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Territorial Politics in Europe. A Zero-Sum Game?

EU Cohesion Policy and Competing Models of European Capitalism

LIESBET HOOGHE

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EUROPEAN UNIVERSITY INSTITUTE, FLORENCE

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Abstract

EU cohesion policy as we know it since 1988 is under challenge. This contestation is best understood as part of a deepening struggle about EU governance, pitting neoliberals against proponents of regulated capitalism. Current cohesion policy has been the flagship of European regulated capitalism. Political and policy pressures have unraveled the support base of this policy, but they have not undone the coalition in favor of regulated capitalism. The struggle between competing models of European capitalism has only just begun. This argument does not deny a role for functional imperatives, but it emphasizes that the link between them and policy outcomes is political.

This paper is about the shaky future of an experiment, set up by the European Community in 1988, and reconfirmed in 1993, with the reform of the structural funds (for overviews and assessments, see Heinelt and Smith 1996; Hooghe 1996a).[1] The reformed structural funds became the centerpiece of the European Union's self-proclaimed flagship policy, EU cohesion policy, to shape a European-wide socio-economic and political fabric. Focused on structural programming, its direct purpose is to reduce disparities in economic opportunity and welfare among regions in Europe, and it aims to do so by involving - in the words of Jacques Delors - "*les forces vives*" throughout Europe, particularly regional and local authorities but also social partners.

An experiment indeed. Until 1988, there was only a minimal common European policy on cohesion:[2] few resources, few common priorities, and no uniform institutional design. Initiatives and funding were fragmented, some in the margins of agricultural and social policy, and the larger part concentrated on regional policy. The European Commission wrote checks, and each national government largely decided whether to involve domestic actors in designing and implementing projects. There were three times twelve different models for spending EU money, three for each country. The 1988 reform overhauled this minimalist framework. The money doubled. But more importantly, the criteria

[1] This paper was written while being a Jean Monnet Fellow at the Robert Schuman Center, European University Institute, Florence (1996-97). A first draft was presented at the conference "Territorial Politics in Europe: A Zero-Sum Game?", European University Institute, Florence, 21-22 April 1997. I thank the participants at the conference for their comments. It was also presented at the 1997 Annual meeting of the American Political Science Association, Washington DC, August 28-31, 1997. Special thanks to Stefaan De Rynck, Michael Keating, Gary Marks and Claus Offe for information, comments and suggestions. The usual disclaimer applies.

[2] With cohesion policy I refer to the set of policies which are aimed to "achieve greater equality in economic and social disparities between Member States, regions and social groups" (as defined in the Commission's First Report on Economic and Social Cohesion 1996, p.15). This definition does not have a legal basis, as the Treaty does not define "cohesion" in any general way; instead, the legal provisions simply set out the goals of the particular set of policies put in place in 1988: "aimed at reducing disparities between the levels of development of the various regions and the backwardness of the least-favored regions, including rural areas" (TEU, Title XIV on economic and social cohesion, article 130a, par 2). I shall refer to the latter, narrower definition as "current cohesion policy" to emphasize that it concerns one of several alternative policies to pursue cohesion. The core instrument of current cohesion policy are the structural funds, so I will also use the term "structural funds policy" when referring to current policy.

The absence of a general definition in the 1992 TEU (neither in the preamble nor in the special chapter on cohesion) and the elaborate definition of "cohesion" in the 1996 cohesion report (3 pages) is testimony of how the thinking and politics of cohesion policy have changed. The topic of the paper is to understand why this evolution took place.

and rules of operation changed. First, the reformed EU cohesion policy gives priority to one type of cohesion problems: spatial economic disparities among regions (and to a lesser extent localities). Much less emphasis is put on disparities among social groups and individuals within states, regions or localities. So regional development obtained a privileged role in EU cohesion policy, and regions became the lens through which policy makers and observers assess the policy as a whole (McAleavey and De Rynck 1997). Furthermore, for a national government to get its money, it is now required to design and implement EU-funded programs in partnership with the European Commission and regional and local authorities (and social partners), and this also applies to countries where subnational involvement in regional policy had been weak or absent. The policy designers set up an elaborate structure of co-decision committees, rules and monitoring mechanisms, with the European Commission as general manager (for historical overviews: Armstrong 1989, 1995; Cheshire et al. 1991; Hooghe and Keating 1994; Marks 1992; Staeck 1996).

If territorial partnership worked, a more mature European polity would be emerging:

- where spatial economic disparities are minimized;
- where co-operative problem solving is privileged;
- where principles of European-wide solidarity and participation are institutionalized;
- where national governments stop being gatekeepers between domestic and European politics, and accept the sharing of decision making with subnational authorities and European institutions.

These goals express a particular model of capitalism that could be labeled "institutional capitalism" (Crouch and Streeck 1997), "organized" or "coordinated regimes" (Soskice 1992; 1997), the "continental northern European model" (Streeck 1992), the "social-democratic model" (Wilks 1996), the "Rhine model" (Albert), or "regulated capitalism" (Hooghe and Marks 1997). It is described in general terms in the First Commission Report on Economic and Social Cohesion (1996):

> "The organization of society in European countries reflects the values of the social market economy. This seeks to combine a system of economic organization based on market forces, freedom of opportunity and enterprise with a commitment to the values of internal solidarity and mutual support which ensures open access for all members of society to services of general benefit and protection. With growing European integration, it is inevitable that the Union should increasingly share responsibility with the member states for the maintenance of this European model of society (p.13). .. which calls for active cohesion policies at European level (p.115)."

Elsewhere, Gary Marks and I (1997) characterize two dominant contending models for a "European model of society", which we label neoliberalism and regulated capitalism. Others talk about conflict between a neo-American and a social-democratic model of capitalism (Wilks 1996). For neoliberals (or "neo-Americans"), Europe should be a haven for unfettered capitalism, that is, markets should be insulated from political interference by combining European-wide market integration with sovereignty for political regulation vested in national governments; this should generate competition among these governments in providing a national regulatory climate that mobile factors of production find attractive. For proponents of regulated capitalism (or "social-democrats"), the single market should be regulated to ensure that values like solidarity, partnership and dialogue are respected. Though they support market competition, they also see space for a positive role for the state in regulating market forces. There is much debate among proponents of regulated capitalism about how and to what extent politics should interfere with markets, but there is a growing recognition that regulation at European level is needed to curb national regime competition. These projects are comprehensive packages of institutional reforms around which broad, multi-level coalitions of political actors at European, national and subnational level form. The 1988 cohesion policy reform could be perceived as a core part of the constitutional package of the anti-neoliberal coalition.

