EIF Working Paper Series

What is wrong with EU cohesion policy? Observations of an over-ambitious policy design

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Working Paper Nr: 29

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Abstract

EU cohesion policy has the potential to sustain the stability and development of European integration. Despite this theoretically promising proposition it is far from realising its potential impact on EU support figures. The present article argues that cohesion policy is set out to achieve too many objectives at the same time and fails in displaying a coherent policy design that is able to attract citizen's awareness. Effects on legitimacy can only be expected if future reforms are able to restrict the policy's objectives and ambitions as well as increase its visibility.

1. Introduction

Since its reform at the end of the 1980s cohesion policy[1] of the European Union (EU) has become the second most important item of the EU budget after the Common Agricultural Policy (CAP). The extension of EU funding activities has been accompanied by an increasing academic interest in the economic and political effects of cohesion policy, particularly with a view to the emergence of a federal political system (Ross, 1998). The design of cohesion policy has been analysed from at least two angles: Economic theorists are predominantly concerned with its effectiveness in tackling regional economic problems at the supranational level. In most of the cases, they remain sceptical with regard to the efficient use of funding. Particularly political economists who try to apply political economic standards of federal theories to EU budgetary activities (Heinemann, 2005; Begg, 2004; 2005; Lefebvre, 2005) find accordingly that the supranational level is not appropriate for planning and carrying out regional and local economic support programmes that primarily serve stabilisation and allocation needs whereas redistributive objectives remain in the background. Conversely, political scientists are more concerned with the effects cohesion policy might have on the institutional build-up and the polity formation in Europe. From that viewpoint cohesion policy is mainly a necessary by-product of the ever deepening European integration insofar as it is able to compensate prospective losers of that dynamic process (Laffan, 1997; Hooghe, 1998).

The present article is concerned with the assumption that cohesion funding is able to contribute to the development of legitimacy for European polity. Official political statements have underlined the importance of cohesion policy with regard to the further development of European integration. The European Parliament (EP) is one of the major proponents on cohesion spending because it "*shares the Commission's judgment that Community interventions not only provide significant*

[1] Cohesion policy as it is used here comprises funding activities of the EU that are sometimes also referred to as structural or regional policies.

added value in terms of economic and social cohesion but also represent genuine value for money for the Union and the Member States and enhance the sense of belonging to the European Union" (European Parliament, 2004).

In general, welfare state arrangements are held responsible for growing centralisation of government functions. At the same time, public spending policies exert a legitimising effect on central institutions of heterogeneous political systems[2]. With a view to social and regional cohesion it was stated that particularly "social policy may serve as the cement for reducing the depth of political cleavages" (Obinger, Leibfried and Castles, 2005). However, with regard to EU cohesion policy we cannot apply the same standards as to national social policy and other national funding arrangements. First and most importantly, EU cohesion policy is not primarily about promoting the individual well-being of citizens which is the prerogative of national welfare arrangements. It can certainly not be considered as a supranational social policy regime.[3] As it has already been mentioned above, cohesion spending primarily serves the allocation of economic benefits and the compensation of economic losses presumably due to European integration. Nevertheless it displays features of a redistributive policy insofar as cohesion money from more affluent member states is dispersed to economically weaker ones. Such a mix of objectives for public spending policies is most common within nation states where the variance of financial support programmes and policies is used to generate lasting legitimacy effects with a heterogeneous group of national citizens. Though acknowledging theoretically the potential of cohesion policy to trigger legitimacy effects, political reality shows that the EU does not win popular support that corresponds to the steadily increasing expenditure for cohesion.[4]

This article argues that one reason for the weak performance of cohesion policy in influencing support for the EU is that it is overloaded with divergent and partly contradictory functional expectations and demands. Funding programmes are set out to achieve too many objectives at the same time.

First of all, cohesion spending should meet compensatory demands articulated from real or prospective losers of the integration process. The most important integration moves in the history of the EU would not have been possible without side-payments to opponents or adversely affected groups. The first genuine cohesion policy instrument, the European Regional Development Fund (ERDF), in the mid-1970s was aimed at compensating the United Kingdom for not being able to benefit enough from the already well established CAP (Anderson, 1998). Most importantly the

[2] Financial transfers have always been used to create or strengthen the legitimacy of the central institutions. Mercantilism and also early liberal economic theory recognised the positive effects of a state active in promoting individual economic activity. Besides the strengthening of the power position of political actors in terms of legitimacy successful businesses contributed to the material well-being of the government by paying higher taxes. Thereby the political as well as the financial survival of the state was secured (E. Matzner, 1982, 58).

[3] Even though, Anderson has identified a „social dimension" of EU cohesion policy insofar as it generates alternatives for action in the realm of social policy, which are used particularly by the EP and subnational political or industrial groupings for the development of supranational social policy initiatives (Anderson, 1998).

[4] Even a country that highly benefits from EU funding such as Spain remains very sceptical towards the advantages of its membership. It exhibits weak results in Eurobarometer opinion polls asking for the perceived benefit of EU membership in general and especially declining ones in the mid-1990s. Only since 2000 the Spanish rates rose sharply to end up close to 70% in 2006 (Eurobarometer 65 & 66).

