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The Political Logic of the European Community
Structural Funds Budget: Lobbying Efforts
by Declining Industrial Regions

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EUROPEAN UNIVERSITY INSTITUTE, FLORENCE

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Structural Funds Budget: Lobbying Efforts
by Declining Industrial Regions**

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BADIA FIESOLANA, SAN DOMENICO (FI)

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1. Introduction

It was stated in a pre-Single European Act account of interest group activity at the European Community (EC) level that 'no study of Europe-wide pressure groups would be complete without assessing the contribution that pressure groups may make towards the process of European integration' (Butt Philip 1985: 8). Since that time, not only has the European Community itself emerged from its 'doldrums era', which stretched roughly from the mid-1970s to the mid-1980s, but the study of EC policy-making has benefited from the application of new theoretical approaches which facilitate more rigorous analysis than the grand integration theories of the past (Caporaso and Keeler 1993). New theoretical approaches can provide the tools for a greater understanding of the individual stages and arenas of the Community policy-making process¹. Moreover, these tools are more usually applied to disaggregated policy fields than to the Community system as a whole. As Cawson argues with regard to the uncertain trend towards a system of interest intermediation at the European level, 'if we are to map this trend, we will have to do so through the careful aggregation of empirical studies at the sectoral level, rather than by extrapolating from observations of contextless supranational phenomena' (1992: 100).

This paper provides an analysis of the lobbying efforts of a group of declining industrial regions in the review of the EC Structural Funds budget, in particular their efforts to maximise the level of funding diverted to their particular type of problem region². Largely leaving aside questions of the difficulties of collective action encountered by the regions in seeking to mobilise a coherent group to promote their common interest, the focus is on the structure of the decision-making framework governing the review of the Structural Funds budget. This decision-making framework, as recognised in accounts of the growth of structural funding over the years, is largely dominated by member state governments, so that the process has often been regarded

¹ By way of a particularly illustrative example, Geoffrey Garrett provides a useful critique of the prevalent approach to international co-operation, an approach drawn from transaction cost economics, in 'International Cooperation and Institutional Choice: The European Community's Internal Market', *International Organization* Vol. 46, No. 2, spring 1992. He introduces analytical tools drawn from the theory of bargaining games, incomplete information and incomplete contracting to understand the formation and operation of the European Community's internal market.

² A distinction should be drawn between the 'horizontal' interaction of Community institutions in the setting of structural funding totals and agreement of the regulations governing use of these resources on the one hand, and the 'vertical' interaction between the European Commission, central government and sub-national government in the implementation of spending programmes on the other. This paper concerns an attempt by sub-national actors to influence the 'horizontal' process. More specifically, a further distinction should be drawn at the 'horizontal' level between the setting of budget totals and the agreement of regulations governing the Funds. The regions considered in this study had as their primary aim the maximisation of the spending total allocated to their particular type of problem region, and were only marginally concerned by the actual regulations governing implementation.

as a paragon of intergovernmentalism. This paper seeks to move beyond the simple portrayal of structural funding in intergovernmental terms to understand the process of bargaining underpinning the member states' decisions on the allocation of such resources.

The prevalent approach in the literature on lobbying at the EC level is to focus on the logic of collective action, usually paying less attention to the structural factors shaping the possibilities for lobbying influence. By contrast, although collective action problems will be addressed in passing, the decision-making framework governing the Structural Funds budget will be stressed to show the *limited influence* exerted by the lobby of declining industrial regions in the process. In this specific instance, the importance of the European-level bargaining game and the strategies adopted by member state governments at that level overshadow pressures exerted by lobby groups, despite collective action by those domestic interests across the EC affected by the bargaining process.

The paper considers, firstly, recent approaches to the study of interest groups at the European Community level, highlighting the importance of the structure of the decision-making framework governing a given policy. Section 3 then presents empirical information on the regional lobby organised to protect the interests of declining industrial regions in the Structural Funds budget review. The dynamics of mobilisation will be touched upon in this section, but *logic of membership* questions do not shoulder the burden of explanatory power in this study. By contrast, the subsequent section considers the recent history of the Community regional policy in particular, highlighting the underlying *compensatory logic* driving the expansion of the budget for structural spending. The 'side payments' hypothesis is well explored in the literature on Community Structural Funds, and a critique of Gary Mark's modified version of the side payments model is given in Section 4. The final section of this paper then advances some suggestions on this question, going beyond simple characterisation of the Structural Funds as 'bribes' from wealthier to less prosperous member states of the Community. A conceptualisation of decision-making in the wider European Community/European Union³ as a two-stage process allows a distinction to be drawn between efficiency enhancing decisions (in terms of increasing aggregate welfare) and redistributive decisions under which the patterns of costs and benefits produced for each member state are addressed. This distinction highlights the role played by Structural Funds budget decisions as redistributive 'pay-backs', separated out from the

³ The empirical information provided in this paper and the time period considered refer primarily to the European Community before the advent of the European Union.

aggregate welfare increasing decisions (which can have a wide variety of costs and benefits for individual member states). This wider political logic of the EC Structural Funds suggests that the influence brought to bear by sub-national actors in determining budget totals is likely to be of little significance.

2. Interest Groups at the European Community Level

As always, shifts in power are noted and acted upon by interest groups who act as a type of weather-vane for the locus of political power in society. They quickly re-target their influence, once they realize that the power to take decisions which affect them has moved to a new institution or to new actors (Mazey and Richardson 1993: v).

The 'weather-vane' metaphor, with which Mazey and Richardson preface their volume on *'Lobbying in the European Community'*, has a long history in pluralist accounts of the state. The image conjured up is that of government as a responsive entity 'moved this way and that by the balance of forces among social interests'. Over forty years ago, however, this metaphor was criticised as 'much too simple' (McLennan 1993: 61). The flip-side of this conception of the state, as suggested in the opening quotation, is that interest groups somehow act as a pointer to the location of political power in society, but this too runs the risk of falling into the pluralist trap of 'taking things at their face value' (Blowers 1983: 413). In the specific context of interest group lobbying at the European Community (EC) level, the 'leading exponent of modern corporatist theory has declared that the political universe of Brussels has tended to replicate the pluralism of policy-making in Washington'; and yet, Cawson has pointed to 'the problems in stressing the pluralistic appearance of European interest group politics without examining in greater depth than Schmitter does the actual processes through which policies are formulated' (1992: 99-100).

Although the practice of lobbying European Community institutions is as old as the Community itself, the enormous increase in the volume of lobbying at that level over the last decade has been well documented (Andersen and Eliassen 1991). EC-wide interest groups first sprung up in the policy fields for which the Community assumed competence under the Treaty of Rome, before the Luxembourg Compromise directed the attention of interest groups back to their national governments (Gorges 1993: 73). The increased use of qualified majority voting and the expanded field of competence of Community institutions since the Single European Act (SEA) have encouraged an explosion of EC-wide interest groups. However, as noted by

Greenwood *et al*, attempts to investigate the significance of this trend have largely mapped out the landscape 'without deliberately attempting to test the existing but sparse literature, or developing a new one' (1992: 4). It would be tempting to view the proliferation of such groups as an indication of pluralist decision-making arrangements at the supranational level, but in the absence of a body of empirical studies across a broad range of policy fields from which to construct a wider understanding, this would certainly be to 'take things at their face value'.

A theme strongly emphasised in the expanding literature on 'lobbying the EC' is the need to adopt a disaggregated approach to mapping new trends:

The importance of disaggregation into domains, sectors, firms and territories to study interest intermediation and the transnational level is partly accounted for by the sheer range of types, and volume of players, involved. It is certainly a multi-player game, but the sheer number does not necessarily imply competitive relationships and pluralism (Greenwood *et al* 1992: 21).

Mazey and Richardson foresee 'more stable and manageable networks of policy-makers and groups emerging' (1993: 257), but also note the need to develop a more complex conceptualisation of the structure and process of interest intermediation 'taking account of quite significant variations in the nature of policy networks' (253). Similarly, Gorges suggests that in the context of the Maastricht agreements any trend will be uneven and differences in the nature of interest intermediation will exist between 'macro-level, sectoral-level and micro-level patterns' (1993: 87). As emphasised above, this paper accepts the need for a disaggregated approach and focuses on the specific question of the Structural Funds budget.

In many of the recent attempts to understand the volume and style of lobbying now emerging at the Community level, a key feature is the focus on the dynamics of mobilisation. For example, McLaughlin and Jordan criticise the pluralist assumptions underlying the 'weather-vane' metaphor by questioning the common assertion that there is 'some kind of mechanical link between the influence of the EC and the mobilization of interests' (1993: 122). Often the existence of common interests and recognition of the influence of the EC are not enough to lead to the creation and maintenance of a 'Euro-group'. McLaughlin and Jordan therefore approach the question of mobilisation with a model derived from Mancur Olson's 1965 study *The Logic of Collective Action*. The authors outline the basic Olsonian model which suggests that 'in the absence of selective incentives, there is no reason to suppose that interests shared by a number of

rational companies will be organized politically' (1993: 154). By contrast, rational actors (not simply companies) could 'free-ride', obtaining the benefits gained by the organisation of an interest without contributing to the costs of establishing the group. The difficulties of mobilisation are often given as reasons why 'Euro-groups' are frequently 'fragmented, ill-assorted, inadequately financed and staffed, and ineffective bodies' (Butt Philip 1985: 84), and therefore why the weaknesses of European-level federations of interest groupings are 'apparently endemic' (Grant 1993: 34).

