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The Unbearable Instability of Structural Funds' Distribution

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ABSTRACT *In order to promote "cohesion, competitiveness and cooperation" across Europe, the EU has established a common regional policy to support underdeveloped territories. This EU regional policy required to set up a very complex mechanism to implement such a huge effort to coordinate many interventions across highly differentiated territories. However, those territories are provided with very different institutional settings, and then the mechanism to coordinate all of them becomes particularly complex. The aim of this paper is to discuss the EU multi-level governance for structural funds (SFs), revising the origin, rationale and evolution of this policy in order to identify the limits of the institutional mechanism for the implementation of this policy. These limits will show their effects on the unstable distribution of SFs across the EU regions on a long-term perspective. Results show that the intervention of the EU is neither constant nor stable across regions, independently from their development paths. This instability should provide further arguments on the discussion about the SF policy and governance in order to take into considerations also institutional limits of the EU.*

Introduction

The effectiveness of any policy is strongly dependent on how this policy has been designed and implemented, not just on goals and resources allocated. This statement might appear as obvious; however, the recent debate about the EU regional policy seems not considering the limits in the implementation governance of the structural funds (SF) in the past decades.

The intensity of the EU intervention across regions has changed dramatically and in a heterogeneous way. These changes determined instability in the support received by "treated" regions considering both the intensity of intervention in each region and the overall inter-regional distribution of the SF. Clearly, all these changes were the outcomes of the (extremely complex) decision-making process of the EU, which determined strong uncertainty in the policy chain from the objectives definition to the final implementation.

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However, it seems that the effects of these changes in the implementation of the SF have not been considered in the evaluation of the results of the policy (EU-Commission, 2010).

In spite of a quite clear understanding of the complex dynamics of the EU policy-makers (Blom-Hansen, 1999; Putnam, 1988; Scharpf, 1988, 2006), the effects of the EU multi-level governance (MLG) on the implementation of the SF have been little explored discussing the long-term uncertainty that the EU institutional framework determines. As example, in the theoretical debate about regional policies, it is not clear if and in which cases a "strong shock" for a short period should be preferred to a long-term, but less intensive intervention, or vice versa. In the mainstream models of regional development these elements are rarely discussed (cf. Armstrong & Taylor, 2000; Pike *et al.*, 2006), although there is a certain agreement on the fact that these dynamics require long periods of observation. Clearly, all these aspects are highly relevant for policy-makers in order to understand, evaluate and design their policies at the EU or any other level.

The aim of this paper is to show the instability in the intervention of the EU SFs, which is considered to be an under-estimated problem of this policy. This instability is mainly due to the limits of the EU MLG as was set up for the implementation of SF, although there are no doubts about the formal legitimacy of this policy. The focus on instability of SF supports aims to provide an integrative argument able to explain the limited results of this policy. Using other words, the weak institutional framework undermines the proper implementation of the EU regional policy. Specifically, this study wants to show the gap between the design and implementation phases of this policy, considering constraints and opportunities of the institutional framework for the EU regional policy.

In Section The European Regional Policy, the EU regional policy will be presented and discussed considering the main characteristics of this policy and the MLG for its implementation. In Section Evaluating the EU Regional Policy, the main arguments on the evaluation of the EU regional policy will be discussed, and then the approach for the empirical analysis presented. In Section The Heterogeneous Dynamics of the EU Intervention across Regions EU regions will be mapped considering their economic paths and the intensity of the EU support received in order to show the instability in the treatment provided by the implementation of this policy. Finally, Section Conclusions and Further Developments provides conclusions highlighting further fields of research.

The European Regional Policy

Origins and Rationale of the SFs

In order to promote "cohesion, competitiveness and cooperation" across Europe (EU Commission, D.-R., 2008), the EU has established a common regional policy to support underdeveloped territories. Specifically SF are conceived to support regions with low income, high rates of unemployment, socio-economic structural problems and/or peripheral positions (cf. Armstrong, 2007). Even though the first version of a European regional policy was introduced in 1975, the common reference for the beginning of this policy is 1989. In that year, a significant reform determined a very important upgrade of this policy in order to provide support for the new and poorer member states (Ireland, Portugal, Spain and Greece), the poorer areas of founder members (the Italian "Mezzogiorno" and the Eastern Lander of Germany that was moving towards the re-unification) and other regions suffering from industrial reconversion across Europe. Moreover, that reform was conceived to tackle the growing inter-regional disparities between and within member states (Bachtler & Mendez, 2007; Bailey & De Propris, 2002; Baldwyn & Wyplosz, 2009; El-Agraa, 2007; Rodríguez-Pose, 2002).

Starting from 1989, the mechanism of intervention changed moving from a support for specific sectoral projects to a more complex mechanism to fund regional development programmes. Specifically, the so-called "Objective 1" (Ob-1) was set up for regions below the threshold of 75% of the EU *per capita* GDP. The Ob-1 provides poorer regions with about two-thirds of the SF, which progressively increased becoming about half of the whole EU budget. Moreover, other "minor" objectives (e.g. Ob-2 and Ob-5b) were established to intervene in other specific regions with problems of industrial reconversion or to promote inter-regional co-operation. These "Objectives" have been substantially confirmed during 1990s when new member states from Central and Eastern Europe joined the EU. In 1999, a second reform extended the SF support to all the non-Ob-1 regions. All these changes determined an overall reduction in the concentration of SF on targeted regions.