Economic and Monetary Union would have failed on the political and economic front without side payments and investments in economically lagging member states and regions (Allen, 2000). Furthermore, every enlargement up to the recent accession of twelve new member states mainly from Central and Eastern Europe was accompanied by package deals including financial compensation by way of cohesion funding. That compensation function predominated the period from the inception of European integration in the 1950s up to the major reform of European structural and cohesion funding in the end of the 1980s.
From then on and secondly, allocation interests came to the forefront and funding schemes were reoriented at least in official programming language on projects promising gains in economic efficiency and competitiveness (Commission of the European Communities, 1989). Measurable success of investment activities became important criteria for the allocation of cohesion funds (Commission of the European Communities, 1987).[5]
Nevertheless and thirdly, the redistributive function of cohesion policy has always figured as a background for the programmatic design. Although the overtly distribution of the entire funds among the member states was gradually replaced by the programmatic approach, it is an implicit policy objective that economically weaker member states should profit more from cohesion money than affluent ones. Furthermore the Treaty establishing the European Community (TEC) prescribes on the subject of economic and social cohesion the reduction of disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas (Art 158 TEC).
Unfortunately, EU cohesion policy is neither institutionally nor financially equipped to fulfil each of these functions satisfactorily. This is the main reason for a dramatic loss of legitimacy for funding activities at the supranational level that is mirrored in political debates on the re-nationalisation of cohesion policy, in the stagnation of financial appropriations to this policy area, but also in the accentuation of efficiency and effectiveness in the use of funds.

The argumentation presented in the following chapters will show that public spending policy at the supranational level must be organised in a completely different manner if it wants to trigger legitimacy effects similar to that within nation states. First of all, it has to reduce its functional plurality and divergence. At the contemporary state of European integration, it is theoretically and practically impossible to install a fully-fledged public spending policy comparable to the national one at the supranational level. Second, the remaining objectives of spending programmes must be executed in a transparent and comprehensive way. The general public has to know about and approve the use of financial transfers. Third, the success of supranational funding activities must be visible and communicated appropriately.

The article proceeds as follows: The next chapter will outline the theoretical propositions with regard to legitimacy effects of public spending policies in general and cohesion policy in particular.

[5] Beginning in the 1990s extensive material on ex ante and ex post evaluation and control of funded projects was produced; see http://ec.europa.eu/regional_policy/sources/docgener/evaluation/evaluation_en.htm (accessed on 3 April 2007).

Main parts of the analysis will rely on theories inspired by Hirschmann's *Exit, Voice, and Loyalty* (Hirschmann, 1970) but also on neo-functional assumptions on the transfer of loyalty (Welz & Engel, 1993). Subsequently, a review of the development of EU cohesion policy will show the historical roots of the complex web of political objectives and corresponding funding opportunities that subsist despite various efforts to streamline the funding architecture. The theoretical background for this part is provided mainly by historical institutionalist propositions (Pierson, 1996). The corresponding analysis of legitimacy needs and effects of EU cohesion policy is complemented by suggestions aiming at a reform of the supranational spending regime with a view of activating its inherent legitimacy potential.

2. The Theory: Legitimacy meets cohesion policy

Cohesion policy is defined in official documents, mainly Commission communications (e.g. COM(96)542, COM(2002)46, COM(2004)101), as a political institution whose establishment rests on a political consensus on a certain scope and quality of solidarity needed within the EU and, to a minor extent, also vis-à-vis applicant and associated countries. As such it is a supranational institution that rests on an understanding of common redistributive needs. By achieving consensus on the objectives underlying a political institution the legitimacy of these institutions is established. Hence, there is a legitimacy need to be fulfilled before institutions come into effect. Practical examples of solidarity institutions range from spontaneous donation initiatives following natural disasters to formal and permanent political organizations such as developmental aid, a progressive tax system, a federal fiscal equalisation mechanism or the henceforth relevant cohesion policy of the European Union. The corresponding legitimacy needs are lowest for spontaneous solidarity actions and highest for lasting political arrangements organising financial transfers.

Apart from being dependent on *ex ante* legitimacy, solidarity institutions may be perceived as enhancing *ex post* the legitimacy of political actors or of a political system as a whole. This is the case when political actors are able to develop public loyalties by means of solidarity institutions. The political importance of a solidarity institution as legitimacy enhancing device is particularly salient with regard to stability arguments. The stability of a political system or of a complex web of political structures and institutions corresponds *inter alia* to the relative stability of social and political power relations. A number of authors underline the close theoretical link between loyalty and system-building as prerequisites for dynamics of political structuring (Bartolini, 2005; Rokkan, 1975). In particular, Hirschmann (1970) has already stated that exit from a membership group is less likely if members/customers feel 'loyal' vis-à-vis their firm/product/organisation. With regard to nation states, however, the exit option may be unattractive because of various attachments not only rooted in the concept of loyalty. For Ferrara (2005) it is more important that loyalty is able to decrease the cost of staying which is, in his view, the logical alternative to exit. According to Rokkan's model of system-building loyalty is generated by structures and processes ensuring the maintenance of established systems by forcing members to stay (Flora, Kuhnle & Urwin, 1999). "*Involvement in bonding practices tends to generate loyalty over time, balancing not only centre-*

periphery relations but also intergroup relations and contributing, more generally, to system-formation" (Ferrara, 2005). Institutionalised solidarity such as social security systems or the EU cohesion policies are examples for bonding or sharing practices that are able to establish loyalty bonds in territorial and membership spaces.[6] Furthermore in line with neofunctionalist propositions the transfer of loyalties to a new centre is a precondition of regional integration and development (Welz & Engel, 1993).

