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The Reform of the Structural Funds: Entitlement or Empowerment?

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I. Introduction

The signing of the Single Act in 1987 was shortly followed by the Reform of the Structural Funds in 1988. In so doing, it was recognised that the Myrdalian (Myrdal, 1957) prospect of the new Single Market widening the gap between the poorest and the richest regions of Europe needed to be counter-balanced by policy instruments intended to the achieve the political objective of social and economic cohesion. This was pursued by encouraging the poorest regions of Europe to catch up with the richest. One of the main elements of the 1988 Reform of the Structural Funds was the principle of subsidiarity, which for the first time entitled sub-national governments to participate in the making of regional policies. However, we argue that the heterogeneity in the forms of local governance across the EU undermined the initial success of structural policies and therefore the achievement of the broader aim of economic convergence.

The main objective of this paper is to show that European regions have not experienced a process of economic convergence, as measured in terms of GDP per capita, over the period 1989-97. In contrast, inter-regional differentials peaked in the early 1990s, flattening out since 1994. We explain the presence of this peak by discussing the implications of the principle of subsidiarity (together with the principle of partnership) for European regions. We argue that despite being an important step forward in policy-making, subsidiarity only provided regions with an entitlement to access EU funding, and overestimated their capacity to activate

such entitlement through effective participation.[1] This handicap has been even more damaging because the Structural Funds were not set up simply to redistribute resources from the richer to the poorer regions, but were also perceived as tools to enable the weakest European regions to strengthen their economic position in order to be better able to compete within the newly formed Single Market. In other words, if we use the methodological framework of theories of justice (Rawls, 1971), structural policies were a means "to align agents before the race starts", to equalise initial endowments before the market could take its course, rather than just "redistributing resources *ex-post*". The inability of the weakest regions to exploit the full potential of the Structural Funds has isolated them from the core regions of the EU thereby preventing them from benefiting from the alleged efficiency gains of the Single Markets, as well as threatening the political objective of cohesion, solidarity and equity.

We examine how countries and regions became familiar with the mechanism of funding allocation and how they have adjusted to the opportunity of self-governance, for instance, by opening offices in Brussels, nominating European officers or establishing European Units (Martin, 1998; Mawson, 1994). Regions have climbed what John (1994) calls the "ladder of participation" in European issues: to be informed, to have access to funding, to secure funding and to shape European policy agendas. The results of this learning process have only recently started to show some results with the regional GDP per head gap narrowing slightly. Most recently, the reconsideration of the Structural Funds as part of *Agenda 2000* raises questions over where EU regional policy is heading, in

[1] For a discussion on the concepts of entitlements and capability, see Sen (1990).

particular over the position of the laggard regions which have not developed institutional capabilities to access their entitlements after the 1988 Reform.

The paper proceeds as follows: section 2 surveys conflicting findings on regional convergence and discusses trends in regional disparities between 1988 and 1997. Section 3 looks at the concept of subsidiarity and its intrinsic flaws. Section 4 assesses the allocative and distributive properties of European structural policies using a simple yet revealing framework from theories of justice. Section 5 describes the process of institutional adjustment that regions –especially the weakest ones- have gone through; what Mawson (1994) defines as the Europeanization of politics and policy. Some final remarks conclude the paper.

II. Regional Divergence

"It would be politically dangerous to allow the gulf between the rich and the less favoured to become deeper"; with these words an opening paragraph of the *Reform of the Structural Funds* (EC 1992) stressed the crucial importance of the political objective of economic and social cohesion. Much of the official literature emanating at that time (Padoa Schioppa, 1987; EC 1992, 1993) described the revamping of structural policies with the use of terms such as solidarity, equity and cohesion. These reflected the need to gather consensus around the creation of the Single Market, especially in obtaining support from the weakest member states which were concerned at being the losers in the new competitive arena. In economic terms, social and economic cohesion meant reducing regional disparities

across the European Union as measured in terms of regional GDP per capita and unemployment. In fact, the increasingly important role given to regions within the Reform of the Structural Funds necessarily shifted attention away from the national to the regional dimension and, accordingly, from cross-country to inter-regional disparities.

Almost ten years after the launch of the Reform of the Structural Funds it is possible to assess to what extent regional convergence has occurred. In practical terms, regional disparity is measured as the standard deviation of regions' GDP per head normalised to the European average. This enables a measurement to be made of the spread of GDP per capita around the mean which mirrors the inter-regional wealth gap. In this paper we do not look at unemployment, which, although an important measure of regional disparity, is in fact the result of micro as well as macro-economic conditions and would therefore merit a separate discussion.