In terms of mechanism, since 1989 the EU regional policy is based on four basic principles: programming, concentration, additionality and partnership. First, regions are funded on the basis of multi-annual development programmes defined in agreement among the EU Commission and national and regional governments. Second, "objectives" are used to concentrate SF on territories with specific needs, as defined at the EU level (Mendez *et al.*, 2006). Third, member states must co-finance regional development programme avoiding risk of an "effect of substitution" (criterion of additionality) and enhancing synergies with existing policies. Fourth, regional development programmes have to be designed involving several actors, including regional governments. All these criteria constitute the fundamental rationale of the policy determining significant challenges for the EU governance. Specifically, this is the first and only EU policy where regional governments are directly involved and have to play a pro-active role.

Generally, the EU regional policy has been conceived as a redistributive policy balancing disparities among core and peripheral regions by funding investments in regions with lower productivity. This policy aims to compensate undesired effects determined by other EU policies, namely, the Single European Market which determined benefits mainly for core regions (Scharpf, 1988, 2006). From a territorial point of view, the rationale conceived for an EU with 12 member states has been simply extended to the new context with a number of countries more than double, although those countries present dramatically different territorial challenges.

The Complexity of the MLG of the SFs

The main idea of the EU regional policy is to coordinate territorial development programmes across regions reinforcing existing policies by EU funds. Generally, the EU regional policy aims to integrate rather than substitute national policies like in the case of the Common Agricultural Policy that replaced national ones. This principle determined the need for a deeper coordination among tiers of government.

From an institutional point of view, the set up of SF pushed the process of decentralization determining a general reshaping of member states' institutional frameworks. While national governments were setting up an upper tier (the EU and related institutions) transferring competencies upwards, regions benefited from a rise in competences of their tiers of government in order to manage the new EU policy. Generally, the EU can be considered as a permanent, upper and highly structured arena for coordinated decision-making among member states, while the EU Commission cannot be considered as a government with full sovereignty because all decisions must be adopted in agreement with Member States. Although efforts to set up the EU institutions were extremely relevant, the final institutional architecture presents several limits.

The theory of the "joint-decision trap" describes the core problem for policy-making at the EU level (Blom-Hansen, 1999; Putnam, 1988; Scharpf, 1988, 2006). Inspired by the German federalism, the EU institutions were designed according to the principle of "subsidiarity" in order to both maintain national sovereignty and provide common arenas for supra-national joint-decisions. Nevertheless, since 1980s Scharpf (1988) showed that this mechanisms determine sub-optimal decisions because, if unanimity is required, then just win-win situation and Pareto-efficient decisions can be achieved; whereas unitary states with full sovereignty can deal conflicts determined by zero-sum games, as in the case of most important and sensitive structural reforms. Following this idea, one of the most common risks of this "trap" is to over-spend public resources to achieve unanimity across all the governments (the "joint-decision").

Among the main problems of the EU decision-making, the progressive enlargement of the EU determined an increased heterogeneity across member states in terms of size, level and trends of socio-economic development, specific political interests and attitudes, national histories and geographical peculiarities. Moreover, the misalignment of electoral cycles affects dramatically political behaviours of governments when elections are approaching. Even though Scharpf (2006) already highlighted the benefits provided by the creation of the EU Commission to reduce transaction costs for agenda setting and decision-making, the EU has been unable to reform the rationale and governance of SF to face new territorial challenges of an enlarged Union.

Considering just the EU regional policy, three different tiers of government are involved in a three-step procedure (Olsson, 2003). In the first step, the EU Commission and National Governments have to find an agreement on the general policy guidelines, including the inter-national distribution of budget and the criteria for regional eligibility among objectives. At this stage, the EU Commission plays as pivot of the negotiation; thus regional governments are not officially involved, although "regional" politicians might have an influence on upper decision-makers. In the second step, national governments shall design their national strategy of development and regions participate providing their own development programmes. Both national and regional development programmes have to be developed under the supervision of the EU Commission, although the idea to integrate SF in existing policies guarantees significant degrees of freedom. In the third and final step, regional governments shall implement those development programmes using SF and having financial and technical support from national governments. In this last step, the EU Commission has just to monitor the co-funded development programmes. The resulting governance framework is a system of policy arenas which are interconnected, mutually influencing, and involving many different public bodies. Even though the EU is making significant efforts to "regularize" and "rationalize" this process, the empirical evidence shows much more complex interactions, a less clear hierarchy and task divisions (Conzelmann, 1998).

Moreover, the negotiation takes about 5–6 years and this determines significant uncertainty in the whole process of policy design for the limits in the understanding of policy results. Even though the decision-making process is particularly long, the next cycle of SF has to be defined when the previous one is not yet finished. Therefore, evaluation of final policy results becomes available too late and just mid-term evaluation can be used as support for a new policy cycle. As a consequence, the joint-decision trap is reinforced because a lack of results becomes evident too late for pushing decision-makers towards a new equilibrium.

From the point of view of regions, this governance mechanism has determined needs for stronger regional governments to implement it. When this model was conceived, the main reference was Germany, whereby the federal system assures a strong role to “Länder”. In other cases, regional governments existed already, like in Italy, France and Spain, although they were provided with limited powers, resources or political legitimization. Indeed, the situation in member states varied according to several reasons like the size of the country (e.g. Germany versus Luxembourg), the presence of linguistic minorities (e.g. German- and French-speaking provinces in Italy), some geographical specificity (e.g. the Spanish archipelagos of Canarias and Baleares) or other specificities determined by national history (e.g. the “two” Germany). Since 1980s, the EU regional policy boosted institutional decentralization, determining often constitutional changes to adapt regional tiers to this new role (Rodriguez-Pose & Gill, 2003; Rodriguez-Pose & Sandall, 2008). As example, the UK adopted a hybrid system with four (kinds of) regional governments (Scotland, Wales, Northern Ireland and, different from all the others, London) plus eight development agencies appointed by the British government. Some other countries have had to create regional governments ex novo, like in Portugal, Greece Poland and Finland. Generally, the “Structural Funds have increased the profile and influence of regional and local actors in economic development” (Bachtler & McMaster, 2008, p. 398).