The causal connection loyalty/solidarity – legitimacy – stability of political system's power structures is yet of particular importance for a complex polity in the making like the European Union. As it is the case in any other political or social community, European institutional and individual power positions have to be justified and legitimised. However, in the special case of the supranational organisation of the European Union it is not only the *stability* of the system which has to be sustained by legitimacy enhancing mechanisms such as financial transfers but also the *development and integration* of this very system. This process dimension brings in an additional perspective. While the stability of an established international cooperation regime may be mainly dependent on the satisfaction of interest and demands of the constituency (output-oriented legitimacy) the further development of this very system particularly the inclusion of politically sensitive areas into the integration process is in special need for input-oriented legitimacy (Scharpf, 1999). The successful identification and satisfaction of interests and demands raised by a system's constituent members (output-oriented legitimacy) is able to keep the costs of staying low, make exit unlikely and hence, provide for stability. But on the other hand, during the process of deepening and development of Union policies and during enlargement processes, the maximisation of common welfare and the fair allocation of costs and benefits of decisions are not so easily guaranteed. That is most obvious with regard to sensitive policy areas such as redistribution. In this case input-oriented legitimacy that derives from the (majority) consensus of the people on preferences and political objectives of societal cooperation is needed.

The operation of cohesion policies is regarded as a vehicle to establish and strengthen public loyalties vis-à-vis the supranational political order (European Commission, 2003). To be sure, the funding programmes are obviously first of all driven by an output-oriented legitimacy demand. They are part of a European political strategy to boost economic development. But at the same time there is a "social dimension" of cohesion policy as far as the funds empower individuals to cope with market competition (Anderson, 1998). If cohesion policy takes on features of social policy, it may become part of a "competitive state-building" (Banting, 1995) strategy used by the supranational institutions. This means, that it is used as a source of political legitimacy by way of establishing direct links to local governments and individual citizens in the member states. The historical development of the European welfare states gives at least some reason to believe, that

[6] The provision of other public goods such as physical security and defence of the inhabited territory may also promote the legitimacy of a government. The extension and institutional development of a genuine European Security and Defence policy (ESDP) may be interpreted as another political instrument to extend solidarity and legitimacy in the EU. For an account of the legitimacy structures of European Common Foreign and Security Policy (CFSP) and ESDP, see the special issue of the Journal of European Public Policy, Helene Sjursen (guest editor), What kind of Power? European Foreign Policy in Perspective, Journal of Public Policy 13/2, 2006.

also at the supranational level solidarity institutions have the potential to create political legitimacy for a European Union that develops features of a political community.

3. Review of the development of EU Cohesion Policy

3.1. Political background

EU cohesion policy can be considered as evidence for the political perspective of EU politics to achieve more than a simply liberalised market regime, namely the establishment of a mode of regulated capitalism at the supranational level.[7] This was the message of the then Commission President Jacques Delors as he promoted the "1992" project that was aimed at implementing the single market but, at the same time, provided for flanking policies in the realm of regional and also social policy (Hooghe & Keating, 1994). Apart from simply appeasing prospective losers of the single market and EMU the Commission president was well aware of other potential benefits of a reinforced redistribution mechanism at the supranational level. After years of the so-called Euro-sclerosis the European integration project and its main proponent, the Commission, needed a new source of legitimacy. As the central institution of supranational policy-making, the Commission is confronted with the most pressing legitimacy needs. As a statement made during an interview in 1991 underlines, Delors wanted to advance the development of the European Union into a genuine political union: "*Out of the dynamic economic and commercial power which we already are, a great political power must develop*" (Delors, 1991). The establishment respectively the reinforcement of solidarity politics seem to have been one element of the Commission's strategy to advance the development of a political union and to strengthen its own legitimacy as institutional centre of a yet to be established supranational polity.

As a general background we should recall that European solidarity institutions are not as directly legitimated by ways of democratic decision-making as are the national ones (Craig, 1999). Initially, the European institutional system was not designed to conform to democratic cultures as established within the nation states. Genuine democratic (input-oriented) legitimating structures and procedures were not considered necessary in order to provide for the proliferation of peace and prosperity in Europe. Democratic legitimacy remained concentrated on the national level and was transmitted indirectly to the supranational level by way of governments' consensus.[8] Thereby at least, EU politics was not entirely disconnected from the normative environment providing guiding principles for the appropriate organisation and functional objectives of democratic governance. Policies motivated by solidarity have always been part of national debates on redistribution needs. Hence, EU solidarity politics may reflect the national public's preferences of redistributive politics to the extent that they are communicated to the European level by national policy-making elites. The influence of supranational political actors on the political objectives of cohesion policy remains limited. The institutional structure of the funds and their initial scope of appropriations as

[7] An overview on the objectives and motivations of cohesion policy can be downloaded from http://ec.europa.eu/regional_policy/policy/why/index_en.htm (accessed on 5 April 2007).