The existing literature on regional convergence provides conflicting findings. On the one hand, all official European publications seem in one way or another to show that the poorest regions are catching up with the richest ones: since 1986 the "annual growth of the four *(cohesion countries of Greece, Spain, Portugal and Ireland)* has averaged just over one percentage point above average, giving rise to a slow but steadily process of convergence with rest of the Union" (EC, 1996:19). Martin (1998) finds a negative relationship between a region's average per capita growth rate and its income level (ß-coefficient) over the period 1987-94 considering 145 regions across the EU. Similarly, Leonardi (1998) looks at the

standard deviation of regions' GDP per capita from 1950 to 1995 for the nine European countries before the entry of Greece (1981), Spain and Portugal (1986) and finds that this has fallen continuously from 37.6 in 1950 to 24.3 in 1992. The unstated finding that the value for 1995 is actually greater (26.3) seems to suggest that despite the effort to argue in favour of regional convergence, the data does not quite support this. Besides, although Leonardi succeeds in constructing a consistent time series of data that spans five decades, the omission of the main countries benefiting from regional policy reduces the relevance of the findings with regard to the impact of the Reform of the Structural Funds.

In contrast, there has been a stream of contributions that have acknowledged the polarisation of rich and poor regions. Amin (1997) notes that the gap remains "extremely high" and argues that this is no surprise given that European regional policy accounts only for 0.5 of the EU GDP. Other contributions such as Quah (1997), Hooghe (1998) and Fagerberg and Verspagen (1996) reach similar conclusions.

One possible explanation for such conflicting results is that if one looks at regional convergence over a long enough period of time and possibly from far enough, i.e. using aggregate data, then there is no doubt that elements of convergence can be found. In order to avoid such bias, in this paper we focus our attention on assessing the impact of the Reform of the Structural Funds over the period 1988-96 considering all regions of the 12 and after 1992 of the 15 member states. Using EUROSTAT data we have put together two sets of figures. One considers GDP per

capita across the EU normalised for the European average which changed in 1992 when Austria, Finland and Sweden joined the EU. The second data set comprises GDP per capita in PPS only for the 12 member states without Austria, Finland and Sweden.[3]

Table 1 below shows that if we look at the standard deviation of GDP per capita across the nine years considered, it actually goes up in 1990, peaks in 1991 and then levels off from 1993 onwards reaching more or less the same level as in 1988.

Table 1:

Regional Disparities in GDP per capita across the EU between regions, 1988-1996

	1988 EUR 12=100	1989 EUR 12=100	1990 EUR 12=100	1991 EUR 12=100	1992 EUR 15=100	1993 EUR 15=100	1994 EUR 15=100	1995 EUR 15=100	1996 EUR 15=100
Best-off	182	173	183	209	196	190	196	195	193
Worst-off	40	39	34	36	37	39	39	40	44
Standard Deviation	26.8	25.4	27.9	29.5	28.3	27.1	27.1	27	26
Best-off – Worst-off	142	134	149	173	159	151	157	155	149
Best-off/Worst-off	4.5	4.4	5.4	5.8	5.3	4.9	5.0	4.9	4.4
10 Best-off	152	146	151	156	163	161	164	163	163
10 Worst-off	46	47	40	41	45	47	48	49	54
10 Best-off - 10 Worst-off	106	99	111	115	118	114	116	114	109
10 Best-off/10 Worst-off	3.3	3.1	3.8	3.8	3.6	3.4	3.4	3.3	3.0
25 Best-off	133	131	133	137	141	139	141	141	142
25 Worst-off	53	54	50	48	53	53	55	55	59
25 Best-off - 25 Worst-off	80	77	83	89	88	86	86	86	83
25 Best-off/25 Worst-off	2.5	2.4	2.7	2.8	2.7	2.6	2.6	2.6	2.4

Source: Eurostat Regions, 1990, 1991, 1993, 1994, 1995, 1996, 1997, 1998, 1999.

[3] We had to use GDP per capita PPS because most Eurostat data on GDP was normalised to EUR 15=100. In contrast, as we wanted to look just at the trend of the regions' GDP per head within only the 12 member states we computed regional disparity as the coefficient of variation of regions' GDP per capita in PPS.

The same trend can be found looking at the gap between the best-off (Hamburg) and the worst-off (Alentajo (P) and Voreio Aigeio (EL)) regions: in fact in 1991 the ratio of the best-off region to the worst-off was 5:1, whilst in 1996 the ratio was 4:1. If we look at the gap between the 10 best-off and the 10 worst-off regions, the peak is in 1992 when the GDP per capita of the 10 poorest regions was 30 per cent of that of the 10 richest regions. The gap is slightly narrower if the 25 poorest regions are compared with the 25 richest, but then still significantly higher than in 1988.

Looking at regional disparities over the whole period, it can be seen that in 1996 the standard deviation was only marginally smaller than in 1988, 26 against 26.8; while the gap between the richest and poorest region was actually wider, 149. Moreover, if we look at the composition of the bottom-25 regions, this has hardly changed between 1986-96 (EC, 1999), with only four regions, Algarve (P), Castilla-La Mancha (E), Kriti (EL) and Kentriki Makedonia (EL), having moved up and disappeared from the bottom-25 group in 1996. This would appear to suggest that the same group of regions has consistently been at the bottom of the ranking, although it must be noted that their average GDP per head has risen from 53 to 59. The inertia of these regions is particularly worrying, since they are the main beneficiaries of the Structural Funds as Greece, Spain and Southern Italy are all Objective 1 areas.