Nevertheless, the EU should be seen as a space for policies’ opportunities, rather than a complete institutional arena (Bachtler & Mendez, 2007; Scharpf, 1988; Thielemann, 1999). First, this MLG where three tiers of government are involved is a mechanism that increases the mutual influences across different governments and then across territories, although they do not have a formal and common constitutional framework. Therefore, the legal bases for the legitimacy of this process are doubtful while regional consequences are still unexplored. Second, the MLG allows regions creating new opportunities for co-operation across territories. However, regions have now to compete in an enlarged arena, although not all of them might be able to do. Third, the MLG of the SF was conceived to (try to) combine benefits of an enlarged scale of intervention with the stronger legitimacy of lower tiers of government. However, the governance mechanism is just based on inter-government co-ordination and EU co-funding of those existing national policies. Yet, when European and national preferences differ, the national one prevails and this risk undermines the whole EU perspective. All these factors determine significant uncertainty about the policy even affecting the most evident aspect such as the distribution of SF. Even though the SF policy was conceived to integrate existing national policy,

> Member States had relative freedom to designate aid areas provided that, firstly, the designation methodology was “objective” and capable of Commission assessment; secondly, the indicators used were objective, relevant and based on time series data; and, thirdly, the designation units of analysis were both justifiable and uniform within countries. On the other hand, the guidelines were not always clear with

respect to these (and related) aspects; this created significant (and, for many Member States, unexpected) problems in the map negotiations. (Mendez *et al.*, 2006, p. 594)

Evaluating the EU Regional Policy

Some Hypothesis to Explain the Limited Results of the EU Regional Policy: A Challenging Case

The evaluation of the EU policies is an issue of interest for two different reasons. First of all, given the complexity of the EU institutional framework and the political efforts to achieve an agreement, the EU Commission is strongly interested in providing clear evidence of results (successful, indeed): suffering from a lack of political leadership and legitimacy, the EU Commission must provide clear evidence of the so-called "European Added Value" to facilitate further agreements, funding and member states' efforts. However, suffering from this lack of legitimacy, EU evaluations are often more "formal" rather than "substantial" because the EC might be in trouble to deal with conflicts in case of lack of results or opportunistic behaviour by a Member State.

Beyond institutional evaluations, many scholars proposed evaluations of the effects of the SF looking for the relationship between this public intervention and regional growth. Generally, there is a certain consensus about the heterogeneity of results, although little attention has been dedicated to the specific performances of regional governments, their institutional frameworks and the capability to implement this policy. From a broad perspective, there is a general consensus about the limited impacts of this policy for the whole EU (Bouvet & Dall'Erba, 2010; Dall'Erba *et al.*, 2007; Rodriguez-Pose & Fratesi, 2004). However, in some specific regions the SF have had an incredible and positive effect, like in the well-known case of Ireland (cf. Pike *et al.*, 2006, chap. 7). Specifically, it seems that the EU regional policy had a limited impact in the reduction of the regional disparities both in terms of income (Boldrin & Canova, 2001; Dall'Erba *et al.*, 2007) and in the capability to influence redistribution of economic activities across regions (Midelfart-Knarvik & Overman, 2002), while some positive effects have been identified for some specific typologies of underdeveloped regions, unlocking their potentials (Cappelen *et al.*, 2003; Crescenzi & Rodriguez-Pose, 2008).

In order to explain this lack of results, it has been shown that regions tend to overspend in infrastructure with limited attention for investments on human capital (Rodriguez-Pose & Fratesi, 2004), although few studies followed this line of research about allocative choices of regional governments. From a more socio-economic perspective, the SF policy seems being effective if oriented to the creation of regional development pre-conditions, rather than as a direct investment to support economic growth (Bradley *et al.*, 2006; Ederveen *et al.*, 2006); otherwise, the SF become just a social redistributive policy across European regions (De La Fuente & Doménech, 2001). However, those evaluations do not consider the relative freedom of governments to use these funds.

From a perspective more focused on political issues, some scholars identified that there are political distortions in the policy design, affecting significantly the rationale of this policy (Bodenstein & Kemmerling, 2008; Bouvet & Dall'Erba, 2010; Crescenzi, 2009; Kemmerling & Bodenstein, 2006). This is relevant because it introduces the problem of institutional coordination for the implementation of the policy, although political dynamics in the EU are still an open issue (Bache & George, 2006). Specifically, it is not clear how politics introduces distortion in such a complex mechanism, although it is clear that economic rationale might be undermined, or almost affected by other kind of reasons like political behaviours or administrative limits (De Michelis & Monfort, 2008). The problem of the relationship between the economic rationale and political behaviour is common to any economic policy, although in the case of the EU the MLG is so complex that it is harder to clearly understand these dynamics.

According to all these studies and the relevance of the policy, the debate is largely and publicly open (EU-Commission, 2010). On one hand, there is not a counterfactual showing if the SF policy is ineffective in the reduction of the regional disparities or if they are able to limit the process of regional divergence (Brakman & van Marrewijk, 2008; Ottaviano, 2008; Puga, 2002). On the other hand, it is problematic to analyse "when and where" the EU efforts are adequate to the defined goals, both in terms of amount of resources and adequacy of institutional settings (Knill, 1998; Scharpf, 1988, 2006). Even though not any policy can guarantee results, these two aspects are crucial for the understanding of results of this policy, according to expected goals.