EU cohesion policy under its current form is now severely criticized, so much so that a major overhaul, ten years after the start of the experiment, seems possible. The structural funds regulations are up for review in 1999. Preparations in the Commission started mid-1996, the first discussions in the Council took place at the end of 1996, and since April 1997 the debate has gone public. The actual negotiations among key institutional players are not expected until 1998,[3] as they coincide with the inter-institutional bargaining on the financial perspectives for 2000 and beyond. How do we interpret this potential demise of an extensively institutionalized and until recently widely celebrated EU policy: structural funds policy?

In the first section, I describe the goals of EU cohesion policy and the pressures for retrenchment. In the second section, I examine alternative explanations for these pressures. My contention, which I elaborate in the third and final section, is that contestation around EU cohesion policy is best understood as part of a deepening struggle about EU governance.

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[3] The budget negotiations are part of the interinstitutional negotiations on the financial multi-annual framework, and hence require unanimity in the Council and assent of the European Parliament. The decision-making rule for the framework regulation for the structural funds (institutional design) is unanimity in the Council and assent of the European Parliament.

COHESION POLICY UNDER PRESSURE

To understand pressures for institutional change in EU cohesion policy one has to comprehend the goals of the policy since 1988. These are as follows:

To reduce regional economic disparities. Cohesion policy aims at reducing territorial inequalities in the EU by upgrading the potential for indigenous economic growth in the poorer regions.

To develop self-governing networks. Cohesion policy promotes a change in governance: from public steering of societal processes by democratically responsible governments to self-governing networks of state and social actors, where the state provides the institutional framework that reduces transaction costs and encourages highly organized social subsystems to mobilize indigenous resources (Kohler-Koch 1996). In March and Olsen's terms, good governing should be "less a matter of engineering than of gardening" (March and Olsen 1983). The result is that the state at whatever territorial level (European, national or subnational) ceases to be an autonomous actor.

To promote regulated capitalism. Cohesion policy has become the flagship of those rejecting neoliberalism. It has been the one EU policy with "hard" resources that could shape a "European social model" in the continental tradition: an ambitious budget, second only after the agricultural budget, and detailed rules about to whom and how to allocate money. This entails not only that significant resources are devoted to a social policy but also that public and private stakeholders, aside from national governments, participate in decision making. So two values are emphasized: political participation and solidarity. The type of capitalism that proponents of cohesion policy defend is regulated capitalism rather than unfettered neoliberal capitalism.

To create and give shape to a multi-level polity. Cohesion policy has been a main instrument for those rejecting state-centric EU governance. The goal has never been to sideline national authorities (except for a few enthusiasts of a "Europe of the regions"). Rather, EU cohesion rules open up intergovernmental bargaining among national governments to other governmental actors and they upgrade limited collaboration to more intensive, and more binding, commitments. So this challenges state-centric governance in three ways: European institutions set general rules and coordinate, subnational authorities participate in making decisions, and the three parties are in a relationship of mutually dependency rather than hierarchy.

Only the first goal was unambiguously stated from the beginning. The second, third and fourth were implicit in the reform, but have emerged over the past ten years. As we will see, the four goals are sometimes in conflict. Cohesion policy is thus more than a straightforward attempt to solve particular problems. It is also a policy about how to make decisions and implement them, and a policy seeking to alter the parameters of good governance. So with the contention surrounding this policy, a particular model of European governance is at stake.

What is being challenged ?

Current EU cohesion policy has a significant budget, and it has rules about where to allocate funds and how to spend them. Each of them is contested.

Budget: consolidation or cuts. By 1999, the two instruments of cohesion policy, structural funds and cohesion fund, will distribute 30bn Ecu per annum (at 1992 prices), amounting to 35.7 per cent of the European Community budget. This is 0.46 per cent of the Union's GDP in 1999 and around 0.8 per cent of total public expenditure. The question is whether the budget should be cut or consolidated at current levels. Further growth is simply not on the agenda.

Rules for allocating funds: wide-spread distribution or concentration. More than 50 per cent of the EU population is covered by the structural funds programs (that is, those with a regional focus, which distribute 85 per cent of the money). As a result, the redistributive effect of the structural funds is limited.[4] Under current rules, concentration of efforts and money is a relative concept in the European Union. However, these rules are now contested by actors who argue for greater concentration of the cohesion effort. The basic issue is who should be entitled to scarce funds. Should they be concentrated on the neediest, or should they be distributed across a wider section of the population?

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[4] Though 70 per cent of funds is targeted to objective one regions, which have a GDP per capita below 75 per cent of EU average, it appears that the redistributive effects of structural funds and cohesion fund in the current period 1993-1999 are less pronounced than in the 1989-1993 period, and that is essentially due to the wider coverage of eligible areas in the more prosperous member states. For objective two areas, that is regions with problems of industrial restructuring, the redistributive effect (Lorenz curves) is negligible, and this in contrast with the previous period. The reason, as the Commission readily admits in its First Report on Economic and Social Cohesion, lies with the national governments. Contrary to the first round of programming 1989-93, member states were given greater input in selecting the areas and allocating the funds. And national policy makers hardly took into account the three basic criteria for eligibility, that is, unemployment rate, share of industrial employment, loss of jobs in industry (CEC, p. 97-8.).

Rules for governing spending: territorial partnership or divided responsibilities. "Partnership" among Commission, national and subnational authorities is the chief institutional innovation of the structural funds. Since the 1993 review, it encompasses also more prominently the social partners. However, there is still a bias to territorial partnership. The rules prescribe close collaboration among multiple territorial authorities and private actors for designing and implementing programs of structural investment in a particular region. The actors form policy networks where each places resources at the disposal of the network and hence each shares responsibility for most decisions. That is a radical departure from earlier practice, where only two partners were involved (the Commission and national authorities), where they kept their relations at arms' length and where each had separate responsibilities. The national government was responsible for designing and implementing projects in its territory, while the Commission selected projects for EC funding from those submitted by national governments (Hooghe 1996b; Tömmel 1992). Partnership has come under criticism. Proponents and critics argue whether decision-making should be shared through all stages of the policy-making process or whether responsibilities should be divided so that each territorial actor is accountable for what it can do best. A clearer division of labor would probably make it more difficult for the Commission to interfere in national-subnational relations, which would mean that decision making is partially renationalized.

Pressures for retrenchment

The experiment is under pressure from several directions. Four pressures in particular challenge EU cohesion policy in its current form, that is, its budget, the bias to wide-spread distribution of funds, and territorial partnership.