Whilst the entry of Portugal, Spain and Greece clearly contributed to widen the gap, the inclusion of Sweden, Finland and Austria within the European Union has

to some extent reduced regional disparities since their average GDP per head is around the European average. For this reason we constructed a second set of data from which we computed regional disparities only for the 12 European countries before the last enlargement and look at the coefficient of variation of regions' GDP per capita in PPS. This allows us to assess the trend of regional disparities consistent with 1988 membership. The findings confirm that regional disparities increase from 1988 to 1991 and slowly level off thereafter, as shown in Table 2. In fact, the coefficient of variation peaks at 0.314 in 1991 and drops to 0.298 in 1995.

Table 2

Regional Disparities, GDP per capita PPS EUR 12 only

	Coefficient of Variation
1988	0.29
1989	0.27
1990	0.310
1991	0.314
1992	0.304
1993	0.296
1994	0.298
1995	0.298

Note: All NUTS 2, except for UK NUTS 1.
Source: Eurostat Regions, 1990, 1991, 1993, 1994, 1996, 1997, 1998

From both sets of data two main points emerge: one is that regional disparities worsened in the early 1990s but that they also visibly improved thereafter, which can be seen by considering both the 12 and the 15 member states. The other point is that the widening of the gap within Europe arrested but did not stop the process of economic convergence that European regional policy pre-1988 had set in

motion. One possible explanation,[4] which we present here, is that this phenomenon is the result of the weakest countries of the EU not being ready for the Reform of the Structural Funds.

Until 1988 the European Regional Development Fund (ERDF) provided funding to member states on a national quota basis; the European Commission had no power to decide on the use of such funding which was completely controlled by member states. It is well known how, for instance, the British government viewed its allocation as a "reimbursement of its budget contributions" (Dardanelli, 1999:72). The 1979 and 1984 reforms brought about some minor changes (minor especially in comparison to the revolution in regional policy in 1988) which amounted to budget increases, with the allocation of funding taking place through a mixed system where part of the money was still distributed across member states according to a fixed quota (95%) and part was given at the Commission's discretion (5%). What did not change in these earlier reforms was the dominant role still played by national governments which in effect kept deciding on where and how the money should have been spent. This procedure was not without flaws, in part owing to inefficiency in the use of money by national governments, but above all because it reduced regional policies to a dialogue between the Commission and national governments.

[4] EC (1999) suggests that the recession in the early 1990s ought to be held responsible for the increased divergence between poor and rich regions because of the "smaller capital flow from the more prosperous regions" (P.2). However, it could be argued that the doubling of the structural funds was, in fact, a structured and institutionalised channel to pour monies into the poorest regions and counterbalanced the effects of the economic recession.

The Reform of the Structural Funds redesigned the entire framework of regional support right from its basic principles through to practical procedures: the change was drastic because the structural funds had to have a huge impact on the less developed regions/countries of the EU in order to compensate them for the imbalances brought about by the completion of the Single Market (Bliss and de Macedo, 1990) and to try to force them to catch up with the wealthier regions. The critical concern was over a polarisation of wealth, of diverging growth paths across different regions: "to ward off the threat of a two-speed Europe, the EC has reformed the structural funds. The aim is to give the weakest regions the resources to catch up progressively by making more rapid progress than the others, in spite of their handicap." (EC, 1992:10).

III. Subsidiarity and Regionalism

The Reform of the Structural Funds changed the process of deciding the objectives, aims and procedures for the allocation of funds and more importantly the actors involved throughout the entire process. In particular, four principles signposted the new direction of European regional policies: concentration, additionality, programming and partnership. In this paper we focus on the latter which was introduced hand in hand with the principle of subsidiarity. As two sides of the same coin, subsidiarity allows for the de-hierarchization (Tömmel, 1998) of the decision-making process based on the assumption that different tiers of governance can take care of different aspect of policy-making because of their complementary

role. In the case of European regional policy, complementarity stemmed from the different inputs that sub-national, national and supra-national governments could contribute in line with their complementary geographical perspectives. In essence, the definition of the principle of subsidiarity implies that “the right level of government is then the lowest level at which the function in question can be efficiently executed” (Padoa Schioppa, 1987:18). Although some have argued that it has been used by the Commission to gain control and decision-making power on crucial issues of regional policy (Dardanelli, 1999), the intention can be interpreted as a genuine effort to decentralise power and to involve sub-national governments, to the extent of by-passing national governments when these were blocking change as in the case of the UK (Bache, 1999; Martin, 1998). The principle of partnership solicits the three parties (sub-, national, and supra-national) to work together, to co-ordinate their efforts in the design, programming, implementation and valuation of regional policy. In theory, this should allow regions to give voice to their local needs, to promote bottom-up policy-making and to empower regions to decide on their destiny.

