in planning decisions and financial management. The main instruments of state intervention have been generous subsidies for private investment and investments by the state holdings, in particular ENI and IRI. The state holdings had to comply with a compulsory investment quota in the south of up to 40 per cent. The principle of inward investment, in particular by state holdings and great companies, led to the phenomenon of “cathedrals in the desert” without any link to the regional economies. Instead, industrial districts, which make full use of the potential of local and regional economies and which built the base for the strongholds of the Italian economy’s recovery in the north-east and centre, have disappeared within this period (Locke/Berger 2001). Furthermore, state intervention had been used to build up the south as an electoral stronghold for the governing parties and their clientelistic links in order to compensate for the increasing loss of votes in the north (Trigilia 1992). This policy was criticised from the late 1960s by economists and social scientists, but found no serious opposition in the political arena. Even the communist opposition voted for most of the measures with regard to the south as a result of their commitment to improving living standards there as well as their basic ideological support for state intervention in the economy (Barca/Trento 1997).

In the beginning of the 1990s policies for the south proved incapable of generating economic development (in fact the gap between the north and the south had been widening since the 1980s) and the threat posed by the Mafia reached its peak with the assassination of two high-profile judges. Two very different actors who were both opposed to this regional policy emerged. The first actor, the regionalist party movement of the Northern League, used the claim of an alleged northern identity and culture to gather popular protest against the supposedly exploitationist coalition of “Rome” and “the south”. In fact they were the first political actor to initiate a debate about the policies for the south. This “regional populism” (Schmidtke) of the Northern League was able to gather the votes of

supporters of the governing Christian Democrats and took the Northern League to government. Furthermore, it influenced policies even more significantly; until 2001 governments of technocrats or the centre-left have initiated the reforms aiming at decentralisation. Secondly a group of “reformist” scientists and politicians called for policy reforms in order to foster endogenous development and a reform of the ineffective state administration, in particular in the south. Both actors, who played an important part in a process of social learning, could benefit from interaction with the European level, either to curb the old policies of state intervention with reference to the state aid control regime or to introduce new forms of regional policy with reference to the structural funds.

Case 1: State aid control in Southern Italy

State intervention had been central to the old paradigm of Italian regional policy. Italian regional policy not only followed a pronounced inward investment approach, but also linked the approach to an extreme centralisation and clientelistic distortion. This old paradigm increasingly came to be regarded as a policy failure. The impact of the European level in this regard has been twofold. Firstly, it has set the framework conditions for regional policies; secondly, negotiations with the European Commission were able to be used to break the resistance of entrenched interests by the reference to external bounds.

One of the crucial factors in the transition from the First to the Second Republic in Italy was the change brought about by fulfilling the conditions of the European Monetary Union. The system of buying support with some generous spending programmes targeted at specific social groups was no longer sustainable under the pressure of European monetary integration. This system had been based on an increasing public debt, which reached 120 per cent of GDP and annual budget deficits of nearly 8 per cent of GDP at the beginning of the 1990s. Aid to the south contributed significantly to public debt and exceeded by far the levels of subsidies deemed to be acceptable by the European Commission.

The impact of European policy has been analysed with regard to EMU as “external bounds” which could be used by domestic actors, often “technocrats” within the administration and the central bank, to tie the hands of party governments (Dyson/Featherstone 1996, Radaelli 1999a). The threat of being excluded from the first league of European nation states and the lack of legitimacy of the Italian government, which contrasted (at the time) with tremendous support for European integration led to the acceptance of severe austerity policies, including a special “tax for Europe”. Indeed, mass support for inclusion in EMU was higher in Italy than in any other European country – despite the consequent austerity policies.

As far as the impact on specific policies is concerned, two examples may suffice as evidence of the involvement of the European level in the long death of the (in)famous *casa per il mezzogiorno* and its successor organisations which finally occurred in 1993. In these two cases, domestic actors were able to exploit interaction with the European level; this provided them with the legitimacy of “European policies” as external bounds to push for policy change.