Budgetary pressures. Much more than in the 1980s or even the early 1990s, national governments are under intense pressure to cut public expenditure, and this pressure is particularly constraining for those member states preparing for EMU. Most governments face high interest payments on public debt accrued in the 1970s, growing welfare spending as a result of rising unemployment, and increasingly expensive health care and pensions. Moreover, the general perception in the 1990s is that there is very little room for tax increases, partly because public opinion is unfavorable but also because governments fear that higher taxes would trigger capital flight. In addition to these general pressures, EMU constrains governments to limit the annual budget deficit to three per cent of GDP by 1998 and thereafter. Most national governments have implemented austerity plans which severely limit their room of maneuver in the short run. Yet, OECD prognoses for 1997 are that several countries, including France, Germany and Italy, will remain well above the three per cent limit (Financial Times, 17

June 1997, p.3). The 0.46 per cent of EU GDP devoted to cohesion policy means for net contributors a loss of national wealth of 0.5 per cent or more, which can make the difference between meeting or failing EMU criteria. Hence budgetary and EMU concerns put tremendous pressure on governments to reduce cohesion funding.

Policy inefficiency and policy ineffectiveness. After nearly ten years of operation, the performance of cohesion policy is criticized. One set of criticisms focuses on the fact that regional disparities have not appreciably narrowed since 1988. European cohesion policy may even have exacerbated inequality within some regions (McAleavey and De Rynck 1997; Tondl 1997). The critics disagree on why that is so. Some argue that EU cohesion policy uses inappropriate criteria to measure disparity (GDP per capita). Others complain that the funds are too limited to make an impact or that they are too dispersed. Yet others contest the policy rationale underlying current cohesion policy. There are two lines of arguments. Some question the "trickle-down" logic assumed for regional development policy, according to which benefits allocated to productive forces in poorer regions will in the end increase the standard of living for all in the regions. If the logic is incorrect, an EU cohesion policy which is solely concerned about redistribution between regions and leaves redistribution within regions to market dynamics would not address major sources of disparity (McAleavey and De Rynck 1997). Others are skeptical about the capacity to micro-manage growth potential through regional policy, and emphasize instead macro-economic policies (Grahl 1996; Davezies 1997).

A second target for criticism is territorial partnership, which has had at best variable success as a vehicle for the pooling of resources and exchange of best-practices to upgrade the potential for indigenous regional growth. Again, critics bring up different arguments. Some argue that it is laborious to administer and vulnerable to corruption and clientelism. Others point out that the merits of partnership are contested in current economic development theory. The theory of institutional endowments, which underpins the partnership philosophy, argues that regions with flexible co-ordination among public and private actors develop a "thinking capacity" which enables actors to pursue common interests more efficiently, hence promoting superior endogenous growth (Streeck 1992; Benko and Dunford 1991; Benko and Lipietz 1992; Soskice 1991). Some scholars have begun to question this view. First of all, the most celebrated cases of endogenous growth (Emilia-Romagna, Baden-Württemberg, Rhône-Alpes) have been in richer areas, and it has proved difficult to replicate these successes in less well-endowed regions. Furthermore, some have suggested that partnership is spurious; of far greater importance, according to this line of criticism, is the presence of a dominant employer, usually a multinational (like Daimler-Benz in Baden-

Württemberg), which stimulates, steers and exploits a web of co-ordination networks among public and small private actors. Rather than constituting a reservoir for flexible indigenous growth, networks depend on one giant firm. Finally, some have argued that regional development depends on macro-economic conditions and national policies (Amin 1994; Grahl 1996; Tondl 1997). To address problems of economic divergence, the macro-economic context may be as or more important than building more efficient institutions at the regional level (Grahl 1996). Each of these criticisms suggests that current cohesion policy is a blunt instrument for reducing disparities.

National assertiveness. Some national governments have become increasingly reluctant to delegate control over EU cohesion policy to the European Commission. With increasing public doubt about the European Union since the Maastricht Accord, national government leaders are inclined to defend "national interests" more assertively (Hooghe and Marks 1997). Also, national policy makers have experienced that this policy can intrude deeply in domestic policy priorities, requiring governments to make substantial budgetary commitments or to adjust policy objectives. Some regional policy makers, particularly from regions that are institutionally well-entrenched in their domestic polity (German Länder), have also become wary of European "intrusion" (Anderson 1996). As and of itself, national and regional assertiveness reflects normal territorial politics in multi-level polities, where territorial policy makers represent divergent institutional interests and where relations are usually characterized by a mixture of competition and cooperation. The difference in the European Union is that national state actors are unusually central to decision making, particularly on the budget.

Neoliberalism. Neoliberal ideas have gained ground among strategically placed political and economic elites in Europe. This has two consequences. First of all, it puts downward pressure on the cohesion budget. For neoliberals, cohesion policy distorts market competition; the most effective way to stimulate growth is by reducing rigidities in the labor market and minimizing political regulation of investment. The impact of neoliberalism on policy priorities and arrangements like partnership is more subtle. It induces cohesion policy makers to frame policy in terms of its capacity to make deprived groups or regions more competitive rather than to emphasize social goals such as equality or solidarity. So they are pressed to limit partnerships to economically productive actors and to initiatives that enhance economic competitiveness.

Table One: Pressures on current cohesion policy

PRESSURES	BUDGET (freeze or cuts)	ALLOCATION (wide coverage or concentration)	GOVERNANCE ARRANGEMENTS (territorial partnership or divided responsibilities)
Policy inefficiency and ineffectiveness		X	X
Problem logic (catching-up versus restructuring)		X	X
Budgetary pressures in member states	X		
National assertiveness		X	X
Neoliberalism	X		

Table one summarizes how particular pressures influence the three components of current cohesion policy. This list does not include the impending challenge of enlargement to the east, and it does only partly deal with the impact of EMU. The key actors in the current cohesion debate keep the issues of enlargement and EMU off the agenda until after the 1999 bargaining round (interview with senior official, DG XVI, July 1996; interview with official in charge of preparation of review, DG XVI, July 1996).[5] Even without those challenges, pressures for major institutional change in EU cohesion policy are intense.

[5] The Commission will present its formal opinion on enlargement after the Intergovernmental conference, which ends in June 1997.

UNDERSTANDING PRESSURES ON COHESION POLICY

Cohesion policy as we know it since 1988 is under challenge. The question is whether the above pressures are sufficiently strong to overcome the high threshold for institutional reform under EU decision rules: a review of the structural funds regulations requires unanimity in the Council of Ministers and the assent of the European Parliament. Four arguments in the EU literature offer alternative explanations, each of them privileging one or two of the above challenges as causal forces. I will look briefly at the first three, and spend more time developing the fourth perspective because that will guide us in the remainder of the article.