The main point here is that within the Reform of Structural Funds, there was a clear commitment to change the structure of governance within EU institutions, by stimulating self-governance (Hooghe, 1998) on the side of the regions. However, we would argue that not all regions were able to be active partners together with national governments and the Commission, and that to some extent this drastic change was imposed on them. First of all, regions had never before been involved in European policies and had therefore never started or developed a dialogue with

European institutions. Whilst in some cases regions did not interact with their national governments with regard to domestic regional policies, in other cases regions did not even exist as geographical, administrative and political entities. In fact, regionalism in Europe appeared to be extremely heterogeneous. Germany, Belgium and Italy had regional institutions in place whose jurisdictional powers varied greatly between them, Spain had 17 autonomous communities in pockets of the country and France and Portugal were recognised by the Commission (EC 1992) as *regionalizable.* The remainder - Denmark, Greece, Ireland, Luxembourg, the Netherlands and the United Kingdom - were *non-regionalized*. At the time of the launch of the Reform, the Commission was aware that in practice only one third of the member states were ready to activate the new procedure for the allocation of the structural funds and these were those not prioritised to benefit from the funds anyway.

In its *Annual Report on the Implementation of the Reform of Structural Funds* (EC, 1989: 17) the Commission recognised that some countries were "under-endowed" in terms of regional administrative resources, that the Reform would require a "considerable change of attitude", and that the implementation of the Reform was "a gradual process". For instance, the decision in 1988 to classify Greece, Ireland and Portugal in their entirety as eligible for ERDF funding for Objective 1 can be read in two ways, which are not mutually exclusive. One is that the entire space of all three countries needed funding in equal way, the other is that they did not have a sub-national tier of government to involve in the process for the allocation of funds. In assessing the implementation of the Reform, the European Parliament

admitted that "the Partnership programming negotiations between the Commission and the Member States or regions thus ultimately meant significant delays in numerous structural assistance projects, leading to quite striking under-implementation of appropriations at the start of the programming stage. But national and regional co-ordination problems also exacerbated this effect" (European Parliament, 1997).

At the time of the Reform sub-national governance varied greatly across the EU: the main differences laid in regions' administrative roles, in their decision-making autonomy and in their policy making capacity. Regionalism in the EU ranged from federal states such as Germany and Belgium to very centralised states such as the United Kingdom, Ireland, Greece, Portugal and Denmark. Italy, France and Spain were in an intermediate position, having a decentralised administration structure but with the degree of regional involvement in policy-making fragmented. France was well known for having a strong centralist state, whilst Spain had maintained central control on key policy issues, albeit having recognised the need to devolve autonomy to some regions with strong regional identities such the Basque region and Cataluña. Italy had democratically elected regional and local councils albeit with limited power. Moreover, in Italy there has always been an historical difference between the Southern and Northern regional governments in the way they have developed their capacity to support the local economy. The centralised, top-down approach adopted by the government to trigger industrial development in the Southern regions in the 1970s and early part of the 1980s by-passed regional and local governments, which had therefore forgotten how "to do" local

development. This heterogeneity of regional institutions in Italy suggests that regionalism can be heterogeneous also at the national level because intra-country differences exist and, if underestimated, can exacerbate rather than heal regional disparity. In particular, across the EU, economically weak regions exhibit either a non-existent or a poorly developed regional institutional framework: Greece, Portugal, Ireland, Italian Mezzogiorno and Spain are part of the Mediterranean belt of low performing regions which in 1988 had a GDP per capita (EUR12=100) of around 30% below the European average (Greece, 54, Spain 75, Ireland 65, Portugal 54 and Mezzogiorno 72) and at the same time were those without an effective regionalised structure.

There seems to be, therefore, an inconsistency between the objectives and the means embodied in the Reform of the Structural Funds. On the one hand, the main objective was to encourage the weakest regions to catch up with the best performing ones in order to promote the harmonious development of the EU; on the other hand, funds were allocated according to the principle of subsidiarity which imposed a strain on the poorest regions because of the weakness or even non-existence of their sub-regional governments.

The question to be raised is which European member states really pushed for the Reform of Structural Funds in the form we discussed. In other words, how consensual was the decision to change the allocation procedure so drastically? It is already accepted that Spain and Portugal "extracted a doubling of the structural funds as a side-payment for the consent to the internal market" (Hooghe, 1998:461)

and in the same way, Greece was probably also persuaded to agree with the Reform by the extra resources make available to Objective 1 regions which accounted for 78% of the ERDF funding. Behrens and Smyrl (1999) also argue that the 1988 Reform was sold as an attachment to the Single Act and bought by "recalcitrant peripheral member states". The apparently already accepted picture that the lack of consensus on the introduction of the Single Act was healed by an additional ECU 66bn of Structural Funds[2] underestimates the fact that the debate on the content of the Reform itself was overshadowed by monetary figures. We would argue in fact that the doubling of money channelled to Objective 1 countries/regions distracted attention away from the salient points of the Reform and to some extent was used as a settlement for the disruption that the new procedures would create. The Commission was aware of the problems that targeted member states would have in the implementation of the procedure but the aim to have in place a lean and accountable procedure for the allocation of one third of its budget dominated the debate.