Specifically, the SF policy is fundamentally different from all the other regional policies because the EU is not a proper state with full sovereignty, and then a complete and consistent institutional framework is not guaranteed: this is the case of a policy arena with a collective decision-maker and individual implementing agencies that are not under constitutional constraints. Moreover, regional governments have incentives to mobilize themselves and "adapt" the policy to their needs, whatever "adapt" means. This is a crucial aspect when the policy is evaluated in the overall perspective.

In conclusion, even though there is limited evidence on the benefits of the EU regional policy, there is an even minor attention on the limits of evaluations because the complex MLG determines strong instability in the implementation of this policy. Therefore the evaluation of results provided by SF shall consider the different implementation by each member state.

Objective and Methodology to Analyse the Effects of the EU Institutional Framework

The institutional framework of the EU dramatically affects the use of SF and this aspect needs to be considerate when evaluating this policy. The SF policy might be seen as an inter-regional redistributive policy, as any other regional policy, because public funds are collected via taxes, mainly in richer countries and regions, and re-allocated in favour of less-developed regions. However, differently from other regional policies, SF shall be used to integrate existing regional policies of Member States.

The integration of EU and national policies determines two main consequences. First, if SF were correctly used, it should not be possible to distinguish their use from other national funds. Second, the EU does not have complete power to decide the final use of SF due to weaknesses of its institutional framework, and this might undermine the implementation of this redistributive policy.

Assuming a European perspective, the objective of SF is to provide extra funds for lagging regions supporting regional policies of member states. However, the EU Commission is allowed to define just common guidelines for the use of European SF, whereas there is a crucial step between the EU agreement and the final use of SF which depends on member states' full sovereignty. Considering the three principles of additionality of resources, integration of multi-level policies and coherency of development programmes, the sum of national policies for regional development is expected to be consistent with the European perspective. This virtuous mechanism should guarantee a "fair" support to each region according to their socio-economic needs, as defined by policy goals set up at the EU level.

In spite of this virtuous idea of European cooperation, the aim of this paper is to show that the EU support for lagging regions is not distributed consistently with European principles. Moreover, the support provided by SF is neither constant nor proportionally distributed across regions considering their development levels and trends. This "unbearable" instability is mainly due to the weaknesses of the EU institutional framework that undermines the European perspective reducing SF to a summation of national policies. Nevertheless, this hypothesis requires the development of an *ad hoc* methodology.

Considering the implementation phase, the amount of SF received by each region should be considered as the output of the institutional agreement among policy-makers across different tiers of government. The fundamental assumption is that a region receives a certain amount of SF because this is consistent with the overall rationale and goals of the whole policy. In other words, the final distribution of resources expresses the final institutional equilibrium among policy-makers to pursue the goals they defined.

Considering SF intervention as an inter-regional redistributive policy, the interest should be devoted to the intensity of this redistribution rather than on absolute values and considering regional perspectives. First, the differential treatment received by regions is more relevant that the absolute value because this expresses the intensity in the redistributive policy. Clearly, this is related to policy goals and the negotiation among policy-makers to set up that kind of policy. Second, the overall European perspective on the redistributive intensity of SF has to be combined with each regional perspective to not lose significant information. As example, the increase of funds for one region and a proportional decrease for another region might not affect the overall distribution at the EU level, although those two regions are clearly interested in that change. Mapping all those changes provides a perspective on how the SF changed over time.

In order to map the different intensities of the EU regional policy, an *ad hoc* indicator has to be conceived on the basis of previous discussions. First, the regional intensity of SF will be measured as the ratio between the *per capita* funds received by a region on the national average, as shown in Equation (1). This indicator measures the differential of the intensity in treatments received by a region. In this differential it is more relevant to consider the intensity in the redistributive goal of the policy because in case of all the regions receiving the same amount of SF the redistributive goal becomes meaningless. Therefore, using this indicator it is possible to measure the intensity in the inter-regional redistribution, which is the fundamental goal of the EU regional policy.

SF intensity differential index:

$$\mathrm{dSF}_{\mathrm{reg},t} = \frac{\mathrm{SFpc}_{\mathrm{reg},t}}{\mathrm{SFpc}_{\mathrm{nat},t}} - 1. \tag{1}$$

In terms of data collection, the geographical and institutional units have to match to consider together territorial and institutional dimensions. Even though labels changed across policy cycles, the differentials in the overall intervention provided by the EU are the outcome of the MLG considering possible compensations within SF. Moreover, regions should be considered according to their institutional level, which means generally NUTS-2 except in the case of Belgium, Germany and the UK where regional governments/agencies correspond to NUTS-1. Accordingly, EU intervention and corresponding regional actors match considering the national average as a way to integrate national effects. Finally, the longest period of data should be considered in order to map the overall dynamics of regions and have a deeper understanding (EU-Commission, 1989, 1996, 2009).

The differential in SF treatment has to be combined with the level of *per capita* GDP calculated as in Equ-1, but replacing the amount of SF received. Specifically, the time reference is the average of the most recent data available at the starting year of each cycle. As example, for the cycle 2000–2006, started in 1999 the reference years are 1994–1996. This is consistent with the institutional agreements because policy-makers can use just those data in their negotiation. Although the use of GDP is just a limited proxy of the economic level of a region, this is the most common indicator used both in economic analysis and political debates, and then it should be considered the main benchmark.