Neoliberalism

Some authors argue that market liberalization, the institutional asymmetry in European institutions in favor of market-liberal policies, and the spread of neoliberal ideology have increased regime competition among member states to provide favorable circumstances for mobile capital (Scharpf 1996a; Streeck 1992, 1996). The space for mobile capital has widened considerably, and as a result, that social concerns are increasingly crowded out. According to some scholars, market efficiency and credibility have become reified such that "demands for the correction of market failures, social welfare systems and the creation of a more just society are automatically kept off the agenda" (Hueglin 1996). Capitalism in the European Union is converging to a neo-American variant (Streeck and Schmitter 1991; Streeck 1996). To the extent that unfettered market competition has become embedded in EU institutional rules and guides the agendas of key political actors, one would expect enormous pressure to abolish or significantly reduce EU cohesion policy.

Intergovernmental backlash

The pressures may have to do with national governments' attempts to undo the 1988 bargain (Moravcsik 1991; for a critical application to EU cohesion policy, Pollack 1995). This would suggest that power relations among contributors and beneficiaries, as well as member state preferences, have changed. Southern members seem in a much weaker bargaining position to demand side-payments than in 1988 or 1993. First of all, there is less reason to use cohesion policy as a side-payment than before. The internal market which was the basis for the 1988 side-payment to the cohesion countries is virtually implemented (Wallace and Young 1996). Economic and Monetary Union (EMU) gave rise to a second side-payment in the form of the cohesion fund in 1993, but it is difficult to see what other market-liberalizing projects may necessitate financial side-payments in the future. Furthermore, national governments are pressed to cut back public expenditure to meet the EMU criteria, which makes them in any case less keen to use scarce financial resources to buy goodwill. For these reasons, weakened southern member states should find it difficult to avoid cohesion budget cuts in the intergovernmental budget negotiations in 1998-9.

However, that is not all: the preferences of national governments with respect to the policy arrangements have changed as well. Governments have experienced that the 1988 partnership rules can undermine their gatekeeper role (Heinelt and Smith 1996; Hooghe 1996a), and so most have become increasingly critical of the Commission's key role in partnership. In fact, several national governments had already pressed hard for simpler partnership rules in the run-up to the 1993 review, but without much success (Wishlade 1996; Marks 1996). So to the extent that cohesion policy is a vector outcome of national governments' preferences and their respective power to impose their wishes, one would expect significant budget cuts in cohesion policy or, at the very least, changes in the rules to claw back national control.

Policy dysfunctionality

Current cohesion policy may be undermined by its policy dysfunctionality. According to some authors, policy dysfunctionality is particularly problematic in the European Union. In the absence of a sense of common destiny, identity and trust, the European Union can only gain legitimacy if it succeeds in delivering outputs that effectively meet common interests (Offe, talk at EUI, March 1997; Scharpf, talk at EUI, March 1997). Policy makers have traditionally justified European policies in terms of their capacity to solve problems in ways that are superior – more efficient, effective, profitable, or simply better – than national approaches. So the basis of EU legitimacy is utilitarian rather than affective. To the extent that wider EU legitimacy depends on effective policy making, it seems inevitable that policy actors would want to change or abolish cohesion policy to avoid a legitimacy crisis.

Contention about EU governance

Though they emphasize different causal dynamics, these perspectives lead us to predict a linear process of erosion of EU cohesion policy. Yet, the future of cohesion policy is deeply contested, and hence the outcome seems uncertain. My contention is that decision making about EU cohesion is best understood as part of an increasingly salient struggle about EU governance. This argument rests on three propositions. First of all, political actors can no longer take decisions in the European arena without putting at risk their standing in the domestic arena:

European and domestic politics are intertwined (Hooghe and Marks 1997). Furthermore, political actors use the European Union, as one among several interconnected institutional arenas, to pursue their agendas,[6] and the European arena is growing in importance. So political actors have strong incentives to instill their values, interests, and agendas in European as well as in domestic institutions. And finally, political actors engage in European politics and institution-building with comprehensive political designs about how the European polity works and how it should be organized. These address fundamental questions concerning politics and markets, and the role of the national state as source of authority and identity in the European Union. One could imagine an infinite number of concrete designs, but two in particular have been at center stage in the European Union. I described them earlier as the neoliberal or "Anglo-saxon" model and regulated capitalism or the "European social-democratic" model. They provide political actors with a framework to strategize how concrete policy decisions may contribute to their preferred model.

To the extent that policies are valued in terms of how they advance one's preferred political design for the European Union, their staying power depends on two conditions. They should mobilize proponents of the political design, and they should make spillovers across policy areas easier. Clearly, the 1988 structural funds reform seemed to meet this test for proponents of regulated capitalism. It was an attempt to write basic principles of European regulated capitalism in EU rules (Hooghe 1996b; Ross 1995). Moreover, there is evidence that proponents of regulated capitalism have exploited cohesion policy for strategic spillovers. The structural funds administrations have sheltered new policies in environment, vocational training, employment-creating infrastructure investment, co-operation in new technologies, R&D, and the promotion of social partnership (Hooghe 1996b; Lenschow 1997). Over time, policy inefficiencies and divergent interests among coalition partners have begun to dissolve the glue that held the coalition together, while nationalists and neoliberals have become more vocal in their criticism. Current cohesion policy seems now much less able to mobilize the proponents of regulated capitalism. We would therefore expect significant pressure to downsize budget and governance arrangements.

However, we would not necessarily anticipate a linear decline of cohesion policy in the broader sense. The future of cohesion policy is open-ended, for the simple reason that developments are driven by political struggle about which type of society Europe should build - not by functional imperatives or transaction costs. Even though the support base for this specific policy may unravel, it does not necessarily undo the coalition in favor of regulated capitalism. The struggle is

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[6] For a theoretical argument on an actor-centered perspective, see Gary Marks 1996b.

ongoing; if anything, the divisions between "neoliberals" and "proponents of regulated capitalism" have become sharper over time.[7] Given broad support for an anti-neoliberal Europe, it is likely that a revamped coalition tries to capture the European agenda with a new initiative. I will argue that the various initiatives on employment can be seen as attempts to design a politically more viable successor to the 1988 cohesion reform, be it with more modest governance ambitions. If proponents of regulated capitalism succeed in casting the employment agenda in policies and rules, it is even possible that the current cohesion policy finds shelter in the new flagship of European regulated capitalism. In the following section, I seek to substantiate these claims.