There is also the argument that the launch of the Single Market and the Reform of the Structural Funds marked a change from a French to a German approach to policy-making: less based on a centralist, legalist system and instead closer to a federalist, multi-tier governance structure (Bianchi, 1992). If this is correct we can delineate a clear divide between those countries that pushed for the Reform and those that were persuaded to go along with it. Germany, Belgium and France (Delors was then President of the Commission) were the net contributors and only marginal beneficiaries of the Structural Funds, and although keen politically to

[2] In 1988 structural funds rose from 17% to 27% of the EU budget.

allocate resources towards the less favoured member states, they were also concerned about the efficiency and effectiveness of such instruments. On the other hand, there is also the possibility that Germany, with its co-operative federalism built on joint decision making, a legalistic tradition and the provision of ministerial autonomy (Thielemann, 1999) was growing uncomfortable with the centralised decision-making structures of the EU.[3] The solution was, therefore, to dilute member states' power by involving sub-national governments.

There is evidence that the main beneficiaries of the structural funds (Objective 1 regions) struggled to implement the new partnership procedures. Hooghe (1998: 470) reported how Spain struggled to involve its regions because of "the lack of administrative and technical know-how to be useful partners". On the other hand, Italy was very uncomfortable with the idea of delegating power to -and sharing decisions over the allocations of funding with - regions or other local actors as the partnership model envisaged, but as in the best Italian tradition the view was "better in than out". The inefficiency and the delay in the use of the funding was such that in 1996 some projects funded under the 1989-93 budget were still unfinished; some regions of the Mezzogiorno had to return ECU 518 million of the allocated funds, and the Integrated Mediterranean Programmes –which were the template for the Reform of the Structural Funds- had a failure rate in the South of Italy of 32.6%, reaching as much as 56% in Sicily and 50.3% in Calabria (Monti, 1996). The incapacity of Mezzogiorno's regions to be active partners was not due to intrinsic inefficiency, but to the fact that its under-development had been

[3] For example, Thielemann (1999: 411) notes a clash between the German co-operative approach and centralised EU policies with regard to state-aids.

considered by the Italian government as an emergency and therefore tackled with *ad hoc* measures decided centrally and most of the time simply imposed on the territory (Monti, 1996; Bianchi, 1992). This produced an institutional hollowing-out which made regional governments unable to participate in regional policy making.

The UK's position was rather different. The absence of regional governments could have put the UK in a difficult position in accessing the Structural funds, with the exception of Wales and Scotland which already had active agencies engaged in supporting and promoting local development. However, the British government continued to perceive the in-coming funding as a reimbursement for its contribution to the EU budget which meant that the allocation of funding should be at its discretion with no interference from the Commission and thus had little inclination to devolve decision-making power to sub-regional governments. The British government also disputed the principle of additionality by using EU monies instead of British monies rather than additionally (for a discussion of the RECHAR dispute between the British government and the Commission, see Bache, 1999). This constraint in terms of the shortage of matched-funding on the Britsh government side (the principle of additionality required matched funding) reflected the control that the centre wanted to exercise and its unwillingness to devolve functions to sub-national bodies.

The allocation of powers between national and regional governments was therefore not that envisaged in the principle of subsidiarity; indeed the European Parliament

(1997) recognised the failure to involve sub-national government in the UK, Ireland, Portugal, Greece and to some extent Spain and Italy, as seen in Table 3:

Table 3: Allocation of implementation powers between central government and regions

Implementation primarily as Responsibility of central government	Shared responsibility for implementation	Implementation primarily as responsibility of regions
United Kingdom (England and Wales), Ireland, Portugal, Greece, Spain*, Italy*, Netherlands	France	Germany, Austria, Belgium, Denmark, Finland, Sweden, United Kingdom, (Scotland), Spain**, Italy**

*) Relates primarily to multi-regional assistance projects.
**) Relates primarily to regional assistance projects

Source: European Parliament (1997)

IV. Entitlements but no Capability

The flaws of the Reform of the Structural Funds penalised at the very beginning those regions and countries it was supposed to support. In order to analyse the nature of such flaws we use a framework which is suited to assess distributional and welfare issues: the theories of justice. We recall the contributions of Rawls, Dahrendorf and Sen as they offer a different perspective on the principle of subsidiarity within the Reform of the Structural Funds and provide a key to understand the weakness of the method for allocating resources. We describe and analyse the events occurring at the end of the 1980s within the European Community using the methodological framework of the theories of justice. If we imagine the inter-action between economic agents as a race that has a starting and an end point, the theories of justice look at whether external intervention is needed to ensure a fair outcome.