These two indicators are combined on a single graph, as in Figure 1. The distribution is expected to be on the diagonal because poorer regions (on the left) should receive more funds (on the top). Assuming a dynamic perspective, growing regions moving to the right should receive a decreasing amount of SF and then move to the bottom, and vice versa. Moreover, a region moving far from the expected diagonal is undermining the overall rationale of the policy, although there might be some specific policy reasons justifying it. Finally, it is not possible to identify *a priori* the slope of the curve because this depends on the overall degree of regional disparities within each country.

This analytical scheme is relatively simple and allows mapping different policy options. First, a higher amount of funds on an underdeveloped region achieving convergence may be kept to avoid the risk of collapsing a virtuous cycle of growth. Second, an extra investment for regions showing a strong decline can be used to avoid risk of worsening the situation, although they are not the poorest regions in the country. In conclusion, the graph just

Figure 1. Expected relationship between economic dynamics and SF intensity differential.

maps the distribution of differentials in SF treatment considering regional trends of convergence/divergence. Clearly, each regional case has different specificities. Nevertheless, this map provides the possibility for a comparative analysis about the whole redistributive role of SF. Finally, the simplicity of this analytical framework allows combining economic factors and SF distribution, making clear the results of political interactions.

The analytical framework described above will be used in the next section to map EU regions in some specific cases. The aim of the analysis is to show that SF intervention is unstable and changes across regions, undermining the possibility to achieve goals defined at the European level. This instability is determined by the complex MLG that blocks the redefinition of the whole rationale and goal of the policy at the EU level. This block at the upper level leaves significant degrees of freedom to member states in the implementation of this policy according to criteria of integration rather than substitution.

Two groups of cases will be considered to show the general instability of the SF intervention according to institutional and economic characteristics of regions. In the first group of analysis, three member states will be considered according to their institutional specificities in the implementation of SF. Specifically, Belgium, Italy and the UK provide different samples in terms of sizes, institutional decentralization and inter-regional differences. In the second sample, the differentials in the intensity of SF treatment are analysed across regions in different countries. This second analysis will provide evidence about the general trends overcoming risk of considering just specific national cases.

Finally, in order to make the analysis simpler and based on a long-term perspective, samples do not include regions in new member states. This is to avoid risk of distortion determined by the new access to the EU or transition toward democracy and market-based economies as in some new member states. Moreover, the long-term perspective based on inter-cycle analysis allows matching long-term regional dynamics and the EU intervention. Clearly, the simplification is necessary to consider just outcomes of policy-making processes and provide comparable results.

The Heterogeneous Dynamics of the EU Intervention across Regions

Three National Perspectives: Belgium, Italy and the UK

The case of the UK is relevant for two main reasons: the relatively rapid institutional changes and the predominant role of the capital region, London. Specifically, the growing autonomy for Wales and Scotland, the "particular" statute given to the Northern Ireland and the changing fortunes of the London authorities are the main aspects of a complex and unstable institutional framework. These institutional changes characterize the UK since 1980s. Moreover, in the graph (Figure 2), the relevant trend towards regional divergence is shown by the fact that all the considered regions are moving to the left, diverging from the national average. This is determined by the progressive polarization of British development on its capital city, London.

In the British case, two different dynamics of distribution of SF can be observed, according to the different institutional status for English and other regions. First, the two English regions of North-East (UKC) and North-West (UKD) suffer a dramatic crisis determining a strong process of decline, and then divergence from the national average. Nevertheless, these regions do not receive significant increases in terms of SF; rather, the North East lost its differential in the EU support. This situation could hide

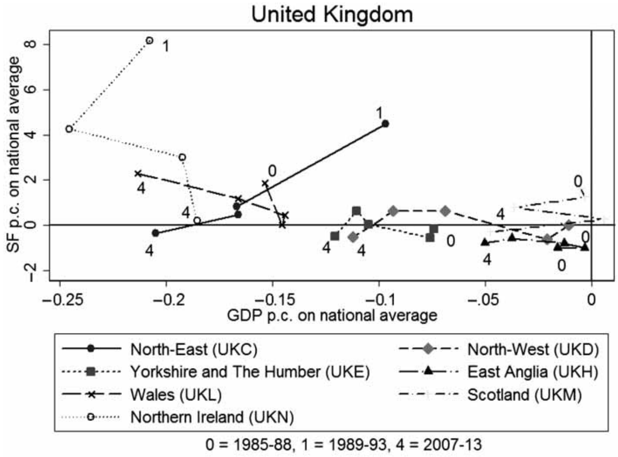

Figure 2. The case of the UK.

an effect of substitution based on the introduction of some national policies independent from the EU intervention. Nevertheless, this substitution should not happen because the EU regional policy is conceived to integrate existing national policies.

The two "autonomous regions" of Scotland and Wales have completely different dynamics: while Scottish receives fewer funds in a context of substantial stability, Welsh can benefit from growing resources considering their process of progressive divergence. If the Welsh case might be considered as "paradigmatic" (declining regions receiving more SF), Scotland seems able to keep its economic position facing the rising role of London, although the EU intervention had been reduced. This result might be seen as a first successful phase preventing a divergent trend, despite the progressive cut in SF limited opportunities for further growth.

The second case is Italy, specifically Southern regions of the "Mezzogiorno". The case of southern Italian regions is one of the most relevant considering the situation of long-term underdevelopment of those regions. Moreover, this Italian situation was one of the most important reasons why the EU created its own regional policy. Furthermore, Italy has a very long tradition of regional policies, determining a rise of a specific branch of development economists (the so-called "Meridionalismo"), although these interventions do not seem to have had real successes. Nevertheless, the Mezzogiorno had been one of the main areas of EU intervention since the first cycle of the SF. From an institutional point of view, while in Italy regional identities are particularly strong, the institutional framework is based on a co-operation between the national and regional governments, although the lower tier of government has strong political legitimacy, but limited resources.