A focus on the *logic of membership* of collective action is obviously a useful means by which to approach the question of interest intermediation at the EC level, but the danger is that it can give a one-sided picture of the process by giving too much emphasis to the 'supply of lobbying'. For example, Butt Philip argues that 'where Euro-groups command the confidence of their members and are well led and well financed, they must be counted as major actors in the Community's decision-making game: the Community's experience of agricultural policy since the 1960s bears eloquent testimony to this' (1985: 84-5). Is it really the case, as many pluralist accounts of 'pushing against an open door in Brussels' would suggest, that simply resolving the problems of mobilisation is the key to influence in the EC decision-making process? The agricultural case, as 'the model to which other sectional interests might aspire' (Mazey and Richardson 1992: 101), is instructive in this respect. The Committee of Professional Agricultural Organisations (COPA) is the organisation of the agricultural federations of the twelve member states of the EC and is widely cited as the most successful Euro-group, to the extent that the agriculture policy sector is deemed to be 'highly corporatized' (Gorges 1993: 81). And yet, even in the case of COPA, the existence of a well led and well resourced organisation in itself does not explain the development of agricultural policy:

It may be, of course, that the influence of the farm lobby *per se*, as distinct from the existence of a separate decision-making network for agriculture, has been exaggerated in the past. It is too easy to take the existence of a sophisticated and well-resourced farm lobby on the one hand, and the maintenance of a CAP (Common Agricultural Policy) that provides considerable financial support on the other, and come to the conclusion that there is a monocausal relationship from one to the other (Grant 1993: 38).

Institutions involved in the setting of the policy and 'the structure of the decision framework' (*ibid.*) should not be left out of the explanation in favour of an exclusive focus on the supply of lobbying pressure.

Cawson advances the hypothesis that the *logic of membership* is not the sole determinant of lobbying outcomes. Rather, *the logic of influence* (in the sense of how to organise to affect outcomes) is 'dependent upon the *logic of policy*, and this varies according to the policy at stake' (1993: 101). In explaining the notion of the *logic of policy*, Cawson quotes Theodore Lowi's famous observation that 'policies make politics':

Lowi (1964) was concerned to show that the type of policy under consideration affected the political process which underlay it; for example, the struggle to influence distributional issues was quite different from that around regulation we cannot divorce the interpretation of interest group politics from the policy-making institutions and domains at which they are targeted. 'Who governs?' is a more critical question for the study of EC policy-making than 'who speaks?' (1993: 100).

Echoing and reinforcing the call for a disaggregated approach, Cawson argues that the *logic of policy* can only be understood by examining in detail the characteristics and recent history of a given policy sector.

This paper considers the *logic of influence* for declining industrial regions in the review of the EC Structural Fund budget by examining the underlying *logic of policy*. The role of sub-national government has been a notable feature of European Community lobbying, and yet remains a largely unexplored field in the literature. Greenwood *et al* point out that the 'territorial dimension' is often neglected in the traditionally narrow view of an 'interest group' as a formal association in the 'functional business domain' (1992: 2). This paper provides a contribution to the growing body of empirical studies by seeking to address the gap in the literature left by the failure to consider regional lobbying. It does not consider in any depth the wide array of local and regional authority representative associations at the EC level which seek to exert influence over a wide and increasing range of policy sectors. Rather, it focuses on a specific attempt by a regional lobby (called into being specifically for the purpose) to protect the interests of declining industrial regions in the reform of the Structural Funds budget.

The following analysis suggests that the underlying *logic of policy* in European Community Structural Funds means that, irrespective of how effectively a regional lobby is mobilised, the influence brought to bear by sub-national actors to gain more funds will be of little significance. The danger of using solely decisions as a research

focus, noted by John (1994: 2), is acknowledged so that some attention is given to the agenda setting stage. The analysis below suggests, however, that decisions over levels of Community structural funding continue to be underpinned by a *compensatory logic*. Moreover, this logic continues to apply primarily at *the member state, rather than the regional level*. As Grant (1993) has noted, a distinction must be made between those decisions which the member states will jealously guard as their own and those which can be transferred to the European level, so that the lobbying of member states by sub-national governments will remain important. The lobbying efforts at all levels by a group of declining industrial regions in the Structural Fund budget review are considered in the following section. ✕

3. The Structural Funds and Declining Industrial Regions

i. The Structural Fund Reforms of 1988

An increase in the overall Structural Fund⁴ budget to ECU 60.3 billion (in 1989 prices) for the 1989-1993 period followed the Single European Act and appeared to encourage the establishment of offices for many regional and city authorities in Brussels (John 1994). Amongst other objectives, these offices (pressured by sponsor authorities in the member states to 'deliver the goods') often claimed to maximise the flow of resources to their respective territories. The wisdom of establishing such offices, however, has been questioned (Audit Commission 1991). The headline-catching increase in the overall level of funding occurred simultaneously with, and largely obscured, changes in the regulations governing the distribution and implementation of EC Structural Funds that severely limited the scope of individual lobbyists. While the staff of regional offices in Brussels often seek to justify the cost of running such an office by pointing to the flow of structural resources to the respective regions, the allocation of funding to the Community's regions is actually a tightly controlled process. The benefits accruing to a region from having an office in Brussels lie in other activities. As Hull and Rhodes pointed out as long ago as 1977, in the relationship between sub-national units of government and the EC in Brussels 'the name of the game is information-processing' (ib.: 66).

The Audit Commission's 'Rough Guide' for British local authorities on lobbying the institutions of the EC split 'the effects of Europe' under three headings: Euro-

⁴ The Structural Funds comprise three individual funds: the European Regional Development Fund (ERDF); the European Social Fund (ESF); and the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF, more commonly known by its French acronym FEOGA).

regulation; European economic integration; and European funds (1991: 7). The 'Guide' pointed out the difficulty faced by individual authorities in lobbying the Community for funding, but stressed that collective action during the reform process is the only effective way of having a substantive input into shaping the broader regulations governing EC regional policy. The regulations⁵ and financial framework for the Structural Funds agreed in 1988 were later to be re-negotiated to cover the period from 1994 to 1999, and the lesson was clear: regions, which had been caught somewhat unprepared during the major reforms of 1988, could best organise their lobbying efforts by acting together to articulate a crystallised, pan-regional view to the Community institutions. Already in 1991 and 1992, in the lead-up to and in the wake of the publication of the Delors II Package⁶, the issue of Structural Fund expenditure became a highly political issue. Determining the arenas and the stages in the second revision of the Structural Funds on which the regions themselves were able to lobby thereby assumed a new importance for regional authorities.

The overhaul of the Structural Fund regulations in 1988 had concentrated Community structural measures functionally and geographically on five priority objectives. Objective 1 regions were allocated 65% of the increased funds. These were the least developed regions of the Community where per capita GDP was less than 75% of the EC average. The 1988 list of eligible Objective 1 regions was determined in the Council of Ministers and included Northern Ireland, Corsica and the French Overseas Departments, ten Spanish regions, eight regions in the south of Italy and the whole of Greece, Ireland and Portugal. While these Objective 1 regions took the lion's share of the funding, the Structural Funds were also directed towards other objectives. Objectives 3 and 4, relating to the problems of long-term unemployment and the integration of young people into the job market respectively, were financed from the European Social Fund but not on a geographical basis. Objectives 5a and 5b were designed to facilitate the adaptation of agricultural economies and the development of rural areas. However, it is Objective 2 that concerns us here. Eligibility for Objective 2

⁵ The rules governing the operation of the Structural Funds were overhauled during 1988 through three regulations which came into effect on 1 January 1989, the so-called 'Framework', 'Horizontal' and 'Implementing' Regulations as follows: Regulation (EEC) 2052/88, O.J. No. L185, 24/6/88; Regulation (EEC) 4253/88, O.J. No. 374, 19/12/88; Regulation (EEC) 4254/88, O.J. No. 374, 19/12/88.

⁶ The European Commission proposals for the financial framework governing the total EC budget between 1992 and 1997 were presented by the Commission President Jacques Delors to the European Parliament in February 1992, just five days after the Maastricht Treaty was formally signed by the twelve member states, and proposed an ECU 20 billion increase in total spending between 1992 and 1997 c.f. Commission of the European Communities, *From the Single Act to Maastricht and Beyond: The Means to Match Our Ambitions*, COM(92) 2000 (Brussels, February 1992). The wider context of the post-1992 financial framework is set out in Section 4 below.

status, that is the status of an industrial region in decline, required regions to meet a strictly defined level of unemployment, a set level of industrial employment as a proportion of total employment and a defined level of industrial job losses in recent years. Around ECU 7 billion (at 1989 prices) was committed for the 1989-93 period for the promotion of restructuring in sixty regions of the Community which met these criteria.

The detailed monitoring and implementation structures set in place in the regions themselves to turn this expenditure first into spending programmes and then into specific projects has been covered elsewhere (Marks 1992). The key point to note, however, is that the decision on the actual distribution of expenditure between regions is scarcely amenable to lobbying by individual regions. Specific eligibility criteria for Objective 2 are set down in the Structural Fund regulations and the allocation of resources to individual regions is calculated primarily on the basis of unemployment figures. However, earlier in the process, regional authorities in territories of similar economic status should work together (as advised in the Audit Commission 'Guide') to place or maintain their particular problems on the regional policy agenda and to maximise the funding directed towards their type of problem region. As Aitken and Johnstone pointed out prior to the first Structural Fund reforms, the central task of the traditional industrial regions in the EC is to work together to provide evidence of 'need', and particularly that their need is greater than, for instance, those of agricultural, maritime, mountain or border regions (1985).