The creation of the Single Market was justified in terms of efficiency gains, or in terms of what Dahrendorf (1988) called increased provisions: this concept comprises a broad range of material and immaterial commodities reflecting the payoff or successful outcome from market interaction. Dahrendorf (1988: 12) defines provisions as "choices which may be opened up by entitlements". In fact, the beneficiaries of the Single Market were all of the member states which were entitled to have access to such provisions. In this case, EU membership provided all member states with the entitlement to benefit from the efficiency gains deriving from the creation of the Single Market. The concept of entitlement was introduced by Sen (1981) as the right that gives agents "a rightful claim to things". However, it soon became clear that the entitlement given by membership was not sufficient to ensure member states that they would be able to reap equally the economic benefits of integration due to their unequal initial endowments. Disparities in the initial provisions necessarily affects the ability of member states to gain from the Single Market; in other words it affects their ability to acquire the provisions emerging from the Single Market.

An adjustment mechanism therefore needed to be set up in order to bring equity into the system and to counterbalance the disruptive effect that the pursuit of efficiency alone would have produced. The Reform of Structural Funds was introduced as an instrument with distributive and allocative objectives. It did not only have to re-distribute resources from the rich to the poor regions/countries, but more importantly it had to trigger or accelerate a process of economic development in the poorest regions/countries in order to enable them to compete in the new

competitive environment (Padoa Schioppa, 1987). The allocative function of the Structural Funds worked as a compensation mechanism aimed at aligning agents *before* the race unfolded, i.e. the market, so that whatever the outcome of such inter-action, inequalities were justified and hence politically and socially acceptable within the European Community. In other words, the fairness of the competitive arena within the Single Market was intended to be underpinned by the levelling of agents' initial endowments, allowing thereafter the market to decide winners and losers. However, we argue that the Reform brought in an additional element of "unfairness", because it introduced a second tier of entitlement for low performing countries and regions related to their eligibility to receive shares of the structural funds according to their needs (i.e. Objectives 1-5b). The key weakness of the allocating system was such that the provision of the entitlement to access funds was not associated with the capacity of agents to activate such right. The allocating mechanism pivoted around the role of sub-national governments, but there was no provision to ensure that all regions could actively participate as they were entitled to do; in other words there was no provision to ensure the fairness of the process. Rawls (1971) stressed that justice as fairness implies that an equal allocation of "primary goods" (e.g. initial endowments) exists and that the rules regulating the inter-action between agents are fair and guarantee the fairness of the process of inter-action. Only if the starting point and the process is fair is the outcome socially acceptable even with disparities at the end.

In the Reform of the Structural Funds the principles of partnership and subsidiarity did not address the differing institutional "capabilities" (Sen, 1981) of regions

which determine their capacity to actively participate. Although the Commission was aware of the heterogeneity of regional governance across the European Community, no attempt was made to draw up any measures in order to alleviate institutional vacuums. The only temporary solution which was adopted for Spain, Portugal, Ireland, Italy and Greece was to allow them to put in national plans. In the 1989-1993 round, 60% of the structural funds were given to Objective 1 areas (Greece, Portugal, Ireland, the Italian Mezzogiorno, 70% of Spain, French overseas departments and Northern Ireland) which put forward 18 out of 140 plans submitted to the EU Commission for Objectives 1 to 5b (EC 1989). It could therefore be suggested that the Commission adopted a market-oriented approach to regional development, where after the initial provision of resources, regions actually found themselves fighting for funding on unequal terms. The competition in the "structural funding market" dictates winners and losers: regardless of their entitlement to access funds, those regions that do not have pro-active governments will not be able to access funding and they will be the losers inside the group of losers. This has, as we showed, exacerbated inter-regional disparities in the period just after the introduction of the 1988 Reform. Besides, we found that over the period 1986-96 intra-country regional disparities worsened for Greece, Spain and Italy (see Table 4 below), while they improved for Portugal. Unfortunately we do not have any regional data for Ireland which has not been regionalised.

Given that stronger regional institutions tend to be associated with more developed local economies, these have therefore been better able to access and to use the structural funds, with the result of actually widening the gap with poorest regions.

For instance, areas of Emilia Romagna (I) was classified as objective 2 because of localised pockets of industrial decline although overall it had in 1996 a GDP per capita far above the European average. Emilia Romagna has been extremely successful in using the resources it was allocated and benefited greatly from EU funds. Thus a relatively rich and well organised region was able to access Structural funding, utilise it effectively, grow more quickly and increase the gap with poorer regions.