[8] To be sure, the 'founding fathers' had however envisaged the development of federal democratic structures at the supranational level in the long run and created as *nucleus* the formerly so-called Assembly (now European Parliament), but refrained from overtly objecting national prerogatives with regard to democratic procedures.

well as the *modus operandi* are subject to a multi-level decision-making system, which is to a great extent dominated by national representatives. Nevertheless the Commission tried to gradually introduce social and welfare policies traditionally supporting the legitimacy of nation states in Europe at the supranational level. The first Delors reform package on EU cohesion policy included various measures that were aimed at the Europeanisation of social policies. Yet, the provisions eventually incorporated in the Single European Act (SEA) and later in the Maastricht Treaty (Art 138 ECT) covered only harmonisation in occupational health and safety regulations and the institutionalisation of a social dialogue at the supranational scale (Art 139 ECT). Further advanced social policy initiatives failed due to member states' interest in preserving national sovereignty on redistributive policies and preventing their inherent legitimacy potential from being removed to the European level (Pierson & Leibfried, 1998; Ziltener, 2000).

In contrast, at least at the time when Delors launched his reform package at the end of the 1980s, the supranationalisation of regional policy issues was not regarded as disturbing the member states' regulating power and hence their national legitimating structures. Instead, conceived as an institutional device promoting economic development, the funds were regarded as complementing the national interest in strengthening regional economies (Anderson, 1998). Economic development and well-being was considered to be a precondition of the national government's legitimacy as far as the role of supranational actors remained in the background.

3.2. Compensation *versus* economic development

Provisions on regional redistributive mechanisms at the supranational level have been included in every treaty since the beginning of European integration (e.g. Art 54 ECSC (investment and financial aid) or Art 123-128 EEC (European Social Fund)). Contemporary cohesion policy is a set of specific funds and Community initiatives redistributing financial resources partly collected from the member states[9] and partly gained from the Union's so-called traditional own resources[10] through the EU budget. The negotiations on the financial perspective 2007-2013 concluded in May 2006 resulted in a reorganisation of funding programmes under the three headings 'Convergence', 'Regional Competitiveness and Employment' and 'European Territorial Cooperation' (OJ 2006 L 210/37). Instruments of cohesion policy are the *European Social Fund* (ESF), the *European Regional Development Fund* (ERDF), the newly established *European Grouping of Territorial Cooperation* and the *Cohesion Fund*.[11] In addition, special programmes provide for the allocation of funding in favour of candidate (OJ 2006 L 210/82) and neighbouring (COM(2004)628 final 2) countries.

[9] Member states' financial contributions to the EU budgets include a percentage of a harmonised VAT base and a percentage of the national GNP.

[10] Traditional own resources are agricultural levies and duties and customs duties.

[11] Previously, also the European Agricultural Guidance and Guarantee Fund and the Financial Instrument for Fisheries Guidance were subsumed under the heading of Structural and Cohesion policy. Beginning with the implementation of the cohesion policy established within the financial framework 2007-2013 these funds, renamed as European Agricultural Fund for Rural Development and European Fisheries Fund, form part of the Common Agricultural Policy.

The historical motivation for the establishment and later for the extension of cohesion policy in the European Economic Community (EEC) was a need for compensation. The need for compensation was met at the income as well as on the spending side of the EU budget. By the time of its entry, the UK was able to secure a significant rebate on its contribution to the EU finances because it could not benefit from the CAP. On the spending side it pressed for the establishment of the ERDF as a counterweight to the agricultural bias within the budget. Also, whenever a more or less important integration project had been envisaged, prospective losers or opponents were compensated by the provision of financial transfers. The consent of Greece to the accession of Spain and Portugal in the 1980s was paid for by the installation of the Integrated Mediterranean Programme (IMP). The approval of the SEA by the southern member states was achieved by significantly increasing the appropriations for structural funding programmes, and the participation of Greece, Ireland, Portugal and Spain in the European Monetary Union (EMU) was only made possible with the financial support to these countries provided by the concurrently established cohesion fund (Laffan, 1997).

The guiding principle triggering the compensation logic can be traced to the conceptual model of equity. Political institutions realising the idea of equity in the realm of market relations reflect the conviction that economic integration and liberalising trade arrangements produce unbalanced benefits and losses which need correction. State interventionism was a common political-economic feature of the post-war European nation states. Following spectacular disruptions in national and world economies during the years between the Great European Wars the liberal myth of the (at least in the long run) benefiting market forces had lost ground for modern economic theories advocating an active public spending strategy (*Keynesianism respectively embedded liberalism)* (Ruggie, 1982).