Considering the perspective of the EU regional policy, as described in the graph (Figure 3), two groups of regions can be clearly identified: the poorer and bigger regions of Calabria (ITF6), Campania (ITF3), Puglia (ITF4) and Sicilia (ITG2) received a minor support in comparison to other smaller and "less under-developed" regions. Moreover, those regions did not achieve any significant convergence on national average and tend to be stable, apparently locked in their situation of long-term underde-

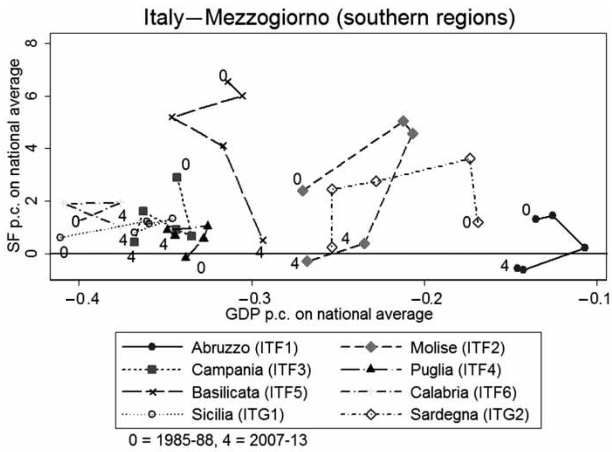

Figure 3. The case of southern Italian regions.

velopment (from 1985–1988 to 2007–2013). Differently from the previous group, Basilicata (ITF5), Abruzzo (ITF1), Molise (ITF2), and Sardegna (ITG2) have minor problems of underdevelopment, but they receive a larger amount of *per capita* SF, at least in the early periods. Progressively, these funds were dramatically cut, although there are no signs of significant processes of regional convergence. This happened because those regions have been progressively excluded from the Ob-1, which means the access to the largest part of the SF. This fact was due to a statistical effect determined by the accession of poorer Eastern countries and their regions, lowering the threshold of 75% of the EU GDP average. On the other hand, those regions did not achieve significant economic results and hence suffered from a cut of support.

Differently from the British case, in Italy there does not appear to be a clear distinction in the treatment between autonomous regions (Sicilia and Sardegna) and regions with "ordinary" autonomy (all the others). The existence of these two groups of regions show the Italian option to initially support less under-developed regions, and then the cut of this benefit to face reductions determined by the enlargement of the EU. Nevertheless, all these changes seem ineffective on the overall regional disparities within the country that are substantially stable.

The third national case is Belgium which presents some very interesting features in geographical and institutional terms. This small kingdom is divided into three regions: Flemish in the North, Walloons in the South and the capital region of Brussels with its symbolic role as EU capital. Although Belgium is a small country, there is a strong division between the two communities of French and Dutch speakers, respectively, in the Wallonia and the Flanders. The institutional division in three regions reflect cultural, linguistic and economic differences.

Considering the graph of Belgium (Figure 4), the simplified situation makes clear the general trend. The two regions of Vlaams Gewest (BE2) and Wallonnie (BE3) are substantially stable in their relative terms of development. These two regions do not move significantly on the horizontal axis, demonstrating the absence of significant trends of convergence or divergence within Belgium. However, a very strong and cyclic

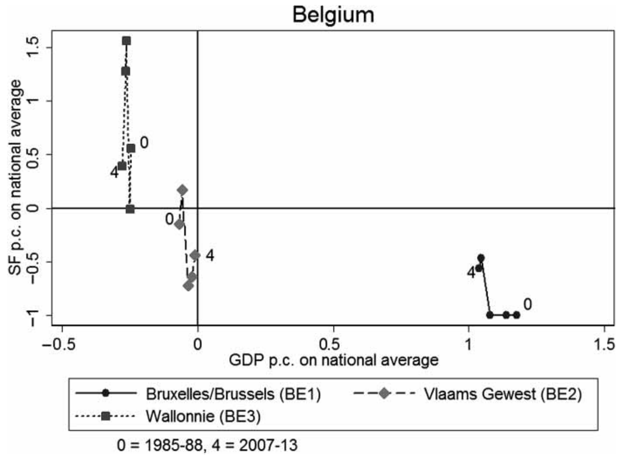

Figure 4. The Belgium case.

vertical movement is evident across cycles: the two regions start from a situation of relative equilibrium in the distribution of SF, and then there are two cycles when Walloons receive much more SF due to their situation of lagging regions. Symmetrically, this increase affected Flanders. Subsequently, the equilibrium has been re-established, although differentials in development did not change significantly. In conclusion, this is a clear case where differentials change due to political reasons, and not due to development arguments, which should be the main issues tackled by SF.

The Regional Perspective: Expected and Unexpected Dynamics

Moving through national specificities presented above, some common trends can be identified across the EU, according to the general framework presented and discussed above. Specifically, four different kinds of dynamics have been identified across the EU: regions with expected dynamics or regions that receive or lose support, independently from their economic path of growth or decline. The sample includes just regions with "clearer paths", although these dynamics are common across all the EU regions.

First, the "normal expected regional dynamics" are presented because they suffer a process of divergence on their national average, and then there is an increase in the support for those regions (Figure 5). A paradigmatic case is Umbria (ITE2) where it is possible to observe a reduction in the support provided by SF while this region is converging. When this trend is reversed and region diverges, Umbria receives a growing amount of SF. Finally, it is a noticeable fact that these regions come from different countries, France, Italy and the UK, and they cannot be considered as national specificities. This sample should be considered as benchmark for subsequent cases.