A spur for traditional industrial regions to work together to present a common view came early in 1991 when a question mark was placed over the future existence of Objective 2 funding. The main debate had shifted strongly in favour of Objective 1 regions. In addition, reform of the Common Agricultural Policy seemed likely to strengthen the case for increased 5b funding. Objective 2 was receiving little attention. Individual regional representatives in Objective 2 regions turned first to the desk-officers with monitoring responsibilities for their regions within the Directorate-General for Regional Policies (DG XVI). These desk-officers, the first point of contact for technical issues related to the implementation of the spending programmes, were of course unable to give any reassurances concerning future funding arrangements and advised that lobbying activities should be directed initially at the national governments of the member states. The problem faced by Objective 2 regions in the UK, the member state taking the greatest share of such resources⁷, was that their central

⁷ Objective 2 regions in the UK received around 38% of the total funding available for such regions in the EC between 1989 and 1993. Spanish, French and German Objective 2 regions received around 20%, 18% and 9% respectively.

government had as its primary aim with regard to EC Structural Funds the reduction of overall spending. Consequently, while Spain, Portugal, Greece, Ireland, Italy and latterly Germany (following the decision to designate the Länder of the ex-GDR as Objective 1 regions) could be expected to act together in the Council to protect the funding interests of Objective 1 regions, Objective 2 regions were afforded no such luxury. At a meeting of senior central government officials with Eneko Landaburu (the Commission's Director-General for Regional Policies) early in 1991, representatives of several member states benefiting from Objective 1 expenditure argued that future resources should be concentrated to an even greater extent on Objective 1 regions. The argument was made that the economically stronger member states should be able to address small problem areas within their national territories (that is, Objective 2 regions) themselves, without recourse to EC Structural Funds. The response to this perceived threat was an effort by Objective 2 regions to organise a concerted lobby.

ii. The Objective 2 Lobby

The 'Objective 2 lobby' had its origins in the meeting held in Brussels in July 1991 of the sixty regions eligible for Objective 2 assistance. At that time, it was still not clear that Objective 2 funding would be continued beyond the end of 1993. The Directorate within DG XVI responsible for Objective 2 expenditure called the July meeting and undertook the task of gathering together all sixty eligible regions for what was ostensibly a gathering of experts in regional economic development policy in declining industrial areas. As the Regional Policy Commissioner Bruce Millan said of the gathering, it marked the 'first time that regional development practitioners from all sixty regions designated by the Commission as suffering the effects of severe industrial decline, were able to come together to discuss what are essentially common problems' (Commission of the European Communities 1992c: 9). However, this meeting was more than just a technical workshop. It was also designed to put pressure on the Commission Presidency to support the principle of continued Objective 2 funding. Directorate-General XVI made it clear at the meeting that it was unable to organise such full-scale events on a regular basis because of administrative, financial and time constraints and that the regions should take the initiative themselves. What was needed was a permanent Objective 2 lobby to attempt to put pressure on the member state governments as well as the Community institutions.

Within two weeks of the initial gathering, a meeting of eleven Objective 2 regions was organised in Brussels to set the agenda for future action. The lobby was organised from the start under the direction of Strathclyde Regional Council, where a

sympathetic executive leadership combined with the political will to increase the region's profile in Europe. In October 1984, Strathclyde Regional Council had been one of the first sub-national governments of any member state to open an office in Brussels. Moreover, under the political leadership of Charles Gray, an energetic delegate to both the Assembly of European Regions and the Consultative Council of Local and Regional Authorities, Strathclyde had earned credibility and respect among European regions. Under Gray's leadership, and aware of the danger in being seen by the European Commission as an exclusive club, the lobby invited all sixty Objective 2 regions to a follow-up meeting in Florence in October 1991. At this meeting only 36 regions were represented, but together their total share of Objective 2 funding was around 90%. An 'Objective 2 lobby', consisting of eight regions, was then delegated to represent all 36 regions in meetings with Commissioners and representatives of other Community institutions.

The eight delegated regions were Catalonia, Wallonia, Tuscany, North Jutland, Nord Pas-de-Calais, North Rhine-Westphalia, Groningen-Drenthe and Strathclyde, which continued to provide the leadership of the lobby. The eight were encouraged by DG XVI where the necessity of a united front had been stressed. As Greenwood *et al* note, 'the Commission has been keen to see representative outlets with which to reciprocate since the 1950s and remains today anxious to accelerate the formation of these' (1992: 1-2). The implied *active* role for the Commission is consistent with the prompting given at the July 1991 gathering for the regions to take the initiative themselves. This phenomenon of 'sponsorship' by the European Commission, establishing 'constituencies of Euro-groups around each Directorate-General', has been noted elsewhere (McLaughlin and Jordan 1993: 157).

The lobby therefore set about presenting its collective view not only to the Commission, but also to the President of the Council, the member state governments, the European Parliament and the Economic and Social Committee. Meetings were duly organised with Commissioners Millan and Papandreu (who at that time had responsibility for DG V - Social Affairs) in January 1992, and then with the President of the European Parliament and the Chair of the European Parliament's Regional Policy Committee in March. At his meeting with Millan in April 1992, Gray asked to be supported in his effort to gain an audience for the Objective 2 lobby with the member state ministers with responsibility for regional policy, scheduled to meet in Council in Lisbon in May. The lobby thereby demonstrated its awareness of the importance of the intergovernmental arena in the reform process. It was never likely that such an unprecedented delegation to ministers in the closed Council forum would

take place, but the pressure exerted by the lobby gained a concession when a small delegation met the Portuguese Minister for Regional Policy, representing the President in Office of the Council, on his own.

By the time of the meeting in Lisbon, the Commission had published the 'Delors II Package' indicating support for the continuation of Objective 2 beyond 1993 (the importance of this will be considered below). This 'Package' set out the Commission's proposed financial framework governing the total EC budget between 1992 and 1997. As well as proposing an ECU 20 billion increase in total spending over these years, it set out an increase in the proportion of total expenditure devoted to structural spending from 27% of the EC budget in 1992 to 33% in 1997. In effect, this would involve a 50% increase in overall funding for Objectives 2, 3, 4, 5a and 5b (Commission of the European Communities 1992a). The Package also proposed a doubling of the Objective 1 allocation, which would be brought about by a two thirds increase in existing Structural Fund support supplemented by the new Cohesion Fund agreed at Maastricht for Greece, Ireland, Spain and Portugal. Such changes, however, would depend upon acceptance of the overall budget proposals, which would require a unanimous decision by the twelve member state governments. The task was therefore not yet complete for the Objective 2 regions. The activities of the Objective 2 lobby under the leadership of Strathclyde had been impressive but it was becoming increasingly apparent that they required a permanent office. It was in this context that a link with RETI was developed.

iii. RETI

RETI had been formed as the Association of Traditional Industrial Regions of Europe following a meeting in Lille in April 1984. The meeting was called by the Regional Government of Nord Pas-de-Calais and was attended by representatives from European regions dominated by declining traditional industries (such as coal and steel). The Council of Europe, the Commission of the EC and the European Parliament also sent representatives to the Lille meeting. Their common concern was to ensure that the traditional industrial regions were able to respond to the economic challenges of the 1980s and 1990s, and in particular that they should not miss out on the development of new technologies. Following the meeting, an initiative was taken by representatives from Nord Pas-de-Calais, the Province of Hainaut, North Rhine-Westphalia and West Yorkshire Metropolitan County Council to form the permanent association of RETI. Like many international bodies, it began by using one of its members' facilities as a secretariat: located in Lille, both the political and administrative heads were supplied

by the region of Nord Pas-de-Calais. The Regional Government's Director of Planning, Jean-Marie Ernecq, who originally proposed the idea for the association, became the administrative head and the President of the Regional Government, Noël Josephpe, became RETI's first president.

The original objectives of RETI were to provide a forum for the discussion and exchange of ideas and the development of co-operation and consultation between its members, as well as lobbying on behalf of areas of traditional industry, particularly at the European level. Although it was relatively successful in attracting new members and organising conferences such as that on 'New Economic Strategies for Traditional Industrial Regions' (held in Leeds in September 1985), RETI was slow to attract the enthusiasm of DG XVI. Part of the reason for this was a perception that the leadership and direction of RETI were idiosyncratic, and this severely dented the group's credibility with the Commission. More importantly, RETI was not fully representative of declining industrial regions in that it was numerically dominated by UK local authorities, and a number of member states were not represented at all. The Commission's preference for dealing with a representative group speaking on behalf of interests throughout the Community is well-known (Averyt 1975; Hull 1993: 86).

By the summer of 1991 RETI had opened an office in Brussels and appointed a full-time director there who was responsible to the association's executive in Lille, but the Commission remained unenthusiastic. The height of DG XVI's dissatisfaction came when it approached RETI to co-organise the meeting of the sixty Objective 2 regions in Brussels in July 1991. For political and administrative reasons the approach was fruitless and this seems to have spurred DG XVI into prompting the creation of the 'Objective 2 lobby' at the meeting itself. When Jean-Marie Ernecq spoke to the Brussels gathering in his capacity as Permanent Secretary of RETI, his suggestion that the task of emphasising the urgency of the situation facing Objective 2 regions should fall to RETI (Commission of the European Communities 1992c: 33) was not well received.