One case was the decision to end state holdings in Southern Italy. The state holdings ENI and IRI had been the main actors in the state intervention in the south; they had accumulated immense debts in the 1980s and 1990s. The process of privatisation, which occurred all over Europe in the 1980s had not been influential in Italy because the policies for the south were crucial for the support for the governing parties. Even the reformist government of G. Amato tried, in 1992, to save the state holdings in some new organisational form. Only in September 1993, after the Commission had exerted pressure on the Italian government (by requesting that the Italian government limit IRI’s debt) was a new law accepted; this law removed juridical obstacles to complete privatisation (Barca/Trento 1997:230).

Another case was the phasing out of the *fiscalizzazione degli oneri sociali*, the tax deductibility of social contributions, which has been negotiated by a minister of the *Legga Nord* with the European Union. The state expenditures had been heavily criticised by the

League; the League was able to gain additional support and legitimacy for their demands by referring to external bounds. It can be argued that the bounds were in fact much weaker than claimed by the League. At least, a smoother phasing out could have been negotiated. However, the fact that this decision was accepted by the south demonstrates the impact that a new policy paradigm – which emphasized endogenous development as coming from regional strength and not from continuous subsidisation – was able to have on regional policy in Italy. To quote the OECD review – a review based on the expertise of an academic supporter of the “endogenous development” approach:

“Subsidies played an important role in offsetting the lower productivity of southern companies, reducing labour costs by about 27 per cent, but did not help to reduce the gap. In addition, subsidies worked as a negative incentive for southern firms to choose profitable investments and for young professionals to invest their human resources in risky activities” (OECD 2001:77).

To conclude this section, as far as state aid is concerned, the old paradigm has been dismantled and new procedures, such as negotiations with the European Commission on subsidies for the southern economy, have been accepted.

Case 2: Structural funds in Southern Italy

After the dismantling of the old policies for the south as well as the old paradigm of state intervention, there was an initial lacuna in regional policy. There followed a dramatic decrease in public investment for the south, on the one hand, and a fragmentation of organisational capacity, on the other. Finally, during the centre-left government, a new approach to regional policies was adopted; this new approach was developed around, and in relation to, European regional policies. In this process of policy learning, European policies became the core in the formulation of new policies for the *mezzogiorno*.

This development is astonishing, since the use of structural funds had had a disappointing history until the 1990s. Much of the funding had simply not been spent, local governments had not been capable of complying with the norms of the CEC and their impact was limited to some innovative projects. It has been claimed that the adoption of the

procedures of structural funds was increasingly used by the central government to control the performance of local administrations in the south (Leonardi 1998). But a comprehensive change took place in the second half of the 1990s, when endogenous development became the accepted policy paradigm. A broad consensus to increase the autonomy and responsibility of sub-national levels emerged. “Federalism” and “devolution” became uncontested concepts and were regarded as a precondition for any other policy change (Dente 1997b, Cersosimo/Wolleb 2001).

Institutional innovations gave reformists some control of policy formulation and policy implementation as well as simultaneously conferring a pivotal role on European policy. In particular, the establishment of the *Dipartimento per le politiche di sviluppo e coesione* (DPS, “Department for the policies of development and cohesion”) was at the heart of these institutional innovations. The DPS was assigned the task of co-ordinating the policies for the south and mediating with the European Commission. This provided the DPS with its own pivotal role, since it was able to debate the “external bounds” - that is, the requests made by the CEC. At the same time, the requests and support of the European Commission facilitated the acceptance of policies, which had been largely discredited in the past. Even the Northern League argued that more autonomy and responsibility for the southern regions would be desirable. As the head of the department of the DPS claims, the European Union serves to give the policy legitimacy and credibility⁶. As a result, “Bruxelles had been the leverage for the re-establishment of public investment because it confers credibility on the rules” (Barca 2001:423). Considerable innovations have been introduced using norms, principles and procedures, which have been fostered by the Commission. I will briefly give examples of the adoption of norms and procedures with regard to (i) the inclusion of societal actors, (ii) partnership and subsidiarity and (iii) efficiency.