Beginning in the 1980s (*Thatcherism, Reaganomics*), the rise of the neo-liberal paradigm in economics introduced the gradual retreat of state activism at the national level. One pragmatic reason for the reverted development was the simple fact that the Keynesian model of demand management did not correspond to the globalisation trend. If governments tried to stimulate demand in order to counter recession, some portion of the additional government expenditure would be spent on imports from the rest of the world. Hence, some of the demand-creating effect would dissipate abroad (Majone, 2005).

The shift in political preferences on economic governance within the nation states also impacted as a matter of course on the design of supranational policies. An ‘efficiency’ paradigm challenged the *juste retour* as well as the compensation culture hitherto guiding European cohesion policy. Yet, in line with the concept of path dependency introduced by historical institutionalism (Pierson, 1996) compensation remained a cherished means in intergovernmental bargaining strategies due to the need to hammer out compromises on complex issues among negotiation partners with highly diversified strategic interests and policy ideas.

Nevertheless the institutional and operational features of cohesion policy were formally adapted in response to perceived efficiency needs. On treaty level, the SEA introduced economic and social cohesion as common policy goal (SEA 1986, Title V). As the treaty implementing institution the

Commission was now in a formally legitimated position to promote regional development and cohesion. It intensified its endeavours in establishing a genuine European cohesion policy. As part of a comprehensive reform package (Delors I) including an overall increase in the budgetary resources of the Community it proposed a general reorientation of cohesion policy, which was approved by and large unchanged on the occasion of the Brussels European Council in February 1988.

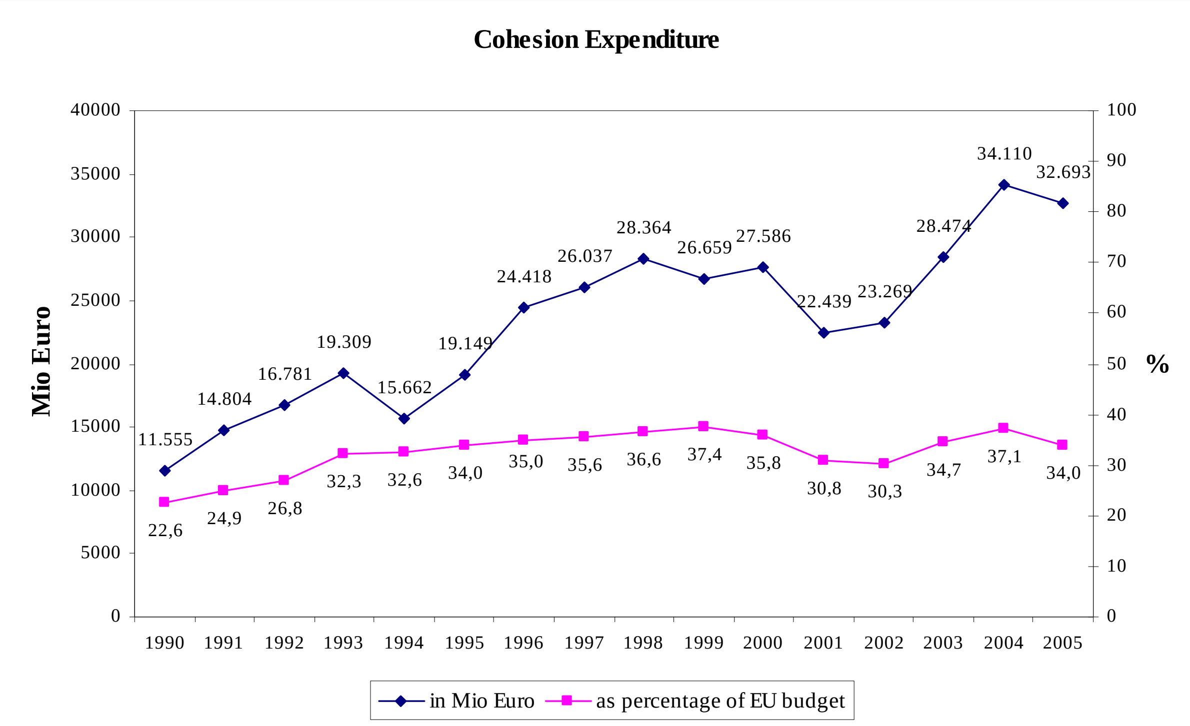
While the decision to enlarge the budget for cohesion has again been founded on the compensation logic, the accompanying procedural reforms indicated the gradual 'efficiency' turn in the policy's design. Even if the economically weaker member states were able to assert payments for their consent to the single market programme, the conditions for access to funding changed significantly. Direct financial transfers to the 'poor four' (Greece, Ireland, Portugal and Spain) through the cohesion fund were a precondition for their consent to the establishment of EMU envisaged in the Treaty of Maastricht. Thereby, the traditional compensation logic in the Community's cohesion policy that should be overcome by the reform of 1988 was reintroduced. Yet, the restriction of cohesion funding to infrastructural and environmental projects shows that this renewed compensation mechanism was subject to at least some preconditions ensuring a specific use of the funds. It seems that, though to a limited extent, the new fund had to correspond to requirements reflecting the efficiency-oriented guiding principle of cohesion policy.