THE POLITICS OF EU COHESION POLICY

The future of cohesion policy is shaped by contention about the "European model of society" that should be built. The political actors are varied; they include national and subnational governments, supranational institutions, political parties, interest groups, and indirectly public opinion. The battle is about governing Europe.

Budget

Decisions concerning financial redistribution are taken at the highest level in the European Union, according to an intergovernmental logic of package deals and side-payments. Cohesion policy is particularly conflict-ridden, because it produces clear winners and losers (Marks 1992). For the coming round, this intergovernmental competition is intensified by budgetary pressures related to EMU. This message was brought home in the summer of 1996, when the Commission released figures of unspent regional aid, at that point, 20bn Ecu,

[7] The European code word for those rejecting a neoliberal or "Anglo-Saxon" Europe is "European social model", a term which is used profusely by social-democrats, christian-democrats and trade unionists in the European arena -- however, not by liberals. There is probably no deeper insult for a center-left politician or policy maker than to be accused of not serving the "European social model". Commissioner for Competition, Karel Van Miert, a Belgian socialist, was subjected to this treatment. In an acrimonious debate with the European Parliament on public services, a socialist MEP commented: "You are the incarnation of the saying that the road to hell is paved with good intentions.... We have the impression that the Commission's left hand too often does not know what the right one is doing... [Citing the Commission's handling of telecommunications and the threats to postal services] ...you are practicing a way of thinking that overestimates the advantages of competition. As a Commissioner, you are guardian not only of the Treaty but also of something more valuable, the European social model." Hereupon, a liberal member stood up to defend the Commission's role as guardian of the Treaty (*Agence Europe*, 6 September 1996).

almost a year's spending on regional aid (*Financial Times*, 29 July 1996). Under current rules, national and regional governments are required to part-finance European-funded programs, which puts additional burdens on those governments struggling to meet the criteria of convergence for EMU.

Budgetary penury is the oft-heard justification from actors that do not meet commitments on time. However, there are deeper issues having to do with the model of governance current cohesion policy represents and promotes. The battle is about whether market-liberalizing policies should be balanced by policies promoting solidarity at EU level, especially if the latter absorb money that otherwise could reduce public deficits. The total amount to be spent on cohesion policy is highly contested, and the battle lines are drawn along functional, ideological, and territorial lines. Cohesion policy pits two policy networks against one another. Those in charge of public finance at European or national level want to cut back spending or impose conditions, but regional affairs, most regional and local authorities, and other sectoral networks want to maintain or increase the budget. This has led to sharply different positions between the Councils of Ministers for finance/ budget and those of regional affairs, but the division is also present in the European Parliament. The preparation for EMU has enhanced the position of finance ministers in the European decision-making system, so they are well placed to win battles.[8] In ideological terms, the priority for budget deficit reduction has generally strengthened the hands of those favoring market principles to promote growth. A north-south territorial division is superimposed upon this functional-ideological conflict, with net recipients, mostly in the south, and net donors, usually northern governments, arguing opposite cases. Economic gain here eclipses ideological pre-disposition. When the center-right French and German governments proposed to reduce the 20bn Ecu 1997 budget for regional aid by 1bn Ecu, the center-left governments of Sweden, Finland and Austria supported the plan (*Financial Times*, 24, 26 July 1996).

Hard core support for the cohesion budget lies in the south of the European Union.[9] However, many regional and local actors in the north resist cohesion budget cuts as well, which pits them against their national governments. As a representative of the regional office for Sachsen-Anhalt, one of the new Länder in Germany, put it: "Northern regions that want EU funding have to fend for

[8] On a symposium "European urgency" with a heavy representation of Members of the European Parliament and senior European social-democrats, a British socialist MEP exclaimed that the Ecofin "is conducting a real conspiracy against the European people." (*Agence Europe*, 4 October 1996).

[9] In May 1997, the Spanish government refused to commit itself on the next major research framework, submitted for approval in the Council of Ministers, before it had a better idea of the overall resources for the period after 1999 (*International Herald Tribune*, 20 May 1997).

themselves as they cannot rely on support from their national governments." (Interview by the author, 8 March 1997.)

What is at stake is more than money. Even if the budget were reduced, actors could still apply the same decision rules for allocating and spending funding. The direct challenge to the model of governance that cohesion policy represents comes from immediate pressures on the allocation of funding and on territorial partnership.

Allocation of funding

Ten years structural funds programming has not appreciably reduced regional and social disparities. Sharp disappointment in these limited results has made salient a latent conflict between the policy rationale and the political rationale of cohesion policy. For those who perceive the structural funds as the vehicle for reducing disparities, a diffusion of resources dilutes the redistributive purpose of cohesion policy. They want to concentrate efforts on those who need it most. But if one supports a broader understanding of cohesion, as the counterpart to the internal market and stepping stone to a more social and participatory European society, the structural funds quickly appear as the only hard instrument to pursue these objectives. From that perspective, it is desirable to extend the reach of the policy to the furthest corners.[10]

The policy rationale is strong among two sets of actors. Both sets want to alter, not abolish cohesion policy, but their criticisms question key principles of the current arrangements. On the one hand, regional development specialists, including in Commission services, argue that concentration of funds on poor areas is necessary to achieve results. They get support from the cohesion countries[11] and from less-developed regions, who fear that the money spent in northern regions makes it more difficult for them to catch up. The bottom line is that cohesion policy should evacuate most of Europe's territory and concentrate on a minority of Europe's regions. On the other hand, some actors are alarmed about the fact that current cohesion policy has done very little to mitigate social

[10] The issue of concentration would be a non-issue if cohesion policy were driven by an intergovernmental logic. Until 1988, the rules were that each member state received a substantial share of the funds, and so governments could hold up the appearance of a juste retour system. That was originally thought to be a clever maneuver to secure wide-spread support for an infant policy. Even the 1988 and particularly the 1993 reform took care to sprinkle funds over areas in all member states, though in absolute terms the distribution was heavily tilted to poorer areas. The novelty of this policy-driven challenge is that it seeks to break completely with this intergovernmentalist legacy.