(i) Inclusion of societal actors:

The programming approach has been transferred into “territorial pacts” and “area contracts”. The most conspicuous innovation is the mechanism for the elaboration of a “ter-

⁶ Interview at the DPS 02.10.02

territorial pact”, which aims at building local development coalitions. The application for project funding is dependent on the negotiation of a territorial pact, which includes commitments from all the public and social partners. Municipalities and provinces agree on more efficient procedures, enterprises on an increase in employment and vocational training posts, trade unions on more flexibility in labour relations and banks on enhanced provision of investment credit. The 130 pacts which were agreed by 2001 encompassed 2000 municipalities in 40 per cent of the Italian territory with one third of the Italian population (Trigilia 2001:363). Initial evaluations concluded that the material results have not always been satisfactory, in particular due to the remaining bureaucratic inefficiencies that had led to a delay in the flow of resources. However, co-operation in negotiating the pacts has, in most cases, induced the sense of undertaking a common project (Cersosimo/Wolleb 2001).

(ii) Partnership and subsidiarity:

Institutional innovations, such as the *intese di programma*, negotiations and contracts between different levels of government, have been introduced to foster the principle of partnership between different territorial levels. Furthermore, the negotiations of the structural funds programmes 2000-2006 have strengthened the regions, which have been allocated more than 70 per cent of the resources of the structural funds. At the level of sub-national entities, however, there is still a competitive attitude between the regions, which were established in the early 1970s, but which were provided with insufficient resources, and have traditionally had strong local administrations (Dente 1997a). As a result, the negotiations on the territorial pacts have taken place between the centre and local administrations; the local administrations have been successful in preventing the participation of the regions. However, there is strong support, in particular by the DPS, to confer responsibility for the territorial pacts on the regions.

(iii) Efficiency

The criterion of efficiency was introduced officially as one of the objectives of European regional policies with the 1999 reform (Sutcliffe 2000). It should be noted, however, that, even before the 1999 reform, *ex-ante* and *ex-post* evaluations were carried out with the

aim of ensuring efficiency for projects. Another procedure to ensure the efficiency of projects has been introduced with the reward reserve; this allocates additional resources to the best performing projects. However, the Council reduced the Commission's proposal of a 6 per cent reward reserve to 4 per cent (Sutcliff 2000). In Italy, though, the DPS regulations even exceeded the amount suggested by the Commission and set a 10 per cent reward reserve. Interestingly, and in accordance with the paradigm of endogenous development and its primary goal of building institutional capacities, the evaluation criterion is not the material outcome, which might be influenced by a number of factors such as geographical differences, but the increase in institutional capacity (Barca 2001).

Advocacy coalitions have been a notable characteristic of this policy-learning process: a new group of "reformists" in universities, government departments and among practitioners could refer to the support of the European Union, since it provided the necessary resources and legitimacy for the development of a new policy for the south. Two academic professionals became responsible for the reforms: Bassanini introduced the reform of the administration with the so-called Bassanini laws aimed at introducing public-private partnerships, Barca became head of department for the DPS in the Ministry for Finance which became a stronghold of the reformist forces.

There has been policy change and policy learning in Italy; the discourse and the system of ideas and standards have changed. Endogenous development became the point of reference, which made policies acceptable to the opponents of state help for the south. However, it has to be pointed out that this development led in the first place to an even stronger gap between north and south, to a dramatic increase in unemployment and a significant increase in poverty in the south. Only after a couple of years were there any signs of endogenous development: real GDP growth accelerated to 1.7 per cent as against 1.4 per cent in the Centre-North and the number of non-agricultural enterprises increased by 9 per cent compared to 6 per cent in the Centre-North (OECD 2001:20). The emergence of industrial districts in Puglia or the increase in administrative capacity in Campania have indicated significant progress. The differences between the regions and even more so between the provinces in the south, however, still remain considerable.