By April 1992, RETI had been transformed. At the association's annual general meeting in Namur in Belgium in April 1992, following the weakening of Josephpe's position on losing the Presidency of the Nord Pas-de-Calais Regional Government, Strathclyde was supported by the Tuscan delegation in engineering changes in the RETI structure. In a *de facto* coming together of the 'Objective 2 lobby' and RETI, Charles Gray took over the presidency of the latter, with vice presidents appointed from each country represented in the association. The simultaneous change of name to

the Association of European Regions of Industrial Technology indicated a break with the past, as much as an attempt to dispel the image of smokestack skylines conjured up by the concept of traditional industry, in an effort to recruit as many regions as possible. The strategic aim of RETI, set out in its news-sheet, became the recruitment of all the regions which participated in the Objective 2 conference in Florence in October 1991 (RETI 1992a: 5).

The realisation of this strategic aim proved far from straightforward. For example, the Land Government of North Rhine-Westphalia (a founder member of RETI and a participant in the delegated Objective 2 lobby) allowed its membership to lapse. The reasons for this go to the heart of the debate on the logic of collective action: the Land Government did not want to be stigmatised as a 'begging bowl region' and had the long-term aim of improving its economic performance in order to lose eligibility for Structural Fund assistance⁸; the Land contained significant areas of Objective 5b funding and was therefore not solely interested in Objective 2 funds; and perhaps most importantly, whether or not North Rhine-Westphalia participated in the lobby it would benefit from the group's eventual successes and the incentive was therefore to 'free-ride'. For similar reasons, RETI had some difficulty in attracting member regions from the Netherlands, Denmark and Germany. The importance of Community-wide groupings, reconciling differing opinions from all national groupings among individual members, has been stressed above: a failure to recruit as widely as possible would severely hamstring RETI *vis-à-vis* the European Commission.

The transformed RETI hit the ground running in lobbying for Objective 2 interests in the reform of the Structural Funds. However, its summer 1992 news-sheet indicated an awareness of the difficulties which remained. The document COM(92) 2001, 'The Community's Finances Between Now and 1997', proposed a total increase in funds for Objectives 2,3,4 and 5b of 50%, rising from ECU 5,070 million in 1992 to ECU 7,600 million in 1997. RETI was well aware, however, that there was no guarantee that the reform would ultimately present Objective 2 with as much as a 50% increase. Other Objectives were to be boosted, such as the redefined Objectives 3 and 4, so that although the Commission had accepted and proposed that Objective 2 should be continued, other changes seemed set to leave less than a 50% increase in resources for Objective 2. RETI again stressed the pivotal role of the UK government in accepting even the COM(92) 2001 proposals, pointing out prior to the UK assuming

⁸ Interview with an official of the regional representation office in Brussels, *Verbindungsbüro Nordrhein-Westfalen*, 13 July 1992. Of course, this would be the long-term objective of all assisted regions. Such statements may be intended for consumption by the business community to avoid stigmatisation which could damage the climate for investment.

the Presidency of the Council that 'the British government which takes over the Presidency in July has made clear its opposition to the total increase in the Community budget and shows no more enthusiasm for increasing the policies taken by the Structural Funds or by Objective 2 in particular' (RETI 1992b: 1).

Aware of the likelihood that a decision would be reached during the UK Presidency of the Community, the traditional industrial regions stepped up their campaign in the autumn of 1992 with a back-to-back conference of RETI and the Objective 2 lobby in Edinburgh⁹ which was addressed by UK government ministers. However, it is a feature of the closed nature of the decision-making process at the intergovernmental apex of the Community that the bargaining behind the compromise eventually reached at the Edinburgh Summit on December 11th and 12th 1992 remains obscure. Following intense negotiations (explained in detail in the following section) the Edinburgh conclusions on structural actions set the total of structural expenditure in the EC for 1994-99. The total level of resources available across all actions is set to rise from around ECU 20 billion in 1994 to ECU 27.4 billion in 1999. Expenditure figures for Objectives other than Objective 1 were not settled at the Summit, but it was decided that the remainder of Structural Funds set aside for Objectives 2, 3, 4 and 5b will rise from around ECU 7 billion in 1994 to ECU 8.12 billion in 1999. The conclusions further stated that these Objectives should broadly maintain their share of this total *vis-à-vis* each other.

It is, of course, difficult to determine conclusively whether the lobbying conducted by the industrial regions in the Structural Funds reform process was ultimately 'successful'. It is obviously impossible to turn back time to determine the 'counterfactual', in other words, to check whether or not Objective 2 funding would have continued post-1993 in the absence of the concerted pressure exerted by Objective 2 regions preceding the Edinburgh Summit¹⁰. In terms of the *logic of membership*, however, the very establishment of a lobbying organisation for traditional industrial regions in the EC represents something of an achievement. Of course, the lobby suffered many of the weaknesses common to such efforts at collective action, but a relatively coherent lobby emerged for the first time to press the interests of the Community's declining industrial regions. Other European regional consortia, such as the Assembly of European Regions or the Consultative Council of Local and Regional

⁹ In the run-up to the Edinburgh Summit of Community heads of state and government, RETI named this event 'The Regional Summit'.

¹⁰ Obviously, the use of a term such as 'success' raises many questions. The major difficulty lies in determining whether influence has been brought to bear by a lobby in the decision-making process: it is clear that 'the problem with lobbying is that you can never link cause and effect' (John 1994: 2).

Authorities, were already in existence but included representatives from regions benefiting not just under Objective 2 funding, but also from regions which either benefited under other Objectives or were not eligible at all. Such consortia, therefore, could not defend the specific economic interests of Objective 2 regions alone. Whereas a permanent, if not widely representative, lobby already existed prior to the 1988 reform of the Structural Funds, RETI at that time was widely perceived as ineffectual and lacked credibility. The emergence of the Objective 2 lobby, which later turned to and transformed RETI, represented the first real attempt at collective action by industrial regions to influence the Structural Funds reform process. Turning now to the 'success' of the lobby, attention switches from the *logic of membership* to the *logic of policy*.

4. The Compensatory Logic of European Community Structural Policy

The history of the European Regional Development Fund (ERDF), by far the largest of the three funds which together make up the Structural Funds, reveals the compensatory logic of Community structural policy in general. Accounts of the creation of the ERDF in 1975 and its early development favoured an intergovernmental framework to characterise the process (Wallace 1977; Mény 1982; Mawson *et al* 1985; Wise and Croxford 1988). Very little significance was assigned to supranational bodies in the European regional policy process. By contrast, the member states in the Council of Ministers arena were deemed omnipotent in this field. The emergence of a slimmed-down ERDF after the initial ambition of the Thomson Report on the regional problems of the Community after the first enlargement in the early 1970s, coupled with the way in which the policy developed in its first decade of operation led to its neglect by political scientists. Usually, Community regional policy was dismissed as an irrelevance, a convoluted mechanism for budgetary redistribution reflecting dominant members state interests (c.f. McAleavey 1992: 4-14). According to Mény, the ERDF represented a policy process 'nationalised in the extreme' (1982: 377).

An understanding of why Community regional policy emerged in the first place is instructive in exposing the *logic of policy*. As Cawson argues, the logic of any policy can only be understood by examining in detail its history and development. That regional policy emerged very much as a 'latecomer' among Community policies devised since the Treaty of Rome was signed is something of a truism in the literature (Clout *et al* 1989: 192). Despite the Preamble to the Treaty which stated that the member states were 'anxious to strengthen the unity of their economies and to ensure their

harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions', there was no provision for a common regional policy although the initial Structural Funds were established at this time. The reason for the initial absence of an EC-level regional policy lies in the fact that the founders of the Community expected economic growth in the 1950s and 1960s to reduce regional disparities automatically. In fact, little headway was made in these years in reducing disparities between the Community's regions in terms of income, productivity or employment rates (Pinder 1983). Ultimately though, the spur for a Community level regional policy was provided by the first enlargement of the EC in 1973 with the accession of Denmark, the Republic of Ireland and the United Kingdom. It was evident that the largest element of the EC budget, the Common Agricultural Policy price support framework, had little to offer the UK (Shackleton 1991: 95) while a regional policy would appeal to all of the newcomers (Pinder 1983: 18; Mawson *et al* 1985: 24; Clout *et al* 1989: 193). It was agreed at the Paris Summit of October 1972, the first at which the prime ministers of the new member states were present, to analyse the extent of regional disparities throughout the Community and to set up a fund by the end of 1973.

At that time, regional policies at the level of the member states were usually justified with reference to three goals: the search for greater social justice; the strengthening or maintenance of political cohesion; or the more efficient use of under-utilised national resources (Pinder 1983: 12). Of course, these goals could also be used to justify such a policy at the Community level, but such justifications were not uppermost in the minds of government representatives pushing for the creation of a Community regional policy. Social justice, cohesion and the efficient use of national resources had not figured prominently when the 'Conference on Regional Economies' held in Brussels as early as 1961 had been interpreted by certain governments as 'a declaration of war on the states' by European federalists intent on constructing Commission alliances with regional authorities to undermine state legitimacy (Mény 1982: 374). However, following the enlargements of the early 1970s there developed the highly sensitive question of 'who benefits?' from the major instruments of the Community budget. It was clear that the UK had little to gain from existing instruments. Ultimately, a protracted and difficult debate between the 'demandeurs' (the UK, Ireland and Italy) and the chief paymaster (Germany) resulted in a watered-down device for financial redistribution (Wallace 1977: 144; Bulmer and Paterson 1987: 207-215).