The official policy goal was moved from nationally oriented redistribution of funds according to compensation needs towards the regionally oriented improvement of capacities to cope with open market competition (Pintarits, 1996). Rather than paying for predominantly unconditional financial transfers in exchange for the indirectly expected benefits from the implementation of the single market, specific values for money should be created. Especially, the net contributors among the member states wanted to make sure that the regional 'investments' paid off., e.g. in the form of business opportunities in the subsidised regions. The Commission's gain of decisive competencies concerning the mode and objectives of distribution could be justified as a guarantee for the efficient use of funds (Donahue & Pollack, 2001).

The cohesion fund has been, up to now[12], the last institutionalisation of the compensation logic shaping European structural policy from its inception. The latest major enlargement of the European Union was managed without a significant increase in its budgetary resources. Figure 1 shows that the development of European cohesion politics in terms of financial appropriations as a percentage of the EU budget has stagnated since the beginning of the 1990s, although the amounts rose in real terms during the same period because of additional budgetary contributions after enlargements.

Figure 1

[12] The recently concluded negotiations on the new financial perspective resulted in the installation of a "Globalisation Adjustment Fund" aimed at helping individuals hit by unemployment as a consequence of a structural change in the global trade patterns, see Council of the European Union, Financial Perspective 2007-2013, 15915/05, 6 and Regulation (EC) No 1927/2006 of the European Parliament and of the Council of 20 December 2006 on establishing the European Globalisation Adjustment Fund, OJ 2006 L 406/1.



One of the main explanations for the stagnating percentage of financial allocations for cohesion can be found in the weak economic growth of the European economy[13] which impacts on the financial possibilities of every member state and reduces actual capacities for redistribution. But on the other hand and not to a minor degree it is the modified guiding principle legitimising cohesion policy primarily on grounds of efficiency and competitiveness, which justifies a reduction in financial transfers between member states. Accordingly the motivation for solidarity in the EU as displayed in EU cohesion policies is mainly concentrated on reciprocities in terms of calculable returns on investment.

4. Supranational Legitimacy and EU Cohesion Policy

4.1. Legitimacy need of cohesion policy

Institutions of cohesion policy established in the early years of European integration focussed on highly specified and exceptional intervention needs. The legitimacy demand for these kinds of policy measures remained low; first, because the programmes and their costs remained largely

[13] Since the beginning of the 1990s GDP growth remained rather low in the EU compared to the growth rates in the US or other world regions. Whereas the average growth between 1982 and 1992 was 2.7% for the Euro area and 3 % for Germany, GDP growth between 1993 and 2003 reached only 1.9 % in the Euro area and 1% in Germany, see OECD Economic Outlook 80 database.

unnoticed by the wider public and second, more or less every member state drew benefits from them, that means their output-oriented legitimacy was transparent and indisputable at the governmental level.

The first argument against extended legitimacy needs of early cohesion policy must be considered within the context of the EU budgetary framework. With the introduction of an ‘own resources’ budgetary system, the direct link between national budgets and expenditures on the European level became less visible. Since the mid-1970s the European budget was financed by levies and duties elevated through the CAP, customs duties and a percentage of national value added tax initially capped at 1% (OJ 1970 L 94/19) instead of previously fixed rates of national contributions as a percentage of GDP. Moreover, the small-scale interventions provided by the ESF and the ERDF remained largely unnoticed by the wider public. By that time the funding decisions were taken by national governments. The Commission acted more or less as accountant (Hooghe, 1996). Accordingly, a general legitimacy need arose eventually with the re-introduction of national contributions and the extension of spending policies by the major budgetary reform (Delors I) in the end of the 1980s. Apart from the rising importance of EU funding for recipient countries and the concurrently increased awareness of supranational financial activities the number of ‘net contributing’ member states to the EU budget grew bigger. In 1992 five out of twelve member states (Germany, France, Italy, Luxemburg and the United Kingdom) paid more into the EU budget than they received from EU spending policies. Until enlargement in 2004 the net contributors became a majority comprising up to 11 out of 15 member states.[14] For most of them it became increasingly relevant to ensure the effective use of funds and/or to restrict their (net-)contribution to the EU budget by curtailing its financial development. Additionally, as far as the national contributions were politicised in debates on domestic fiscal politics they became subject to public discussions on legitimate redistribution needs at the national as well as the supranational level. National fiscal austerity programmes that were induced *inter alia* by the criteria set by the Stability and Growth Pact following the introduction of EMU, would overtly have conflicted with an only loosely controlled supranational spending regime. Thus, under the general paradigm of budgetary discipline ‘efficiency’ became the catchword for the allocation of cohesion funds and for the use of budgetary means in general highlighting the principle of ‘value for money’ in mainly economic terms (Eiselt, Pollak & Slominski, 2007). Still, the gross amounts distributed among the member states are the result of tough political bargains fought on the occasion of the periodical negotiations on the multi-annual financial framework (Becker, 2006). The general definition of and the appropriations to funding programmes clearly follow a compensatory logic at the initial stage of programming. Within this framework, however, the Commission decides on the specific allocation of funds. At that programming level compensation payments are subject to strict eligibility criteria following an investment logic.