In the second sample (Figure 6), there are regions with stable economic situations and a significant cut in the EU support. Therefore, this reduction does not depend on economic arguments because those regions did not achieve significant results, at least on the overall economic perspective. Although this might be due to improvements on some other indicators, like unemployment, the vertical movement of these regions constitutes a relevant

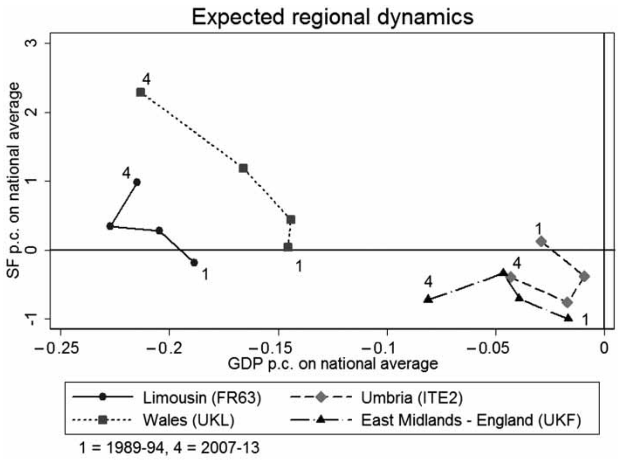

Figure 5. Expected regional dynamics.

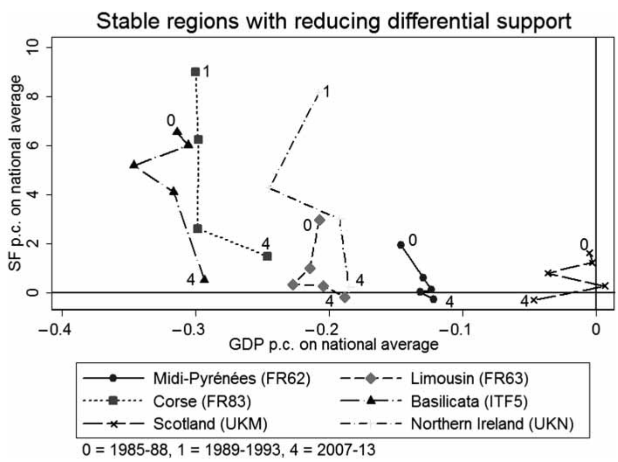

Figure 6. Stable regions with reducing support.

issue for the EU policy because the "treatment" had been interrupted before showing clear progress. Moreover, even if other indicators showed economic improvements, the *per capita* GDP was confirmed as the main benchmark for distinguishing regions across objectives.

Considering this second sample, the overall impact on inter-regional inequalities is affected by the reduction of "treated" regions. Specifically, these are the "in-between" regions because they are neither core leading regions nor the most lagging ones. Finally, considering the policy-makers' perspective, it is still unclear why these countries do implement these policy changes and what the expected impacts on long-term regional development are.

In the third sample (Figure 7), there are the regions suffering for an apparently irrational dynamic because they are both diverging from the national average of development and

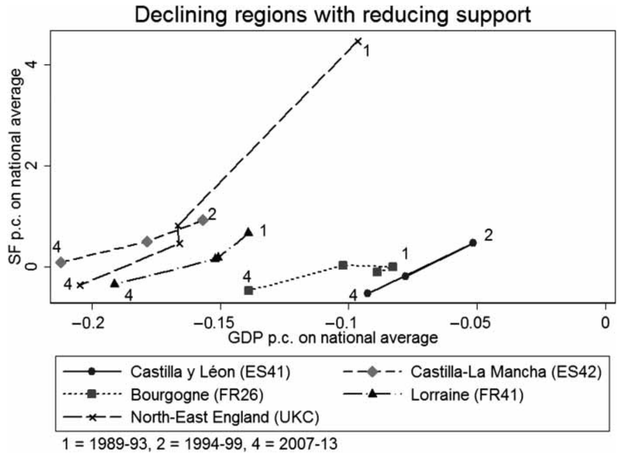

Figure 7. Declining regions with reducing support.

receiving lower amounts of SF. These behaviours show an unclear rationale because the EU intervention was explicitly conceived as a tool to promote regional convergence and then support those kinds of declining regions.

This sample shows clearly the limit of the EU MLG that appears unable to provide a constant support to regions with decreasing productivity. Even though a reduction in public support might be a way to push those regions to become more efficient, the rationale of the EU regional policy did not explicitly changed in that direction. Moreover, if the needs of those regions grow due to the crisis then they should receive at least the same "treatment" as before. Finally, it should be noticed that the EU is explicitly supporting those declining regions, while member states do not seem to follow these indications.

Considering the last sample (Figure 8), it is possible to understand which regions benefited by the changes in the differentials of support provided by the EU. Considering "capital" and "core" regions in the main EU states, a process of divergence of those regions on national averages can be observed, confirming the national trend of polarization

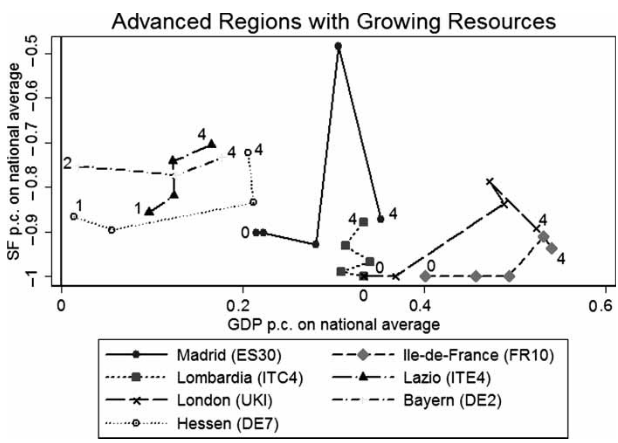

Figure 8. Advanced regions with growing resources.