From the outset then, Community regional policy was designed to *compensate* member states (primarily the UK) for financial contributions to the budget. Moreover, it has been suggested that EC regional policy was motivated by a 'compensational logic' in the sense that a member state may be compensated for the economic costs of Community membership. For example, a member state may be compensated for the loss of control over instruments of economic policy such as the levying of customs duties, currency flexibility, industrial subsidies and other measures which could otherwise have been used to protect the interests of its own domestic economy (Mellors and Copperthwaite 1990: 23; Holland 1976). Community regional policy can therefore be conceived as a 'marginal' policy, tacked on to temper the negative spatial implications of the internal market, monetary union, competition policy or other 'central' policies. Even the Commissioner for Regional Policy in the late 1970s accepted many of the criticisms levelled at the ERDF in his famous acknowledgement that it was simply 'an accompanying measure', developed to cope with the detrimental effects of the main Community policies (quoted in Mawson *et al* 1985: 20). It was also an 'accompanying measure' in the sense that the funds were distributed according to a national quota system and were simply supplements to the national programmes already in existence, with little Community input.

Another respect in which European regional funds were *compensatory* was with regard to the principle of additionality. The requirement that European grants should be additional to (not a substitute for) national aid to targeted regions was included in the preamble to the first Fund Regulation in 1975, but the history of the ERDF has been marked by disputes over the extent to which this principle is respected by member state governments. Although additionality has assumed a 'central role in the theology of Community financial expenditure', national governments have paid little attention to Commission demands until recently and the reality is that funds are often used simply as reimbursement to the national government for expenditure already incurred (Laffan 1989: 47). A key question is therefore 'in whose interests is EC regional policy designed to operate?' (McAleavey 1993). The answer to this question is far from straightforward. The point to note in this context, however, is that the compensatory logic underpinning EC regional policy, in the absence of financial additionality at the level of target regions, can be interpreted as applying at the member state rather than the regional level.

Many of the early accounts therefore speculated as to how the regional policy field could be reformed and made more 'communautaire'. One study in particular considered the 'gradualist' approaches which might be adopted by the Commission to

reform EC regional policy, thereby moving from a member state dominated carve-up of resources towards a genuine redistributive strategy for regional development (Hull 1979). 'Given the likely failure of any head-on attempt to secure a redistribution of regional benefits between the member states', it identified three possible approaches which the Commission might adopt:

- A *National Equity Approach* whereby the existing shares between the member states of assisted regions and policy resources would be accepted as the parameters within which policy change can be attempted, the objective being 'to re-designate areas and redistribute resources within each member state, that is without affecting national shares in the Community total';
- An *Increased Resources Approach* whereby every state gains but some gain more than others as the absolute level of resources for each member state increases but the increase is greater for those with the most severe regional problems;
- A *Sectoral Alliance Approach* whereby changes in regional policy are linked with other policies having a spatial impact, for instance the Common Agricultural Policy, the Single Market or Economic and Monetary Union, so that the member states with least to gain from regional policy would accept reform as a *quid pro quo* for gains in another policy sector (1979: 342-7).

The *Sectoral Alliance Approach*, as shown below, comes closest to the actual decision-making process over structural funding in the EC. As well as highlighting 'the complexity of interest structure inherent in Community policy-making' (1979: 348), this approach accords with the above accounts of Community regional policy as a compensatory mechanism¹¹.

The numerous reforms of Community regional policy in the first decade of its operation have been dismissed as mere tinkering around the edges of a marginal policy. Mawson *et al*, for example, examine the evolution of EC regional policy in this period

¹¹ It should be noted, nevertheless, that Scharpf has suggested that decision-making patterns governing the European Regional Development Fund correspond closely to the model of 'joint-decision making' over common Federal-Länder programmes in the Federal Republic of Germany, in the sense that only an 'increased resources approach' would allow regional development support to be directed to new problem areas. In other words, it was unusual for either Länder governments in Germany or member state governments in the EC to forego resources to allow new areas outwith their territories to receive support (see Scharpf 1988). This may have been true of the ERDF in the early years of its existence, but it will be shown herein that a *sectoral alliance approach* comes closest to recent decision-making in this field.

in terms of the 'Community method' and are led to the conclusion that in this field 'the guiding principle of Community decision-making is one of strict attention to the interest of national member states' (1985: 7). When wholesale reform of the regional policy of the EC eventually took place, the policy was more closely integrated with the two other Structural Funds and it was agreed that the total resources devoted to all three Funds together should double over the period between 1989 and 1993. The timing of the radical overhaul of the Structural Funds as a whole (coming in 1988 on the heels of the Single Market programme) is instructive and a brief sketch of the context substantiates the *Sectoral Alliance Approach* as outlined above.

In the mid-1980s, a semi-official report entitled *Efficiency, Stability and Equity* was produced by a group chaired by Tommaso Padoa-Schioppa, previously a senior Commission official, at the behest of the European Commission. The group had been asked to investigate 'the economic consequences of the decision taken in 1985 to enlarge the Community to include Spain and Portugal and to create a market without internal frontiers by the year 1992' (c.f. Cutler *et al* 1989: 77). Their report concluded that simple faith in the mechanisms of market liberalisation would not be enough to guarantee the realisation of economic growth smoothly throughout the Community's territory:

There are serious risks of aggravated regional imbalance in the course of market liberalisation. This is because different economic processes will be at work as markets integrate, some tending towards convergence, others towards divergence. Neither dogmatic optimism nor fatalistic pessimism is warranted in these respects. Opportunities for convergence will be increased, but adequate *accompanying measures* (my emphasis) are required to speed adjustment in the structurally weak regions and countries, and counter tendencies towards divergence (Padoa-Schioppa 1987: 4).

The Commission, in retrospect, explained the 1988 reform of the Structural Funds by pointing out that the accession of Spain and Portugal in 1986 had widened the gap between the Community's richest and poorest regions to a level that was 'unacceptably large' in preparing for the Single Market (Commission of the European Communities 1992a: 7). The implied direct chain between realisation of an 'unacceptably large' gap in regional economic performance and the Structural Fund reforms somewhat obscures the political bargaining carried out in 1987 and 1988.

In reality, significant splits emerged over the distributive implications of what had been agreed under the Single European Act (SEA). At the time of the SEA itself, such issues had been recognised with the explicit reference in Article 130A to the promotion of 'overall harmonious development' and the strengthening of 'economic and social cohesion'. It was in this context that the Commission was invited to present to the Council comprehensive proposals for the reform of the Structural Funds. Clear legislative objectives were therefore drawn up, but as Shackleton points out, 'there was no mention in the SEA of increasing the financial provision for the funds':

The result was that an important division of opinion emerged. On the one hand, the Commission, backed by the poorer member states, argued that the objective of cohesion could not be achieved without a substantial injection of additional finance. It therefore proposed that the funds should be doubled in size between 1988 and 1992 from 7 to 14 bnECU, thus raising their percentage share of the budget to 25 percent. On the other hand, the wealthier member states were reluctant to consider an increase of anything like the same proportions (1991: 107).

At the Brussels European Council meeting between 11th and 13th February 1988, this divergence of opinion was resolved in favour of the poorer members states, 'to general astonishment' as Shackleton points out (1991: 107). The resolution of the issue in favour of Spain, Greece, Portugal, Italy and Ireland was not so astonishing when the extremely blunt explanation of one senior Commission official that, 'without the Structural Funds five members would have had severe doubts about signing up for the Single European Act' is taken into account (Audit Commission 1991: 12). The largest part of the doubled funds (65%) was to be concentrated on Objective 1 regions located overwhelmingly in these five member states.

It is important to note that the Brussels Summit of February 1988 did not consider solely the issue of the Structural Funds budget. The financial framework worked out in 1987 and 1988 and agreed in Brussels settled an overall ceiling on revenue (the 'own resources' raised by the Community) and the structure of these 'own resources' (determining the relative shares of individual components of the Community budget), as well as the spending ceilings for each main category of EC expenditure up to 1992 (of which structural funding was only one element). Moreover, as part of the financing framework agreed in 1988, the Community committed itself to undertaking a further financing review in 1992. In the event, the Edinburgh European Council between 11th and 12th December 1992 provided the forum for settling the future financing of the Community up to 1999, an issue which had been fiercely debated

under the Portuguese Presidency in the first half of 1992 and which had become one of the main priorities of the UK Presidency (Her Majesty's Treasury 1993: 11). Again, the level of the Community's own resources, the structure of the own resources and the allocation of Community expenditure to the various policy areas were under debate, this time for the period to 1999. As the UK Treasury pointed out with something of an understatement, the settlement of these issues 'was a key element in reaching agreement on a range of interlocking and difficult negotiations at Edinburgh' (1993: 9).