5. Regional policies for Eastern Germany

If Italy was affected in the 1990s by the endogenous shock of the breakdown of the party system and the demise of the governing parties, Germany had to deal with the “exogenous shock” of the breakdown of the state-socialist system in the east. The first years witnessed a comprehensive process of institutional transfer (Jacoby 2001), in which regional actors in the east only gradually gained the capacity to act on their own behalf. The building of an administrative structure along the lines of Western structures can be regarded as a conspicuous success. The privatisation of state-owned industries was accomplished within a few years, although for most of the time without the participation of the newly established eastern German *Länder*. It was only at a very late stage that the *Länder* tried to influence this process in order to maintain their industrial cores. At that time, regional policy became a process in which *Bund* and *Länder* had to co-operate. The structure of interlocking federalism and corporatist-style policy might, however, lead to the assumption that pressure to adapt would not be great. In addition, Western German regions had developed their own regional policy by the 1980s and increasingly made use of policies for endogenous development (Benz 1999).

Case 3: Structural Funds in Eastern Germany

The implementation of structural funds in Eastern Germany led to a process of policy experimentation. The main regional policy scheme in Germany, the *Gemeinschaftsaufgabe Verbesserung der regionalen Wirtschaftsstruktur* (“Joint task: improvement of the regional economic structure”) aimed to stimulate investment by the public and private sectors. It was based on the “export basis theory” which states that self-sustaining growth is triggered primarily by enterprises able to export their goods beyond the region (Conzelmann 1998:4). Resource allocation had been biased in favour of capital-intensive industries and construction. In addition, the GRW turned out to support mainly branch plants of West German and international firms. However, even greenfield estates and service parks remained half-empty. This policy met with increasing criticism in the first half of the 1990s, voiced by both economists and the Eastern German *Länder*. The first reform of the GRW took place in a “situation of deep economic crisis and policy dissatis-

faction in the east” (Conzelmann 1998:7). Some policy changes occurred as a result, firstly, of the policy influence of the Commission; secondly, of the opportunity to obtain structural funds; and thirdly, of a new winning coalition of the Commission and previously excluded ministries at the federal and regional level (that is, all ministries except the Economics Ministry) (Anderson 1999:166ff). In exchange for the introduction of structural funds into the GRW framework, a much stronger focus on SMEs has been introduced. Environmental improvements and the tourism industry could now be supported in their own right. Programmes in the area of vocational training, research and development, improvement of human capital and professional consultancy could be supported within the framework of GRW, although they have the status of temporary exemptions.

Both preconditions for policy change have been fulfilled: dissatisfaction with the existing paradigm, and a coalition of domestic actors favouring a new policy approach. In this case, the Eastern regions could benefit from the opportunities and obtain higher discretion to implement policies, which they deemed necessary, but they were not covered by the national programmes which were oriented toward the immediate support of export activities. However, it would be misleading to conclude that a new policy paradigm has been adopted, as the second area of European policies, the state-aid control regime, demonstrates. Moreover, Eastern German regions were rather reluctant to adopt the procedures, which the Commission had developed in the use of the structural funds. The access of subregional actors, and the inclusion of private actors in monitoring committees, has only reluctantly been accepted; regional actors have become the new gate-keepers (Thielemann 2000). A report commissioned by DG XVI concluded that “the role played by social partners is marginal and at best they have a role as consultees prior to the development of the programmes. Their role in the structural fund partnership is situated at the periphery of the partnership” (quoted in Thielemann 2000:19). Officials from the Economics Ministries regard the participation of sub-regional actors as an obstruction rather than as an opportunity to improve the quality of assistance. In addition, the economic and social partners frequently complain about not receiving adequate information to prepare for the sub-committees, which monitor the implementation and use of struc-

tural funds. However, these conflicts are on a much lower level than the conflicts, which developed in the area of the control of state aid.