[14] For an overview of the development of the member states’ ‘operating budgetary balances’ and the calculation method of ‘net contributions’ employed by the Commission see the annual reports on the allocation of EU expenditure per member state available under http://ec.europa.eu/budget/documents/revenue_expenditure_en.htm (accessed on 18 February 2007).

To sum up briefly, preferences and accordingly legitimate bases for solidarity institutions were gradually focussed on the economic concerns of cooperation in the EU. Funding became selective according to pre-defined criteria of efficiency and effectiveness and special programmes were concentrated on countries and regions significantly lagging behind in terms of economic development. Nonetheless compensation has never receded completely from the funding scene. The financial perspective covering the period from 2007 to 2013 includes various “Christmas presents” to almost every member state without which the successful conclusion of the negotiation in December 2005 would most probably have failed.

4.2. Legitimacy effects of cohesion policy

Cohesion policy can impact on the legitimacy of supranational institutions insofar it is able to satisfy the interests and demands of a majority of the political community. The EU constituents are on the one hand the member states respectively the member states’ governments and on the other hand the individual citizens of the member states. Thus, cohesion policy can impact on the legitimacy of supranational institutions with regard to the member states’ governments (1) or with regard to individual citizens (2). EU spending policies try to accomplish the difficult task of satisfying both, the member states’ predominant demands for an effective use of funds dispersed according to their respective (mostly nationally constrained) investment needs and the growing public demand for a more “social Europe”, namely the development of the market correcting function of redistribution at the supranational level.

Ad (1): In order to respond to member states’ interests, a plurality of funding possibilities was created with a view to satisfy a variety of demands. Otherwise the institutional legitimacy of cohesion policy would have been jeopardised. Despite these efforts debates on the re-nationalisation of regional policy issues have come back on the political agenda in the EU. Up to now, it has been the unanimity principle guiding the decision process on structural policy in the Council, which has prevented the re-transfer of distributional competencies to the national level (Marks, 1996). The Commission can count on the support of some member states – out of obvious reasons, primarily the beneficiaries of supranationally organised cohesion funding - in upholding the established institutional structure. One telling example of this legitimating strategy is the introduction of Objective 6 into the funding architecture after the “northern” enlargement round (Finland, Sweden and Austria) in 1995 in order to guarantee the rather affluent Scandinavian member states access to financial transfers. Also recently, various exemptions from the strict eligibility criteria were made for previous objective 1 regions in the pre-enlargement EU 15 which would have lost their funding status due to the “statistical effect” caused by the accession of the economically lagging central and eastern European countries. It is a common feature of cohesion policy that strict eligibility criteria loose their exclusivity in intergovernmental bargaining on the multi-annual financial framework. The funding scheme has to accomplish the difficult task to follow at the same time the more often than not contradictory aims of compensation and effectiveness/efficiency. The legitimacy effect of EU cohesion policy with regard to member state governments is dependent on these highly divergent demand structures. Whereas compensatory payments primarily aim at further developing the integration process, funding programmes designed to develop the economic potentials and to promote the convergence of the European economies are stability enhancing mechanisms. By trying to fulfil both, which is given the financial means practically impossible cohesion policy must fail in establishing lasting legitimacy effects with regard to member states' governments.

(2) With regard to the legitimacy effect on EU citizens the Commission's efforts in structural and cohesion policy have produced an ambiguous result. As a series of empirical studies has shown, there is a correlation between individually perceived economic benefits of European integration and the popularity of the European Union and its institutions (Anderson & Reichert, 1996; Bourantonis & Tsoutsoplides, 1998; Brinegar, Jolly & H. Kitschelt, 2004; Christin, 2005; Diez Medrano, 2003; Eichenberg & Dalton, 1993). These studies concentrate, however, on the overall benefits of European integration and do not single out the effects of financial transfers dispersed through cohesion policy. Only one article by L. Hooghe and G. Marks (2004) combining a variety of variables drawn from Eurobarometer opinion polls found out that direct financial transfers correlate positively with public support to European integration.

The legitimacy effect of cohesion policy with regard to EU citizens remains dramatically underresearched. The available literature and data does not allow any general conclusions on its potential legitimacy effects. A tentative conclusion would doubt a substantive impact of EU cohesion policies because of the relatively small budget that is quantitatively and qualitatively not able to meet the citizen's preferences and demands. But further research would have to prove if – as federal theories would suggest (Heinemann, 2005) - a cohesion policy at the supranational level that pursues redistributive objectives succeeds in harmonising the living standards in the EU and thereby stabilises the political and economic organisation that is about to develop in the EU.

5. Concluding remarks on the further development of cohesion policy

In the following the initial theoretical assumptions regarding the legitimacy needs of cohesion policy as well as the remarks on legitimacy effects in favour of supranational institutions are critically reviewed.