With the resolution of the financial framework in Brussels in 1988, the Community had been required to 'put its money where its mouth was' and set a figure for the amount devoted to 'social and economic cohesion'. This had been left unspecified by the Single European Act. Likewise at Edinburgh in 1992, the Community had again to come up with a figure to match the renewed commitment given to cohesion at the Maastricht European Council in December 1991. During the two Intergovernmental Conferences on economic and monetary union and political union preceding the Maastricht Summit, the hostility of the British government to any new treaty including the word 'federal' had held a lot of attention (Laffan 1993: 40). Less prominently, however, Spain was also playing what *The Economist* at the time described as a game of 'brinkmanship': the Spanish Minister for Europe insisted that his country would not sign an agreement on political union without 'a good deal on cohesion' (1991: 40). Spain, with the support of Greece, Portugal and Ireland, had tied the question of political union to the determination of the budget outlines for the post-1992 period¹². In this respect, the importance of the Community budget as a redistributive mechanism was emphasised by the 'gang of four' least well-off member states:

That this purpose was broadly perceived as legitimate can be inferred by the inclusion, already in the Single Act, of the principle of economic and social cohesion and by the agreement to double the Structural Funds by 1993. Moreover, the importance of such cohesion was underlined at Maastricht with the agreement to establish a Cohesion Fund. Even though no figure was laid down, its inclusion gave an important legitimacy

¹² Commissioner Millan, giving evidence to the House of Lords Select Committee on the European Communities in 1991, gave his interpretation of this issue as follows: '... what I think is happening at the moment is that some of the member states, led principally by Spain but with tacit or explicit support from Greece, Portugal and Ireland are saying, "Before we agree to the Treaty arrangements which are now proposed to be agreed in Maastricht at the end of this year, we must have some assurance that our problems in the context of EMU particularly but also more generally are properly taken care of, and that means finance". In other words they are looking for some commitment in financial terms before the end of the Intergovernmental Conference process' (House of Lords 1992: 102).

to the goal of aiding the four least prosperous states. Indeed those states could look back to their success in 1988 as proof that if placed under sufficient pressure, the others would eventually agree to an increase not so far from that which they were demanding (Shackleton 1993: 384).

The exhausting negotiations at the Edinburgh Summit had to put a figure on the amount devoted to cohesion expenditure¹³. Despite threats of a walk-out by Spain, agreement was eventually reached. The significance of the agreement was enormous, as noted by Shackleton who pointed out that 'in the event, the careful preparations made by the British Presidency before the Edinburgh meeting (and skilful chairmanship during it) made it possible for the Community to avoid the high costs of a failure whose repercussions would have extended well beyond the budgetary arena' (1993: 387).

The complexity inherent in such negotiations is often simplified into the contention that the growth of the Structural Funds budget can simply be explained in terms of 'bribes' paid by wealthier member states to poorer member states in return for their assent to major policies with redistributive implications (such as the Single Market or economic and monetary union). Gary Marks questions whether the notion of bribes or 'side payments' can explain the recent increases in the Structural Funds budget. As well as the examples considered above, it can be argued that the expansion of structural policy through the 'Integrated Mediterranean Programmes' (IMPs) established in 1984 for Greece, southern Italy and parts of southern France constituted side-payments 'to offset the increased agricultural competition that was bound to result from the inclusion of Spain and Portugal in the Community' (Marks 1992: 199). However, Marks suggests that the powerful logic of the 'side-payments model' is problematic in the sense that the spatial effects of policies such as market liberalisation or economic and monetary union cannot be known precisely in advance. This point was made in the Padoa-Schioppa Report (cf. the above reference rejecting both 'dogmatic optimism' and 'fatalistic pessimism') and was emphasised by Bruce Millan, the Commissioner responsible for regional policies, at a press briefing in London in 1991:

It is a matter of dispute at the moment among economists, including within the Commission, as to whether economic and monetary union will be good for everybody or only good for some. Some of these economic arguments miss the point. The point is that, first of all, you cannot prove anything in advance

¹³ The budget for structural actions was in effect divided into four separate sub-budgets at the Edinburgh Summit as follows: the new Cohesion Fund for Spain, Portugal, Greece and Ireland; Structural Funds Objective 1 expenditure in the Cohesion Four member states; Objective 1 expenditure elsewhere; and all other structural actions expenditure, incorporating the other Structural Funds Objectives.

with any certainty (Commission of the European Communities 1991: 3).

The Commissioner went on to stress the unacceptability of wide economic disparities in a political community¹⁴. By contrast, Marks developed a model which incorporates this uncertainty about outcomes. His revised model of the side-payments argument stressed that 'the poorer societies were paid because of the greater vulnerability to any given economic loss *should it occur*' (1992: 202). According to Marks, 'the risk of economic recession is harder for a less affluent society to bear' for three main reasons: firstly, the poorer member states lack 'a cushion of affluence against economic downturns'; secondly, the countries with the most severe regional problems (Portugal, Spain, Greece and Ireland) are recent members of the Community and 'are prone to a negative political fallout if their hopes for economic growth as a result of economic liberalization are shattered' as 'mass publics are ... just now becoming accustomed' to the idea of European integration; finally, three of the southern members (Portugal, Spain and Greece) are 'facing the uncertainty of economic liberalization while undergoing the fundamental political transition to liberal democracy'. Therefore, Marks' modified version of the side-payments model is more sophisticated than the simple concept of 'bribery' since, 'instead of sweeping the unpredictability of the process aside, it builds unpredictability into the explanation and poses the question whether the risks of the policy fall more on some societies than others' (1992: 202-4).

At this point it is worth emphasising again that the legitimacy of member states' stress upon the Community structural actions as a redistributive mechanism does not automatically apply to such reasoning by regions. Following the Objective 2 lobby's meeting with the Portuguese Minister for Regional Policy (the acting President of the Council) mentioned in the preceding section, the delegation prepared a report which they subsequently submitted to the President of the Commission and to DG XVI. While the document congratulated the Commission on the 1988 reform of the Structural Funds, it also raised the worries of Objective 2 regions over compensation for the adverse implications of economic and monetary union (EMU). Although they claimed to support EMU as it would 'bring important economic benefits to the Community as a whole', they pointed out that it was less clear how those benefits would be distributed

¹⁴ This has been a key theme in official Commission documents on structural policy. The original Thomson Report on 'Regional Problems in the Enlarged Community' preceding the creation of the ERDF suggested that 'No Community could maintain itself nor have a meaning for the peoples which belong to it so long as some have very different standards of living and have cause to doubt the common will of all to help each Member to better the conditions of its people' (Commission of the European Communities 1973: 4).

at a regional level and whether some regions would be adversely affected by the process:

Objective 2 regions are well aware of many of the implications of EMU since each of the regions is in a monetary union within its nation state. Equally, it is evident that regional disparities can persist within monetary unions as witnessed by the continuing high unemployment rates in Objective 2 regions. What particularly concerns Objective 2 regions is the apparent lack of Community regional adjustment mechanisms within an expanded Europe-wide monetary union. How are existing disparities to be redressed? How will adjustments be made to counter major economic shocks which impinge on one or several regions, due, for example, to the rapid run-down of a particular industrial sector in a region? (Objective 2 Lobby 1992: 5).

The Commission immediately disapproved of the pessimistic tone of the document, pointing out the difficulty of predicting with any certainty the spatial effects of economic and monetary union. While it was legitimate for Spain to stress its worries during the Intergovernmental Conferences, the Objective 2 lobby was encouraged to drop such a line of argument. In subsequent lobbying activities, the regions placed less emphasis on their worries over EMU, and pushed instead the theme of continuity, the argument that Objective 2 regions needed more than just five years to address their restructuring needs. As Knight *et al* have shown, it is a poor lobbying tactic merely to complain to the Commission since 'one of the main rules of European lobbying' is the need to take 'a positive attitude to the Commission's proposals (1993: 171). Likewise, Averyt emphasised in an early study of interest groups at the EC level that it was a wise strategy not to embarrass the Commission (1975). It is evident herein that even the least prosperous member state governments of the EC did not openly criticise the possibility of welfare gains for all states in the Community through the key proposal of economic and monetary union: rather, after agreeing to the proposal they sought guarantees from the other member states with regard to its possible distributive consequences.

Marks' model of the differential costs *to member states* of economic risk is a refinement of the traditional side-payments model, but the fact that the compensatory logic still prevails should be emphasised. Either member states are compensated for the expected economic costs of Community policy, as in the standard side-payments model, or they are compensated for accepting the danger of potential economic costs, as in the revised side-payments model. It has been shown in this section that this compensatory

logic has been central to the history and recent development of Community structural policy. Moreover, the concerns of member states have figured more prominently than those of sub-national regions.

Where this paper departs more radically from the explanation offered by Marks is when he suggests a second approach ('by no means mutually exclusive with the focus on risk') to explain the growth of the Structural Fund budget as the result of changing conceptions of 'fairness' (1992: 204). According to this approach, 'many educated younger people, particularly those active in the EC, regard the state as just one of several legitimate arenas for achieving the public good', and hence their egalitarian demands for a regionally redistributive policy prepare the ground for further integration (ib.: 204-5). Even if this new sensitivity to the problems of equity amongst Europeans exists, the Structural Funds as they currently operate provide only very blunt instruments to promote redistribution in favour of the poorest members of European society. Moreover, an instrument such as the Cohesion Fund, distributed to the central governments of Spain, Portugal, Ireland and Greece openly compensates member states and makes very little attempt to address issues of equity at either a regional or social level. Those who argue that structural expenditure is driven by equity considerations often point to the significance of the Structural Funds in comparison with the post-war Marshall Plan for reconstruction in Europe. In terms of the percentage of their GDP, it is true that the major recipient countries under the Marshall Plan in 1948-1951 and the major recipient countries under the EC Structural Funds in 1989-1993 received roughly similar levels of expenditure. By contrast, there is no similarity from the point of view of the donor: the USA contributed 2% of its GDP per annum under the Marshall Plan, compared with only 0.12% 'donated' annually by the EC's 'rich' member states under the Structural Funds¹⁵.