Case 4: State aid control in Eastern Germany

Whilst the *Länder* sought co-operation with the commission with regard to the structural funds, the debate about state aid control became a matter of continuous policy conflict between the national and the regional actors in Germany, on the one hand, and the European Union, on the other. First negotiations in the course of the privatisation by the *Treuhandanstalt* led to compromises. Although the Commission feared that “negative prices” would conceal state subsidies and that the approach to protect “industrial cores” would lead to the establishment of state holdings such as the Italian IRI and ENI, the Commission determined that the unique situation in eastern Germany warranted a greater degree of flexibility toward state aid than elsewhere in the Community. However, the problems escalated in the following years. More than one-third of all EC state-aid decisions involved Germany. In 1995, the Commission initiated twenty-seven formal investigative state-aid procedures in Germany, compared to four in France and none in the UK (Wishblade and Olsen 1997:32).

The most conspicuous case has been the conflict between Saxony and the Commission over the decision of the Free State of Saxony for a multi-annual aid-package for Volkswagen in order to attract two investment projects in Mosel and Chemnitz.⁷ The focus of the debate seems to be of rather secondary importance, since the decision of the Commission approved DM 539.1 m of the total aid package of some DM 779.8 m. However, Volkswagen threatened to withdraw the investment and the Saxon authorities filed an appeal before the European Court of First Instance; the following months witnessed an intense conflict between the Saxon authorities and the Commission. The Economics Minister of the Free State of Saxony claimed “it is unthinkable that Brussels can dictate to Saxony on how to pursue the economic reconstruction of Eastern Germany”. He went

⁷ Here I follow the comprehensive case study of Eiko Thielemann (1999), but come to different conclusions.

even further in speaking of the dangers of a lurking “Euro-dictatorship”, and one of his senior party colleagues was quoted as saying that the European Commission betrays the European idea “when it interferes à la politburo – naively, power-hungry and overpaid – in Saxon affairs”. Van Miert called Saxony’s action the biggest challenge ever to state aid (Thielemann 1999:408) and warned that “Saxony has called into question the basic concept of the EU”. The Commission immediately froze all pending subsidy payments to VW, and van Miert issued a pointed warning:

“Germany has been European champion in state subsidies for a long time. Before the German government criticises others, it should examine its own heart. We completely understand the difficult situation in eastern Germany, but they are also part of the European single market now” (quoted in Anderson 1999:149).

It has been argued that the conflict can be explained by the institutional differences between the German system and the European level and that there is an incompatibility between the institutional rules of joint decision-making, legalistic tradition and principle of ministerial autonomy, on the one hand, and centralisation, discretionary powers and horizontal interference with other policy areas, on the other (Thielemann 1999). However, whilst these institutional differences have certainly contributed to the heated character of the conflict, it is hard to imagine that the conflict would not have taken place if, for example the CEC had followed a more legalistic approach. The decisive difference seems to be at the level of policy goals and norms than at the level of procedural norms.

The unification of Germany led to a considerable shift in its position vis-à-vis the Commission. After having pressed for a strict competition policy and a stricter control of the expenditures in the framework of structural funds, Germany had to conceal these principles with its regional policy towards Eastern Germany. The official position on state aid in Brussels had not changed since unification; however, after unification “Germany became the largest subsidizer of industry in the EC/EU bar none. Its per capita assistance rates to the Eastern *Länder* are the highest of any region in the Union” (Anderson 1999:150). As Anderson states, “the end result has been serious damage to Germany’s

credibility; Commission officials regularly mention the Federal Republic in the same breath as Italy” (1999:151).