[11] Greece, Ireland, Portugal and Spain.

disparities - in fact, it may have exacerbated them (McAleavey and De Rynck 1997). They want to target resources on local areas in distress or on deprived social categories instead of sprinkling them thinly over large regional areas. In short, they want to abandon the privileged position of regional policy. These views have gained ground in some Commission services, particularly the cohesion services outside the regional policy directorate-general. However, they also strike a chord with local actors and, more generally, with those who see unemployment as the main source of deprivation. This second group seems on the rise: in the margins of the big structural funds programs, Commission services have experimented with small-scale initiatives that bring those ideas in practice (McAleavey and De Rynck 1997). The bottom line is that regions would give way to local actors and non-territorial groups as foci for cohesion policy.

Both groups want to concentrate resources, be it on different constituencies. The point is that such concentration would make it much more difficult for cohesion policy to promote European-wide regulated capitalism. Cohesion policy would only cover part of the territory. Moreover, it would mainly target weakly organized actors (poor regions, local authorities, local communities, socially excluded groups), and these are less likely to be full "third partners" to powerful national governments and the European Commission. In other words, pressures to tone down the political ambitions of cohesion policy come from the proponents of regulated capitalism who are most in favor of radical redistribution. So the cohesion coalition breaks in three: a divided policy-oriented grouping with southern resource-dependent actors and regional development specialists on one side and proponents of local development and those concerned with social inequality (mainly in the northern countries) on the other side, against a shrinking political group mainly consisting of northern, resource-richer actors and generalists.

Governance

The most direct challenge to the model of EU governance – regulated capitalism in a multi-level polity -- is the shaky future of territorial partnership. In the initial 1988 reform, partnership is key to reduce disparities, give structure to self-governance, instill principles of regulated capitalism in the EU polity, and to build a multi-level polity. Changes in partnership therefore have direct implications for EU governance. The main pressures on partnership have to do with policy inefficiencies and, closely linked, concerns about national (and to some extent subnational) control over policy.

Partnership was expected to transform EU-national-subnational relations in a more cooperative fashion and to make regional policy more effective, but it has fallen short of expectations. An internal Commission document on partnership (June 1996) admits that "while partnership is now viewed as an established fact, it has been implemented very patchy and its objectives vary significantly from one Member State to another." Such pessimism has not only permeated Commission assessments, but also reports from the Court of Auditors, member states, parties (such as the German social-democrats) and even intrinsically sympathetic sources like the European Parliament and the Committee of the Regions (Interview, official DG XVI, October 1996; interview, official DG XVI April 1997).

There are at least four reasons why an actor may favor partnership, and they have proved difficult to reconcile (Hooghe 1997). One reason emphasizes efficiency and effectiveness. Many believe that markets work more efficiently if public actors provide collective goods, especially in backward areas; partnership seems a useful venue for affected interests to identify common problems and pool resources to supply such goods. Others promote partnership because it helps spreading practices of innovative governance, that is, actors govern themselves by pooling endogenous resources on a voluntary basis and coordinating their activities in non-hierarchical fashion (Heinelt 1996; Kohler-Koch 1996). Yet others emphasize that the EU has an obligation to solidarity, that is, to provide benefits to those who stand to lose in the single market. Partnership may give weaker subnational actors a stronger voice to demand solidarity, and moreover, partnerships can be organized so that they bring together weaker with resourceful actors. A final group believes that the best way to give European integration greater legitimacy is by making decision-making more democratic. To do that, one needs to involve a wide array of societal and public actors in the European arena; partnership is a crucial vehicle for democratization and the European supranationalists' response to subsidiarity. In an address to regional representatives in 1991, Jacques Delors skillfully blended this message of efficiency, good governance, solidarity, and democracy:

> "...we want you to be in a position to mobilize all vital forces in your region. In the age that democracy is spreading, it is magnificent to know that you have often successfully brought together public and private actors, business, trade unions, agricultural organizations, and associations. We want to support this partnership for a simple reason: we believe that nowadays development is more a matter for local agents than a matter for the central level..."
> (My translation: Jacques Delors, speech published in CEC (1991) *La reconversion des régions industrielles*. Rencontre des 60 régions éligibles à l'objectif 2 des fonds structurels, Brussels, 8-7-1991).

The 1988 reform was strongly inspired by concerns about democracy and solidarity, but, over the years, those who emphasized enhancing market efficiency and innovative governance began to take the lead.[12]

With those goals in mind, it is particularly hard that partnership seems to work least in the poorer southern regions. Confronted with incompetent or under-resourced local administrations, corruption or clientelism, or time-consuming negotiations with many partners, actors dealing with these regions find it often difficult to get excited about the democratizing or solidarity-building effects of partnership or the merits of new governance. The limited results of partnership in most southern regions does little to persuade actors who give priority to economic convergence to defend this institutional innovation.[13]

Similarly, the track record on altering traditional governance practices falls short of expectations (for a qualified analysis: Heinelt 1996; Kohler-Koch 1997). This shortfall is particularly apparent in non-federal countries, as the Committee of the Regions pointed out in a 1996 opinion, where it put the blame on the absence of clear divisions of competencies between intergovernmental actors and between public and private partners. These complaints are echoed by the Commission in its Report on Economic and Social Cohesion, and more prominently, in an internal document on partnership. In the latter document, the Commission specifies as problems: the complex logic behind partnership, unclear rules, very different roles, competencies and capacities of actors, and limited competencies for the monitoring committees. As a result, instead of promoting self-governing networks of public and social actors, partnership often slides back

[12] This change was apparent in the Commission, as the balance of power shifted from one service to another (Hooghe 1996b, 1997).

[13] The main problem of Portugal, Greece and Spain is how to lift their national economies closer to the French and German levels; endogenous regional development, local empowerment and new styles of co-operative governance, come second. Commission officials, in daily contact with Spanish or Portuguese policy makers, have often learned to take a more casual stance on endogenous regional development and subnational involvement. When asked whether a TGV connection Madrid-Seville, co-financed by the structural funds, was a genuine regional development project for Andalusia, a European Commission official from DG XVI conceded to the Spanish national government's point of view: 'It is perhaps not a priority, but nevertheless absolutely necessary. Because, this is the first stage, and the second will be between Madrid and Barcelona, which will link it up with the rest of Europe. And that is quite important for the development of the region [Andalusia]." (My translation from French; Interview, 16 February 1993). Other units take a much more principled stance on regional and local mobilization. Graham Meadows, currently director for regional aid in the UK, Germany and France, all more prosperous parts of the EU, encourages his units to be strict on regional participation. He has personally traveled widely in the UK urging local and regional authorities to draw up development plans (Holliday, 1994).

into "more conventional administrative and financial activities". The Commission recommends therefore clearer and simpler rules, clearer roles and responsibilities for the various partners, and sharper distinctions between decision-making and consultative partnership (Internal Document, 1996).[14] The pressure to streamline partnership is highest from the northern countries.[15] This conclusion is a setback for proponents of new governance, as the non-hierarchical style of co-operative governance is thought to be especially useful in complex settings, that is, where competencies, tasks and resources do not coincide - most apparent in non-federal systems - and where each partner can be described as a highly organized social subsystem - foremost in the complex polities of the richer countries (Kohler-Koch 1996; Mayntz and Scharpf 1995).