of development (Brakman & van Marrewijk, 2008). Moreover, an even more interesting trend of increase in the amount of SF received is evident. This is the case of regions having a large metropolitan area that enhance and polarize economic development, such as London (UKI), Ile-de-France (FR10), Madrid (ES30), Bayern (DE2), Lombardia (ITC4) and Lazio (ITE4). Although they are highly developed regions, as showed by their position on the right side of the graph, those regions start from a situation with almost-zero SF received, and then they move upwards. More precisely, they move to the north-east part of the graph: this means both economic development and increase amount of funds received, normalized on national average of "treatment" as provided by the EU.

Considering limits of index used, it should be further noticed that all these regions are often the largest regions in their countries. Therefore, a small increase of dSF in a large region implies a strong decrease for other smaller regions, and vice versa. In other words, a small increase in the *per capita* funds allocated in a big region implies a huge cut for other smaller regions. This fact makes clear a progressive change on the overall distribution of SF and the changes in its redistributive value. Clearly, this undermines dramatically the possibility for this policy to pursue its goals in a European perspective.

Main Results for Policies

The evolutionary analysis of treatments provided by SF provides a dynamic perspective about how the EU funds support development across regions. Comparing economic trends and differentials in SF treatment provides a perspective about the inter-regional redistributive action determined by the EU. Even though at the EU level the joint-decision trap limits possibility to innovate the rationale of SF, within member states the intervention for regions changed dramatically. In spite of the whole stability of the policy, the analysis clearly showed strong changes at the regional level, undermining the function of redistribution across territories. These changes are allowed by the full sovereignty of member states, while at the EU level the joint-decision traps limited possibility for implementing redistribution in a European perspective.

Considering national cases, in the UK the existence of regional authorities in Scotland and Wales is associated with no significant losses in SF differentials that happened in other regions with diverging trends and no strong regional governments. On the opposite side, when regional authorities are very strong as in the case of Belgium, political negotiations affect the distribution of SF without regards to economic dynamics. Finally, in the case of Italy institutional differences do not seem to affect SF distribution, although the national government has more resources to affect the whole distribution of SF in spite of strong political legitimacy of regions.

Considering economic trends, the SF distribution has limited relationship with processes of divergence or convergence across regions. First, significant changes in the treatment received by regions are evident. Second, those changes are often not linked with economic paths of regions. Even though those changes might be driven by other factors, the comparison between SF distribution and the main benchmark used by policy-makers was expected to show a clear relationship. Clearly, the *per capita* GDP is not the only indicator of development, but if this was used to define objectives it should be the main driver for SF distribution.

Accordingly, the MLG does not seem adequate to guarantee a constant support of SF to regions in relationship with their growth trends. While the EU perspective did not change due to the joint-decision that blocked changes of goals, rationales and fundamental mechanisms, member states dramatically changed the redistributive role of this policy. Moreover, there is not a clear indication at the EU level about the stability of SF support considering regional trends of divergence or convergence. Even though there is no clear scientific consensus on how regions should be treated by extra-regional supports, these changes dramatically affected the redistributive function. As example, the Italian case shows a counter-intuitive option investing more funds on less-underdeveloped regions.

From an institutional point of view, different national frameworks are associated with different (re) distributions of SF. Even though there is not a deterministic and clearly causal relationship, the existence of regional governments seems to allow regions to better defend and promote their interests as it was clearly showed by the UK. However, an excess of these regional interests might undermine the economic rationale of the policy: as example, in Belgium the distribution of SF seems to follow just political reasons. Nevertheless, in spite of EU stability in the distribution of SF, member states have dramatically changed their inter-regional support.

Conclusions and Further Developments

In order to show the limits of the EU MLG, a dynamic perspective on the distribution of SFs at the regional level has been presented and discussed. Considering the goals and the rationale of the EU regional policy, the analysis showed a significant instability in the SF treatment across regions. Even though the EU rationale was kept stable across time due to the limit of the joint-decision trap, the redistributive function of SF was undermined by strong changes decided at the level of member states.

All the cases presented show some critical knots about the EU regional policy. First, the support provided by the SF is heterogeneous and might be significantly differentiated among regions in the same countries. Second, assuming a dynamic perspective, the SF support does not always follow regional economic trends. Moreover, the European and national balance in the distribution of the SF might change dramatically independently of the development paths of regions. All these aspects highlight the instability in the implementation mechanism of this policy across territories and time.

This result opens a set of further issues in terms of use, impacts and effects of this policy. First, it should be considered how political factors affect this distribution. Second, how regions decide to use and allocate SF and which kind of territorial impacts these investments had should be taken into account. Finally, these complex mechanisms should be considered in the light of regional development, which is the main final goal of the EU regional policy.

In terms of policy implications, it has been argued that this MLG mechanism does not seem to provide enough guarantees. Specifically, the implementation of the EU regional policy was unstable across periods and regions with significant degrees of freedom. This fact suggests the need for a reform of this institutional mechanism to guarantee the objective of redistribution across European territories and limiting risk of distortions determined by mismatch between European and national preferences. A stricter mechanism imposing more constraints on the implementation of the policy might provide more guarantees to achieve goals set up at the EU level, although this requires a stronger role for the EU policy-makers and reduced degrees of freedom for national and regional ones.

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