Table 4: Regional Disparities in GDP per head by Member State, 1986 and 1996

	GDP per head			
	PPS (EUR15 = 100)		Regional disparity (standard deviation)	
	1986	1996	1986	1996
B	102.8	112.1	25.0	26.0
DK	112.1	119.3	-	-
D	-	108.3	-	30.2
D90[(a)]	116.1	118.5	22.0	23.7
EL	59.2	67.5	6.0	8.6
E	69.8	78.7	13.7	16.8
F	109.8	103.9	27.8	29.0
IRL	60.8	96.5	-	-
I	100.4	102.7	25.2	27.2
L	137.3	168.5	-	-
NL[(b)]	101.8	106.8	12.2	12.3
A	103.2	112.3	24.7	28.6
P[(c)]	55.1	70.5	16.2	13.1
FIN	99.7	96.9	17.4	20.00
S	111.5	101.2	10.7	11.1
UK	98.6	99.8	19.6	18.5
EUR15	**100.0**	**100.0**	**27.1**	**26.9**

[(a)] D90: excluding new German Länder
[(b)] GDP disparity 1986: excluding Groningen
[(c)] Employment growth: excluding Açores and Madeira
Source: Eurostat; DGXVI calculations

Furthermore, sub-national institutions have reacted differently and at a different speeds to the new procedure. Indeed, there are signs that a painful process of institutional adjustment followed the Reform of the Structural Funds. We argue that an evolutionary process of institutional convergence has been triggered by the Reform. Unequal institutional capabilities across regions are forcing a process of evolution and to some extent natural selection. Once the Reform was set up it soon became very clear to regions – we will see in the following sections how regions adapted and adjusted to the Reform - that survival meant being able to activate the entitlement to access funding. Therefore where they did not exist, regions were created as a tier of governance to activate the triangle of European Commission, national government and regional partnership. Where they already existed, regions moulded their institutional setting to respond to European regulations. In both cases a process of institutional adjustment was set in motion.

V. Institutional Adjustment

It would seem too much of a coincidence that all across Europe processes of devolution and regionalism have started simultaneously and in some cases accelerated over the last decade. We would argue that the first visible consequence of the Reform of the Structural Funds was an induced process of institutional adjustment occurring at the national level, with the sub-national institutional framework converging toward a two or multi-tier system of governance according to the openness of national governments to involve only regional governments or also local private and public social partners in policy-making. The move toward

regional awareness, participation and more importantly empowerment marks a shift from centralised to federalist forms of governance. With the exception of Germany and Belgium which already had a federalist structure, the other European member states started this process of institutional adjustment from different points. We can identify three groups of countries according to their governance structures in 1988: a) those that did not have a regional tier of governance (the UK, Greece, Ireland and Portugal), those that had some form of sub-national institutions (France, Italy and the Netherlands) and finally Spain which presented a mix of regional bodies. We will show how regional governance in each of these has changed since the 1988 Reform.

The UK has always had a very strong central government, and with the exception of agencies in Scotland and Wales, the lack of regional bodies able to inter-act with the Commission and the British government forced actors in regions targeted with objective 1, 2 and 5(b) to improvise regional consortia and fora as catalysts for regional policy-making and implementation. Such "institutional creativity" has been needed to mobilise a broad range of local bodies. For instance, in the West Midlands a Regional Forum of Local Authorities was set up to work together with training bodies, the voluntary sector, and higher and further education (Burton and Smith, 1996). In Merseyside, the Merseyside Task Force worked together with the Government Office and public and private agencies to prepare Single Programming Documents (Boland, 1999). Such "policy networks" (Burton and Smith, 1996) were however *ad hoc* solutions mainly set up to secure EU funding; their composition tended to vary according to the circumstances, creating an unstable

and uncertain link between the regions and the Commission. Recently, the British government has accelerated the process of regionalism by devolving powers to the democratically elected Scottish Parliament and Welsh Assembly and by setting up Regional Development Agencies in the English regions. Even before devolution, Scottish Enterprise and the Welsh Development Agency had been successful in encouraging local development, and using these as a template the British Government has set up RDAs. These should channel local needs into strategy plans to be then incorporated in the EU framework for the allocation of the Structural Funds.

Ireland, Portugal and Greece only started to identify regional boundaries since the Reform of the Structural Funds, without attaching to them any form of decentralisation of power. Institutional creativity has also played a role here in forcing local actors to get together to respond to the principle of partnership. In all of these cases, national governments have played a crucial role. Among these, Greece is the only one where there has been no progress toward regionalism; in fact in the second round of Structural Funds allocation, the role of the regions has actually been reduced to the advantage of the national government.

The second group of countries, France, Italy and the Netherlands already had in place a multi-tier system of governance with regional, provincial and local councils; the reform of the Structural Funds started a process of actual decentralisation of power to regions. Among the three, the Netherlands is the closest to a fully decentralised state, so very little institutional change was needed

after the Reform (Boeckhout *et al* (1996). France has since 1988 "triggered a re-entry of central government officials engaging in public action at local level", "fuelled the emancipation of French regions and revealed the establishment of a capacity for self-government at regional level" (Kukawaka and Smith, 1996:165). Italy presents a situation where the Objective 1 regions in Southern Italy have been unable to activate themselves to access EU funding specially set aside for them. Although the institutional framework is in place, regional actors have had to learn how to co-ordinate local actors to identify problems, to design policy interventions and to implement them. In this case we are talking more of a learning process than an institutional change which, it could be argued, would not have been initiated without the 1988 Reform.