This detailed account of the growth of the Structural Funds budget has been essential in revealing the *logic of policy* in Community structural action. Now that this logic has been set out, the analysis returns to considering the efficacy of the declining industrial regions' lobby in the budget reform process in the context of the wider importance of Structural Fund budget decisions.

¹⁵ This point was made at a seminar at the European University Institute in Florence in March 1994 delivered by a senior official of the Commission of the European Communities. He pointed out that the calculation had been made by the Commission services based on Milward, A.S. (1984) *The Reconstruction of Western Europe 1945-1951* (London: Methuen).

5. The Structure of the Bargaining Game over the Structural Funds Budget

To recapitulate, this study has highlighted the lobbying attempts of a group of declining industrial regions in the reform of the EC Structural Funds budget. It appeared early in 1991 as though Objective 2 funding, under which these regions gained structural assistance, would be severely cut, or even scrapped, at the end of the financing period in 1993. This spurred the traditional industrial regions, with European Commission prompting, into collective action to protect their financial interests under the reform of the Structural Funds budget. After forming the 'Objective 2 lobby' and engineering a *de facto* take-over of a longer established organisation, RETI, the regions together called for a continuation and doubling of the Objective 2 allocation in the post-1993 period. This demand was reduced to a call for a two-thirds increase by the time of the Edinburgh Summit in December 1992, at which the heads of state and government of the Community were negotiating the wider financial framework for the EC budget between 1994 and 1999 against the backdrop of the Maastricht Treaty. As part of the wider package agreed at Edinburgh, it was decided that Objective 2 would indeed be retained and that there should be an increase in the resources devoted to this category of structural spending of around 50%. Superficially, it could be argued that this outcome represented a successful conclusion to the lobbying efforts of the declining industrial regions, given that less than two years earlier the continued existence of Objective 2 had seemed to be in question. However, this paper has argued that to infer influence for the lobby from this outcome would be to neglect the full context of the decision. The previous section showed the underlying compensatory logic of the Structural Funds, applying primarily at the member state level. This section will show how the structure of the decision-making framework effectively precluded influence for the Objective 2 regions.

The pivotal role of the UK government for the lobby of industrial regions was already noted above and highlighted in an extract from a RETI news-sheet. Not only did the UK government hold the Presidency of the Community in the second half of 1992 when a decision on structural funding was set to be taken, but as the government of the member state attracting more Objective 2 resources (around 38% of the total) than any other member state, the Conservative government of the UK found itself cast in the role of the unlikely champion¹⁶ of the Objective 2 cause. It was openly acknowledged by the UK government and the Permanent Representation of the UK

¹⁶ Not only was the Conservative government hostile to the concept of regional economic planning *per se*, but most of the local authorities or regional governments in regions eligible under Objective 2 were controlled by socialist parties, as would be expected from the socio-economic profiles of the traditional industrial regions.

government to the Community (UKREP) that their primary goal with regard to the Structural Funds was to keep the overall budget for such expenditure as low as possible. As Peterson has pointed out, 'the UK's contribution to the EC budget has been the single most important issue for the EC policies of all post-1973 British governments' (1992: 161). The ERDF itself had been established in the first place largely to satisfy British demands as it was evident that Britain would be a net contributor given its low share of expenditure under the Common Agricultural Policy price support mechanism. However, successive enlargements of the Community had reduced the UK's relative share of ERDF resources. As emphasised in the previous section, concentration of resources on southern Objective 1 regions in 1988 had been designed to soothe the worries of the five member states most apprehensive at the prospect of the Single Market. According to Peterson, there are key incentives enticing *each* member state towards closer union. For instance, the Thatcher government in the UK was eventually drawn to compromise and acceptance of the various institutional reforms of the mid-1980s by the 'carrot' of European Political Co-operation (EPC). Having been created in the early 1970s as an intergovernmental forum for the co-ordination of national foreign policies, the EPC (and British enthusiasm for it) was used as a 'lever' by other member states to secure acceptance of reform in other policy sectors (1992: 164). Conversely, from its early days when it was used to soothe British hostility to other policy sectors, the ERDF had become a financial burden to the UK Conservative government whose support for the principle of the Structural Funds in general has to be 'levered' through concessions in other fields¹⁷.

At the same time as seeking to limit the overall level of the Structural Funds budget, however, the UK government was keen to maximise the UK's share of the final total. Although Northern Ireland had been included as an Objective 1 region by the Council of Ministers in 1988 (and there was some discussion of the possibility of including the Highlands and Islands of Scotland and Merseyside in England in the Objective 1 list for the post-1993 period¹⁸), it was clear that in order to maximise its take from the Structural Funds budget the UK would have to maximise the share of Objective 2 funding. The study of this bargaining over the Structural Funds budget

¹⁷ The Secretary of State for Trade and Industry in 1991, Peter Lilley, told the Select Committee on the European Communities of the House of Lords investigating 'EEC Regional Development Policy' the following: 'Originally, I believe, the establishment of the Structural Funds (*sic*) was partly at the United Kingdom's behest, at the time of the negotiations in 1972, to try and provide some offsetting flow of funds to compensate the outflow on the agricultural budget. Initially we did get a disproportionate share but over the years that share has diminished and we now get a less proportionate share. We obviously have to try and counter the pressures that go in that direction, but it is very much for negotiation at each stage' (House of Lords 1992: 153).

¹⁸ These regions were subsequently declared eligible for Objective 1 support by the Council of Ministers, meeting in spring 1993.

review, with twelve member states each bringing to the bargaining table different sets of preferences, therefore becomes incredibly complex.

The interdependence of the fates of the member states in this bargaining allows a conception of the process as a *complex game*. However, the key to understanding the reform of the Structural Funds budget is to note that it is a 'co-operative game'. A 'non-co-operative game', defined as 'a situation in which people must choose without the opportunity for explicitly co-ordinating their actions' (Ordeshook 1986: 99), is very different from the reality of the decision-making process in Brussels. European policy-making over the collective allocation of structural resources, for which unanimity is required, is highly co-ordinated. Not only do the Permanent Representations of the member states in Brussels prepare various drafts of an agreement, but the Commission itself (originally in the form of the Delors II Package in the case of budgetary reform) produces proposals designed to facilitate agreement between the twelve member states. More importantly, as shown in the previous section, Structural Fund budget matters are tied to issues beyond the budgetary decisions immediately at hand. The allocation of structural resources is not a one-off, zero-sum game in which the incentives for member states to co-operate are minimal. Rather, the decision forms one part of an inter-related set of decisions carried along in an open-ended series of 'games'. The importance of iteration in allowing co-operation to emerge in such situations is a noted feature of the game theoretic literature: 'the evolution of co-operation requires that individuals have a sufficiently large chance to meet again so that they have a stake in their future interaction' (Axelrod 1984: 20).

Weber and Wiesmeth have shown how 'the technique of issue linkage has been used continually in the deliberations of the European Community' (1991: 255). The oft-quoted linkage between the German desire for a Common Market (and the lack of French enthusiasm) and the French desire for a European atomic energy agency (and the lack of German support) in the 1950s is again raised. However, the authors adopt a more sophisticated approach than simply to assert a trade-off between these issues when they question whether issue linkage promotes or hinders agreement. It may be, they suggest, that, because of informational barriers in the EC, problems are exacerbated by issue linkage: 'if one party is asked to shift its policies now in exchange for a promise of future compensatory action, it may suspect that the other party will renege on its word' (1991: 255). The authors nevertheless conclude that international regimes actually facilitate the resolution of such problems, by showing how linkage can 'overcome distributional obstacles to co-operation in an international regime with the national governments as the central actors' (ib.: 259). While Peterson suggests that

there are numerous key incentives which act as 'levers' with which to prise agreement out of each member state, Weber and Wiesmeth claim that most package deals in the EC now involve changes in budgetary contributions or the level of Structural Fund receipts as one of the issues.

Similarly, Moravcsik points out that 'compromise, side-payments and linkage' may take place in European Community decision-making:

Governments often have differential preference intensities across issues, with marginal gains in some issue-areas being more important to them than to other governments. Under these circumstances, it may be to the advantage of both parties to exchange concessions in issue areas about which their preferences are relatively weak for concessions in other areas about which they care more. Even when a set of agreements, taken individually, would each be rejected by at least one national government, they may generate net advantages for all if adopted as a 'package deal' (Moravcsik 1993: 505).

Linkages can increase the aggregate welfare of the parties to the deal, but, crucially for Moravcsik, such deals can only be conducted '*at the margins*' of Community policy. The deletion of 'federalist' language from the Maastricht Treaty at the insistence of the UK, or the linkage of monetary policy to increases in the Structural Funds are conceivable as these are not central issues in the gambit of EC policies. By contrast, it would not be possible to link central Community policies. Moravcsik contends that the purported linkage between German access to French industrial markets and French access to German agricultural markets was not in reality as important as generally assumed. Any linkage between such issues was marginal (1993: 506).

The major limitation on issue linkage strategies, for Moravcsik, is domestic opposition. While it is acceptable for governments to adopt proposals and then tease out amongst themselves at the margin budgetary adjustments to offset the possible distributional consequences between the member states of the proposal, linkages having important domestic distributional consequences would be unacceptable. 'Since losers tend to generate more political pressure than winners', for example German farmers set to lose out would shout with a louder voice than those German industrialists set to benefit from a Franco-German industrial-agricultural trade-off, linkage of such central policies becomes a 'politically risky strategy' (1993: 505). If it is true that opposition in the domestic political game is indeed the major limitation on linkage strategies in the European-level game, why is it the case that the Structural Funds are increasingly used as a bargaining chip in such linkages?