This contradiction is due to the overarching policy goal of uniformity of living conditions. This is closely linked to the conviction that inward investment is the primary policy instrument to close the gap in economic development. Eastern Germany has not been willing to accept any limitations on its efforts to ensure the economic development of the western part. This is the difference in policy paradigms which has inspired the conflict.

The German position is characterised by a normative and a cognitive dimension. Firstly, the overarching policy goal is the “uniformity of living conditions”; this is even prescribed by the German Basic Law. In the Constitutional Reform Act of 1994, the guiding principle of “uniformity of living conditions” had been only slightly amended to the “comparability of living conditions” mentioned in article 72 BL. The basic economic decisions during the process of unification followed this paradigm; evidence for this can, in particular, be seen in the setting of the exchange rate and in the agreement to equalize wages quickly. The one-to-one currency conversion effectively quadrupled wages in the East; however, it also increased the debts and the wage costs of Eastern companies to the same degree. Counterproductive, even devastating for economic development (Westermann/Sinn 2001) though these policies were, both decisions were aimed at integrating Eastern Germany. As Helmut Wiesenthal concludes, in a comprehensive research study of the transformation of Eastern Germany, one premise was the commitment to enhance immediately the well-being of the East German population. The breakdown in 1989 was regarded as a change for the better, not as a revolution, which might also imply costs and even hardship to be borne. Whilst the population of the other eastern European countries had to accept reductions of the disposable income of 24-40 per cent, employees and pensioners in East Germany got an increase in disposable income of 70 and 100 per cent, respectively (Wiesenthal 1999:22).

Secondly, state aid for inward investment is considered to be an indispensable part of the economic strategy. During the first year after unification, every investment for which an

application was made was subsidised, and the average subsidy amounted to one third of the investment (Carlin 1997). Economists have criticised these general subsidies for distorting allocations of capital. An OECD report came to the conclusion that “the development of a competitive export base was hampered by the over-expansion of the construction sector, which was associated with profit rates that proved to be unsustainable” (OECD 2001:127). Some first-order change took place. The federal government phased out special depreciation tax allowances for investment in 1998 and restructured support schemes in favour of small and medium sized enterprises and capacity widening investments (Conzelmann 1998). However, the impressive amount of subsidies has only seldom been questioned in the political realm. One exception has been the Economics Minister for the State of Saxony-Anhalt. He criticised the automatic character of subsidies; however, after he himself was heavily criticised for his remarks, he resigned (Der Spiegel 18-02-02). The agreements between the federation and the *Länder* about the fiscal equalisation system and the Solidarity Pact II provided the eastern *Länder* with a commitment from the central government to receive 300 billion DM until 2019, of which 100 billion will be subsidies (FAZ 25.06.01).

Despite diverging regional interests in Germany (Jeffery 2000), not even Western German regional actors approved the Commission’s demands, since they too have been affected by the decisions with regard to state aid control. The limitations on subsidies which are part of the Commission’s strategic principle of concentration on the worst-off regions have affected other – that is, Western – German regions; these regions have now been constrained in the amount of subsidies which they can grant. A conflict arose about the use of subsidies outside the territorial limits set by the CEC; this conflict also went to the European court. In conclusion, the policies of the Commission did not find relevant actors in the national political arena who could have argued for the adoption of the principles and norms of state-aid control.

As a result, the official German position of the *Bund-Länder* (federation-regions) planning committee is to aim at a reform of the state aid control regime, limiting it to a framework within which there is significant discretion for the nation states. In addition,

competences for regional policy should be re-allocated to the national level (BMWi 2.5.2002).

6. Conclusion

This paper has suggested considering European regional policies in terms of sociological institutionalism as a policy regime with a policy paradigm, principles, norms and procedures. The impact on national policies is dependent on a process of social learning (or the lack of this process) within the policy field. The failure of regional policies in Italy brought about a complete change of the prevailing policy paradigm, giving way to a new discourse. In this process European policies could confer legitimacy and credibility on the dismantling of the old policy instruments and the establishment of new policy instruments. This refers both to state aid control as the instrument to dismantle the old policy regime of state intervention and state subsidies and to structural funds as the lever to introduce new principles, norms and procedures.