In addition to being ineffective in producing economic convergence or new governance practices, partnership has become a source of political contention. The four uses of partnership were available for purposeful actors to be exploited and redefined to promote particular agendas. During programming negotiations Commission, national government and subnational authorities have often fought hard to impose their views of partnership on others, because these rules shape the opportunity structure for the pursuit of wider political agendas. Regional and local actors have used EU partnership rules to challenge their national government (Hooghe 1996a; interview with senior Commission official, July 1996). For example, British subnational actors have utilized them to resist the conservative government's policy of weakening local government. The Commission too has occasionally exploited partnership for purposes external to cohesion policy. The former British Commissioner for Regional Policy, Bruce Millan, a lukewarm supporter of partnership, used it to challenge British conservative policies. Millan was a Labourite with strong connections to Labour-run local authorities in Scotland and Northern England. Central governments have often employed the policy efficiency argument to justify a minimal input of regional authorities or the Commission in partnership. The Spanish central government, for example, has argued that most regions do not have the administrative and technical know-how to play a useful role in partnership.

[14] The Commissioner responsible for the Social Fund, Mr. Padraig Flynn, and the Commissioner for the Regional Fund, Mrs. Monika Wulf-Mathies, have argued publicly for simpler procedures and clearer divisions of labor and accountability in partnership. (P.Flynn, "Le Fonds social européen à l'aube d'un nouveau millénaire", lecture for the Centre for European Policy Studies, Brussels, 24 March 1997; M.Wulf-Mathies, "Spotlight on Cohesion Policy", opening speech for the Cohesion Forum, Brussels, 28 April 1997.)

[15] See e.g. report from the German Länder (1997): "Joint proposals by the Länder on reform of the structural policy, and monitoring system and common agricultural policy of the EU"; the German federal ministry of Labour and Social Affairs (Feb 1997): "Revision of the European Structural Funds".

Furthermore, it has claimed that partnership slows down infrastructure projects and large-scale investment, which absorb a major part of structural funds spending in Spain. Spanish regional governments have strenuously contested such interpretation, herein moderately supported by the Commission. Partnership in cohesion policy is one issue among many in the ongoing domestic tug of war between center and regions in Spain.

In all, rather than having abated competition among territorial actors, partnership has incited competition between national and subnational levels, with the Commission often caught in the middle. For those hoping that partnership would solve problems more efficiently, build solidarity and cohesion, or consolidate co-operative governance, this result is discouraging. Yet, those who perceive partnership as a vehicle to democratize European societies are delighted with the increased activity among a variety of actors and contention between different conceptions of policy and polity making.

The bottom line is that divisions on partnership deepen the north-south cleavage which emerged around the allocation of the cohesion budget, and further undermine the support coalition for current cohesion policy. Broader definitions of partnership - those apt to support a model of European regulated capitalism and a multi-level polity - find greatest support among two constituencies, both of which are stronger in the north rather than in the south. There are those for whom EU partnership ties in with a domestic shift to forms of co-operative governance (Kohler-Koch 1996). This new style is widely shared by actors in Germany, the Scandinavian countries, or Austria. But what can the European Commission add to their well-functioning networks, as it can bring neither significant funds nor many innovative practices to advanced self-governing societies? Hence, among most national and well-entrenched subnational actors in the north, support for European-stimulated partnership is at most lukewarm.[16]

The strongest support for territorial partnership is to be found among those who perceive it as a vehicle for democratization. Regional and local authorities, except those with strong domestic positions, have taken quickly to these rules, because they usually give them greater visibility vis-à-vis national government

[16] In their aforementioned report, the German Länder reject a decision-making role for the Commission in partnerships: "...The administrative effort involved in aid and monitoring procedures must be reduced. To this end, the responsibility of the Member States and the regions (and the Länder in Germany) should be given more scope to select the most suitable measures for their areas independently. The EU is to retain responsibility for setting the main targets for EU structural policy." The term "independently" is defined in the minutes as "Commission approval is no longer required where national arrangements are in place". The government of Saarland abstained.

and public (interview senior official, DG XVI, July 1996). But the most ardent supporters of partnership are subnational actors at loggerheads with their national authorities, either for party-political or constitutional-nationalist reasons, and endowed with considerable resources to resist central domination. And that is a rather limited group of actors. The hard core appears to consist of UK local and regional authorities, particularly Labour-dominated areas. Until the coming into power of the Labour government in May 1997, European partnership provided a crucial arena in which they could oppose the neoliberal policies of the national government.[17]

The initial coalition which pushed through current cohesion policy as the core policy to build European regulated capitalism is fragmented. Budgetary pressures under the shadow of EMU and the rise of neoliberalism put downward pressure on the budget. But the fundamental challenge to cohesion policy lies in pressure on governance: away from a European-wide policy involving regions as equals to national governments to a policy with limited territorial scope; and away from uniform territorial partnership among three partners to a looser form of collaboration among a variety of actors and adjusted to national circumstances. Such a reorientation would make cohesion policy less effective in building European regulated capitalism. A variety of policy inefficiencies as well as greater national sensitivities push cohesion in the above direction. The main actors challenging the 1988 bargain are not opponents of cohesion policy, but they come from within the coalition of regulated capitalism. If current cohesion policy depends on how well it can mobilize proponents of regulated capitalism and create spillovers to other policy areas, it is not here to stay.

THE FUTURE OF EU COHESION POLICY

The end of a privileged status for current cohesion policy reliant on regional policy and empowered regions does not mean the elimination of cohesion policy in a broad sense. A constellation of political forces is forming which is bracing itself against the prospect of a neoliberal European Union, and which emphasizes

[17] The Regional Assembly for Yorkshire & Humberside made this very clear in its response to the European Commission's First Cohesion Report (17 March 1997): "The Regional Assembly backs the Commission's aim to ... strengthen the partnership-based approach. We would be very concerned if the Structural Funds were to be managed at the national level because we believe that self-sustaining growth has to be promoted by a 'bottom-up' approach within the regions." It is also no coincidence that a British Labour member wrote the report on "regional and local authorities, players of political Union" for the regional committee of the European Parliament. The report calls for the principle of partnership to be included in the Treaty and to be applied to other policies (*Agence Europe*, 28 September 1996, p.12).

instead that Europe should promote a social model that embeds solidarity and an active role for the state. As a rallying theme, this coalition seems to converge on fighting unemployment as a key goal. Their point of departure has been to insert a chapter on employment policy in the Treaty, which should give a legal base to future European initiatives. There are signs that parts of current cohesion policy may be put to use to pursue the employment agenda.