In a sense, decisions concerning the Structural Funds budget can be broken into two analytical stages, although the link between the two is strong in practice. Both at the time of the Single European Act and at the time of the Maastricht Treaty, all member states committed themselves to a wide-ranging process designed to increase the aggregate welfare of the twelve as a whole. At the time these decisions were taken, certain members states expressed concern at their possible distributive consequences. In both instances, as seen in Section 4, commitments were made to the principle of 'economic and social cohesion' but with no clear statement of the amount of resources to be devoted to that end. The prospect of increased expenditure was, however, enough to secure the agreement of all member states to the central proposals (firstly for a single market and then for economic and monetary union). Eventual changes in the Structural Funds total, both in 1988 and 1992, followed some time after the original commitment was made to do so, and represented the culmination of the pressure exerted by the major recipient states (largely in the south of the Community), voicing their concerns at the likely distributive consequences of their earlier agreements. In this way, the haggling over distributive implications is effectively separated out from the original proposal designed to increase aggregate welfare. The resolution of both types of decision simultaneously would be practically impossible, so that in the Community arena such an apparent separation of distributional issues appears to increase the efficiency of decision-making over central Community policies.

Majone has considered the distinction between efficiency and redistribution in the broader context of collective decision-making processes in the European Community/European Union. In his writings, efficiency issues are interpreted as 'positive-sum games where everybody can gain' and can be settled, in principle, by unanimity. Redistribution of income and wealth, by contrast, will inevitably involve conflict. Consequently, in the context of the EC, efficiency-oriented institutions are legitimated by the results they achieve while redistribution-oriented institutions are more usually legitimated through direct political accountability. Efficiency and redistribution decisions are therefore dealt with through separate collective decision processes:

In general, decision-making in the European Community/European Union can be usefully analyzed as a two-stage process At the first stage, the Commission examines a variety of projects to be undertaken at the supranational level and then makes a proposal which promises to increase aggregate welfare. Typically, the proposal will produce very

different patterns of benefits and costs for the member states, so that it is difficult to reach agreement. At the second stage, therefore, the Commission suggests ways to overcome distributional obstacles by compensating the losers. This ability to separate the stages of value creation and value claiming is arguably the most important contribution of the Commission to the process of European integration (Majone *forthcoming*).

This conceptual distinction promises a deeper understanding of the process governing decisions over the Structural Funds budget. Potentially value-creating decisions, such as the decision to complete the Single Market or move towards Economic and Monetary Union, were effectively separated out from their redistributive consequences. It was generally accepted that such moves toward further integration would have short- and medium-term consequences for the redistribution of costs and benefits between member states, although in the longer-term they were in the interests of all and promised an increase in aggregate welfare. Subsequent haggling at the 1988 Brussels Summit and the 1992 Edinburgh Summit over structural spending can be interpreted, in effect, as the 'pay-back' to those member states which gave their support to earlier moves to integration despite their reservations concerning redistributive implications. As suggested above, attempts to resolve both value creating and value claiming decisions simultaneously would have been particularly problematic, and would have severely hamstrung the Community's ability to take major decisions.

It is commonly asserted that the separation of issues of efficiency and redistribution in this way cannot be realised in practice. There is agreement among most economists upon the technical conditions under which the issues can in fact be separated, and these conditions have been summarised elsewhere (Milgrom and Roberts 1992: 35-39). In the context of policy-oriented research, Majone provides a summary of these conditions. He suggests that, in the absence of 'wealth effects', value creation and value claiming can be treated as distinct and separate processes, where 'absence of wealth effects means that every decision-maker regards each possible outcome as being completely equivalent to receiving or paying some amount of money, and that there are no a priori restrictions on monetary transfers' (*forthcoming*). When the decision-makers are large organisations or governments this assumption is plausible. In fact, issue linkage between European Economic and Monetary Union and resource transfers in the form of structural payments to poorer member states is itself given as an example of the applicability of the 'no wealth effects' assumption.

If this conceptualisation of the role of the Structural Funds budget decisions is accurate, as this paper sustains, it suggests a low potential influence for the Objective 2 lobby. Decisions governing the Structural Funds budget are an important element in the wider decision-making process at the European level. They constitute the most important tool in the 'second stage' of the two-stage process highlighted above in Majone's general conceptualisation of decision-making in the European Community/European Union. Crucially for the understanding of this paper, value claiming in the framework of the Structural Funds at the European level falls to the governments of the member states. The unravelling of earlier value creating decisions would be a potential risk were the governments in the value claiming stage to be bound by an Objective 2 lobby comprising regional government representatives. The *logic of policy* underlying EC Structural Fund budgetary decisions suggests that the influence brought to bear by sub-national actors will therefore be of little significance. The taking of such decisions behind closed doors and the secrecy of Council decision-making minimises the access of lobbyists and allows issue linkage (with Structural Funds totals as one of the issues) to take place.

6. Conclusion

This study has emphasised throughout the need for a disaggregated approach to studying the evolving process of interest intermediation at the European Community level. The burgeoning literature on this topic has, by and large, accepted the call for empirical research on a sector by sector level, taking account of the 'sheer range of types, and volume of players, involved' (Greenwood *et al* 1992: 21). The empirical material presented herein is a contribution to this field in the specific area of regional representation, hitherto a relatively neglected gap in the market. Moreover, the case presented here is of a struggle to influence distributional issues, which as Cawson points out, is likely to be quite different from that around issues of regulation. For example, one recent study of health and safety at work regulation concluded that 'the extremely complex and opaque regulatory process offers many chances for lobbying and the Commission is open to and explicitly invites any articulation of interests and any help from outside experts' (Eichener 1992: 95). Such nascent pluralism, however, cannot be read across all policy sectors, least of all to distributional issues.

"Who governs?" is a more critical question for the study of EC policy-making than "Who speaks?" is a useful maxim to bear in mind when studying the process of interest inter-mediation in the EC. The interpretation of interest group politics is

inseparable from the policy-making institutions and domains upon which they are targeted. In the case of distributional policies in the EC, the Council of Ministers and the European Council remain the major arenas in which such issues are resolved. Mazey and Richardson use Hoffman's classic distinction between 'high' and 'low' politics to point out that influencing technical issues of low political salience is easier than influencing 'high' politics at the European level such as 'monetary union, German unification, relations between the EC and the USA or Japan, or Community enlargement' (1993: 18). This study does not simply reaffirm the distinction between 'high' and 'low politics' in the EC, in which 'money' constitutes 'high politics'. Rather, it refines the concept of 'high' politics by detailing the structure of the bargaining game over structural spending and budgetary politics in the EC. It has been shown that the Structural Funds provide primarily a tool for securing consent for aggregate welfare enhancing (i.e. efficient) policies. Given the significance of Structural Funds budget decisions in separating out redistributive from efficiency enhancing issues, it has been shown that the member state governments will want to retain full control of this game. The *logic of policy* therefore implies little role for lobbying by sub-national actors.

It could be argued, of course, that the Objective 2 lobby was very influential and that Objective 2 funding would have been lost in the absence of the concerted pressure exerted by the lobby. However, it has been argued here that such a hypothesis is flawed as it misses the importance of issue linkage in the decision-making structure concerning the Structural Funds in the European-level bargaining game. A more substantial criticism might be that the study presented herein privileges the importance of decision-making at the expense of agenda-setting and therefore ignores the role of the European Commission in laying the grounds for eventual agreement. After the uncertainties for declining industrial regions of 1991, the commitment to Objective 2 support in the Delors II Package would therefore represent a successful intermediate outcome of the lobbying pressure exerted. It has been shown herein, however, that the logic of the political bargaining over Structural Fund totals stretches wider than simply the expenditure issues at stake. Following Majone's conceptualisation of decision-making at the European level as a two-stage process, the Commission is more concerned by the aggregate welfare increasing proposals. Just as the eventual allocation of Objective 1 resources witnessed a monumental struggle (in which the Commission was unable to broker a solution) between member state government ministers in the Council, redistributive haggling is typically the preserve of the Council and can often depart from Commission suggestions of ways to resolve such issues.

The Director General for Regional Policies, Eneko Landaburu, explained in 1990 that the doubling of the Structural Funds budget in February 1988 had obscured the simultaneous, radical overhaul in the way such money was spent (Landaburu 1990). The involvement of regional authorities in the design of regional development plans and in the 'partnerships' established to implement and monitor the subsequent conversion programmes had been overshadowed by the overall increase in resources. Political science literature is now beginning to assess the implications of these new 'vertical' arrangements (Hooghe 1992; Marks 1992), with one author suggesting that we are now witnessing the emergence of 'multi-level governance' in the EC (Marks 1993). It may now be timely to reverse Landaburu's comment: *the way the Structural Fund programmes were implemented in the regions between 1989 and 1993 should not obscure the manner in which the budget totals for the 1994 to 1999 period were set*. At the European level the structure of the bargaining game governing Structural Fund totals is determined by the linkage of issues of wide-ranging significance for the Community's development and aggregate welfare to the distributive concerns of member states. In this European level game the pressure exerted by the Community's industrial regions is not likely to impinge greatly upon the driving logic of the process.

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