Tab.2: The interaction between the domestic and European level

European policy	Southern Italy	Eastern Germany
Structural funds	Policy learning (paradigm and instruments)	Policy experimentation (policy instruments)
State aid control	Policy learning (paradigm and instrument)	Policy conflict

It could be argued that the main mechanisms of institutional isomorphism, mimetism under the condition of uncertainty, coercion and normative rules, (cf. Radaelli 2000) can be taken as an explanation of the above processes. The adoption of a strict stance in the case of state aid could be attributed to coercive isomorphism. The diffusion of professional standards and the condition of uncertainty after the end of the old policy regime in regional policies could stand as an explanation for the adoption of new principles and

procedures in the use of structural funds. Although mimetism and uncertainty explain some traits of the political constellation, they underestimate the bottom-up process of the initiative of domestic actors. For over a decade the impact of structural funds has been disappointing, and the acceptance of even a reduction of state subsidies has not only been characterized by a modicum of coercion, but has also been characterized by persuasion in the domestic debate. I have argued, however, that it has been a process of policy learning, in which a new paradigm could be implemented by actors who used the window of opportunity and the external bounds of the European policies to push for a policy change. This policy change incorporated several norms, principles and procedures, which had already been established at the European level.

In contrast, in Germany, policy experimentation ensued with regard to the structural funds. Policies for endogenous development have been introduced, but the paradigm of uniformity of living conditions has not been questioned. Policies for endogenous development have rather been regarded as another instrument to achieve this aim. The concentration of inward investment and high amounts of state subsidy, have, however, led to ongoing conflicts between the national and the European level. The paradigm of uniformity of living conditions which is unchallenged in the political realm, has led to the questioning of the legitimacy of European politics. Although coping strategies were tried, Germany joined the advocates of a re-nationalisation of regional policies.

The comparison of the two cases also demonstrates that it is difficult to accommodate the impact of European regional policies into the framework of a differential empowerment of actors. Structural funds have empowered the eastern German regions, in so far as they could increase their discretion in the relation to the federation and obtain new policy options. However, they have had to cope with the pressure for the re-nationalisation of regional policies which is not in their interest. In Italy, the southern regions have obtained new responsibilities and new decision-making power, but at the same time they are subject to an increased efficiency control by the centre. Although it seems exaggerated to claim that Europeanisation provided the conditions for the “neo-

centralisation” of public policy making (Gualini 2001), the role of the centre as mediator and its “steering capacity” have certainly been strengthened.

To conclude, Germany and Italy followed opposite paths in the 1990s. Italy adopted the endogenous development approach whilst in Germany there was a conspicuous shift towards an emphasis on the inward-investment paradigm in the eastern regions. This paper has neither attempted to explain why this is the case⁸. Nor has it attempted to claim that Italian policies are more successful, as far as the outcome is concerned, let alone to argue that the costs of adopting the endogenous development approach used in Southern Italy would be tolerated in Eastern Germany⁹. The paper has been content to state that the interaction within the European level differed according to the existing policy paradigm and processes of social learning. Eastern Germany and Southern Italy are in this regard highly interesting examples of the differential impact of Europeanisation.

⁸ Possible explanations might be different degrees of policy failure, or different degrees of economic viability for the adoption of a new paradigm in the eastern and southern periphery in Europe (cf. Hall 1989). Certainly the widespread entrepreneurship in the southern periphery is more suitable for the endogenous development approach, although the lack of an efficient administration forms an obstacle.

⁹ The disposable income in Eastern Germany is 85 per cent of that in Western Germany, whilst the disposable income in Southern Italy amounts to only 65 per cent of that in Northern and Central Italy.

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