Finally, Spain seems to be a different case from those described above. Spain has 17 regions (autonomous communities) which vary greatly in terms of power and independence from Madrid. The Spanish government "has continued to dominate the drafting of the regional development plans and the multiregional plans" (Held and Velasco, 1996:248) both for the first (1989-93) and second (1994-99) round of Structural Funds. However, strong and wealthy regions such Cataluña are increasingly demanding more autonomy and there are signs that these demands will be met. Held and Velasco (1996) argue that Spain is moving towards a federalist state quicker than any other member states: there are even talks about the Senate being transformed into a Chamber of the Regions. This shift towards decentralisation is pushed both by strong demand for regional autonomy, as well as by the encouragement that the EU has been expressing for multi-tier governance.

Furthermore, we argue that institutional adjustment has been coupled with a process of "institutional learning". Regional institutions have learned to establish and nurture their own links with the Commission, by-passing national governments. The Commission has been very supportive in this respect. Mawson (1994) refers to 17 UK sub-national authorities having opened offices in Brussels between 1989-94. Martin (1998) carried out a survey of local authorities to assess their relationships with the European Commission and found that 70% of them employed one or more "European Officers", one in ten had a purposely-set up "European Unit" and one third had opened offices in Brussels. Italy and Germany also have regional offices in Brussels; France has purposely-appointed European officers but these tend to be at the national rather than at the regional level. Tömmel (1998) outlines a range of innovations that regional bodies have introduced to implement European regional policies, including making available sufficient budgetary resources to co-finance EU projects, the provision of new services, and involving and coordinating social partners such as trade unions.

In addition, the Maastricht Treaty set up a consultation body for the regions, the Committee of the Regions. This formally acknowledges the significant role played by the regions in conjunction with European institutions (the Commission, Parliament and Council) in the making and delivery of policy. Despite having only an advisory function, the Committee raises and promotes regional issues and interests not just with respect to regional policy, but also European environmental and agricultural policies. Some fear that this might be the first step towards having

a Chamber of the Regions, perhaps directly elected by European citizens, sharing power with supra-national institutions. Whatever the precise future development of this Committee, its establishment can be viewed as another step on the road towards shared governance with the regions.

The processes of institutional adjustment and learning that the regions have been going through have no doubt strengthened their ability to access and implement the Structural Funds. Regions have become active partners with the Commission and national governments. This is directly influencing the capacity of less-favoured regions to catch up with the richest regions in the EU: the trend of regional convergence suggests this is the case with the gap having narrowed since 1991. The question now remaining is what is the future of regional policy in a multi-tier, enlarged Union. How prepared will the core states (and regions) of the Union be to fund the development of the poorest regions? How unbalanced will the Union be following the Eastern enlargement?

VI. Conclusions

The 1988 Reform 1988 revolutionised procedures for the allocation and implementation of the Structural Funds. We focus on the introduction of the principles of subsidiarity and partnership, and show that the political objective of economic and social cohesion was initially missed because of the flaws embodied in the Reform. In fact, we show that the gap between the poorest and richest regions of the EU widened in the early 1990s and only then started to narrow. We

argue that the main reason for this was related to the inability of the regions in the less favoured areas to be active partners in policy-making and implementation. Such regional institutional inability, or in some cases vacuum, has prevented the poorest regions from accessing and implementing the structural funds allocated to them. Only after a process of institutional adjustment and learning are some regions now able to interact with the Commission and national governments on regional policy issues.

Negotiations on the future of the Structural Funds as part of *Agenda 2000* reveal conflicting trends in thinking. On the one hand, the role of some regions as partners will be strengthened by stricter application of Objective 1 qualifying criteria. Thus Ireland was set to lose Objective 1 status completely unless the country was divided into two regions (Redmond, 1999: 74). On the other hand, some of the "losers of the losers" as we call them, i.e. the laggard regions which did not have the institutional capability to activate funding, now face a loss of funding. Thus the Italian government is diverting funding from "less efficient parts" of the Mezzogiorno to other areas or programmes in Southern Italy (Redmond, 1999: 74). This is an implicit recognition that policy has not worked in these areas as they did not have the capability to access their entitlements. Yet simply stopping funding will not help such areas, and may mean that what little institutional learning and development has occurred will be stunted.

Such trends, combined with the Commission's principle of concentrating funds to reduce coverage from over 50% down to 35-40% of the EU's population, and the

desire of net contributors such as Germany to impose budgetary discipline, indicate that feelings are changing with respect to cohesion. Furthermore, the prospect of enlargement towards Central and Eastern Europe is perceived by some as watering down the political will underpinning the European Union (Williams, 1997). That a cleavage between the core of Euroland and the rest of the EU will be reflected in a loss of interest in the political objective of social and economic cohesion is a disturbing possibility. This would discourage further financial transfers from rich to poor regions, thereby retarding the process of economic convergence. The prospect of a multi-speed or variable geometry EU is thought by many to be inevitable, but the impact that this may have on the stability, security and cohesion of the EU has been greatly underestimated. Will be crumbs falling from the high table of the core regions of Euroland be enough to keep the rest of the EU happy?

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