Employment is more likely to mobilize a winning coalition than regional disparities. With 18 million out of work, unemployment has become the public concern number one, as repeated Eurobarometer surveys have shown, and it is second to maintaining peace on the list of priorities among elites in Europe.[18] Unemployment also cuts across the north/ south divide, as it is equally prevalent in northern and southern areas, and in poorer and wealthier regions.

The hard core of this multi-level coalition consists of the social-democratic parties in Europe, which were by June 1997 in government in 13 of 15 member states. They are supported by trade unions, and, more equivocal, by christian-democrats in several member states and the European Parliament. Among the institutional players, the European Commission is part of the coalition (though there is internal opposition), and so is a majority in the European Parliament and the Council of Ministers.

The proponents of a European employment policy link the initiatives explicitly to building a "European social model", in the same vein as structural funds proponents did in 1988. The Commission Report on Economic and Social Cohesion identifies "the existence of high levels of unemployment and the growing incidence of poverty" as forces that "more than anything else....act to undermine the European model of society. Increasing unemployment has become a top priority in the Union." (p116) However, there have thus far been few concrete initiatives (for an overview: McAleavey and De Rynck 1997; Falkner 1997). Clearly, only for a minority, effective employment policy entails an active structural policy with a central role for the state at European, national and subnational level.[19]

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[18] Eurobarometer. *Top Decision Makers Survey: Summary Report*, 1996.

[19] This was forcefully argued by the French socialist government during the Amsterdam negotiations on a revision of the Maastricht Accord, which led to the inclusion of a chapter on Employment. These ideas are widely shared in the policy networks around the three structural funds. A participant to the Cohesion Forum organized by the Commission on 28-30 April 1997 in Brussels voiced these views, when he argued strongly for an active structural policy led by the Social and Regional Fund to "safeguard the competitiveness of the European economy in globalized markets and to stem the increase in unemployment. … And structural policy is more

Actors in support of current cohesion policy have begun to attach the structural funds to the unemployment plank, arguing that, in addition to sectoral and macro-economic policy instruments, one should also fight unemployment with territorially concentrated instruments, be they regional or local. Employment has become key priority for the structural funds. This was given concrete form in the 1996 Communication "Community Structural Assistance and Employment", where the Funds announced to use available margins of flexibility within the structural programs for the period up to 1999 to target job creation. Employment also moved up on the priority list for the second round of objective two programs (1997-99), which were approved late April 1997.

Moreover, employment may give shelter to core governance principles of current cohesion policy. The Territorial Employment Pacts, one of the few concrete initiatives on the employment front (a) make use of the partnership formula, (b) identify local levels, not the national or regional level, as the desirable level of activity, and (c) entrust the implementation to the structural funds. They are experiments in partnership among key economic, social and political actors to commit themselves to a concerted employment effort. The European Council in Florence of June 1996 gave the go-ahead to the Commission, which proceeded to select more than sixty cities and local areas for these pilot projects (McAleavey and De Rynck 1997).

Safeguarding cohesion policy by riding on the employment coalition is at this point a gamble. The employment plank is contested. There is powerful opposition from certain national governments, significant sections of business and global capital, market-liberal parties and interests, and these have allies in the European institutions, including the European Commission. Moreover, the proponents of an employment agenda are divided. This became clear at the Amsterdam summit of June 1997, where a deep rift occurred between the British Labour government's position on the role of the state in addressing unemployment and the French socialist government's stance. The former argued that the main task is to make labor markets more flexible by rooting out disincentives to job creation in national tax and benefit systems, and through investment in education and training. The French government pleaded to free money to launch European-wide employment initiatives, among others in major infrastructure works (*Financial Times*, 17 June 1997, pp.1-3). So the employment coalition is affected by deep fissures among proponents of regulated capitalism about degree and character of state intervention in the markets.

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than simply regional policy on the one hand and social policy on the other hand." (Civil servant from the ministry of economics, from the German Land Hessen/ my translation from German.)

The polity implications of a shift away from current cohesion policy to employment are significant. The distribution of authority is more state-centered than in the radically multi-level design underpinning the 1988 cohesion policy. Even the staunchest defenders of a European employment agenda emphasize that the main competence for employment should remain national. They also refrain from guidance and binding commitment: the role of the European Union, and its agent the Commission, should predominantly be one of "animation, technical support, and promotion of co-operation." The social model underpinning the employment agenda departs from the initial ambition of cohesion proponents, who hoped to lay the basis for a Union where the supranational level would set priorities and where the state (at whatever level) would be the gatekeeper between society and markets. The polity ambitions of those espousing an employment agenda are to fit in and provide added value, not to challenge and instruct national policy or to control and give guidance to partnerships among public and private actors. Paraphrasing March and Olsen (1983), in 1988, the Commission wanted to be a gardener in a French or Italian garden. After 1999, the Commission would be content to attend to English grounds.

CONCLUSION

EU cohesion policy as we know it since 1988 is under threat. This challenge to a specific policy is best understood as part of a deepening struggle about which type of society Europe should build - a neoliberal Europe or regulated capitalism. Current cohesion policy has been the flagship of proponents of regulated capitalism. The policy was expected to transform EU politics: it was to strengthen the hands of those favoring a multi-level polity that balances competitiveness and growth with equality, solidarity and quality of life. A variety of political and policy pressures have unraveled the support base for this specific policy, but they have not undone the coalition in favor of regulated capitalism. A revamped anti-neoliberal coalition is trying to capture the European agenda with a new flagship: the employment initiative. The goals of the employment agenda are less ambitious than those espoused under former Commission president Jacques Delors. The options for proponents of a European social-democratic society have narrowed since 1988. Yet, the struggle between competing models of European capitalism has only just begun.

This argument brings politics back in. It does not deny a role for functional imperatives – the weight of neoliberal institutions, an economic logic having to do with reaping joint gains and reducing transaction costs, or a policy logic of efficiency and effectiveness. However, it emphasizes that the link between them and policy outcomes is political. Outcomes are shaped by contention among political actors. They use the European Union as one among several arenas to pursue competing designs about how to organize political and social life in Europe.

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