In general it was postulated that the stability of a political system is mainly sustained by output-oriented legitimacy whereas its further development respectively integration must be accompanied by input-oriented legitimacy. Compensation payments result from tough intergovernmental bargains and enjoy the *ex ante* legitimacy of member states' governments that want to further European integration. An allocation respectively efficiency oriented cohesion policy responds to stability concerns. Cohesion money is mainly used to complement member states' efforts in developing their economic potential and competitiveness. Furthermore cohesion funding responds to a vast variety of demands and therefore, it is theoretically able to trigger *ex post* legitimacy effects at the level of member states as well as at the level of individual citizens - as far as they are perceivable and transparent.

By focussing on the redistributive features of cohesion policy it would be possible to combine the integrative and stabilising effects of financial transfers. At the same time the preconditions in terms of legitimacy of redistribution in its *ex ante* dimension are highly demanding. Most importantly, genuine redistributive policy instruments need boundaries that define the polity and potential addressees of financial transfers (Ferrara, 2005). The EU is a polity in the making; moreover, it is constantly enlarging. Its internal and external boundaries remain unclear. Under these conditions the development of transnational solidarity and legitimate redistributive political institutions at the supranational level is hardly imaginable. Furthermore redistributive political institutions need initially solidarity and legitimacy in order to come into effect. The legitimacy of effective redistribution on a supranational or transnational level is dependent on the legitimacy of positive political action on the supranational level in general. As long as member states are not prepared to delegate some of their prerogatives in policy domains which include redistributive arrangements it is unlikely that citizens come to recognise the potential of supranational politics in responding to their preferences and demands. As a consequence and for the time being loyalty/solidarity bonds will remain concentrated at the national level. Thus, the legitimacy of cohesion policy has to rest primarily on the fulfilment of allocation/efficiency and compensatory interests.

Furthermore, a legitimate consensus on the objectives of EU spending policies, particularly on cohesion policy, is needed in order to win the lasting popular support for transnational financial transfers. By now, the member states' governments and the supranational institutions were unable to establish a coherent design for cohesion policy and failed to communicate its effective functions and objectives. In this respect, empirical results gained from Eurobarometer polls regarding the popular perception of benefits of membership to the EU may also reflect the different visibility of European political action in the member states. First of all, an awareness of the benefits of membership that *inter alia* derives from cohesion funding can only emerge if supranational and national political actors report adequately on supranational political action. Out of obvious reasons, national governments tend to present successful European policies as their own work. If supranational policy actors such as the Commission and the European Parliament want to profit from the legitimacy effect of cohesion policy, they have to circumvent national actors and gain more direct access to regional and local actors. This was the hidden agenda behind the introduction of the partnership principle in 1988 (Scott, 1998; Bache & Olsson, 2001). Moreover, the Commission started to label projects financed by cohesion policy more prominently in order to make European politics more visible to the ordinary citizen. The importance laid on public involvement and the creation of public consciousness was expressed clearly in the third report on economic and social cohesion issued by the Commission: "[…] *the visible presence of cohesion interventions throughout the EU is an essential element for the political, economic and social integration of the Union and for promoting involvement of public and private stakeholders and gaining their commitment to achieving the Union's objectives*" (European Commission, 2004).

This leads to a comment on the revenue side of the EU budget. Cohesion policy must also be evaluated from the aspect of where the money comes from and how the contributions to the EU budget are distributed among the member states. It is obvious from political debates and academic writing on the EU budget and particularly on discussion on net benefits and net contributions that fair distribution of financial burdens among the member states is one of the "*main keys to public* *acceptance of the Union*” (Gretschmann, 1998). The expenditure dimension of the EU budget is very complex and still largely intransparent. The general public may only be concerned with major expenditure items such as the CAP or single out incidents of mismanagement in the conduct of funding programmes under cohesion policy. The revenue side of the EU budget, on the contrary, is clearly perceptible, at least since the national media concentrate on the always contentious issue of net balances. Leaving aside the numerous objections against the calculation of these figures, structural imbalances of the budgetary revenue system cannot be denied (Begg, 2004). Transparency of payments to and from the member states has not been the main concern as long as the common budget was small and net contributions played no role in the broader public debates. But with the move from small compensatory payments to more cost intensive investment funding activities the public interest in cohesion spending grew bigger. Transparency of payment flows has gained importance and also has objective justification for the various funding activities. On the one hand, that certainly is a welcome development with regard to intensified public awareness of EU politics in general, but on the other hand, policy objectives and motivations cannot rely on a “permissive consensus” any longer. It will be one of the major tasks of the upcoming review of the EU budgetary system that will be initiated by a Commission report in 2008/2009 to provide for a less complex and transparent revenue structure for the EU. Transparent and fair allocation of costs and benefits is a precondition for triggering legitimacy effects, also by way of cohesion policy. Finally, not only the communication strategy is important, but also the subject of communication. It is particularly important to confine cohesion policy to specific tasks that can be presented as coherent actions. The political debate on the budgetary reform must include conceptual deliberations on the objective reform of cohesion policy. It must become clear what functions supranational financial transfers are able and apt to deliver as well as which objectives achieve a political consensus.

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