The cash divide. The allocation of European Union regional grants

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ABSTRACT To promote economic and social cohesion, the European Union (EU) structural funds part-finance public investment programmes in European regions with about 30 billion Euro per year. This article develops an explanation for the apportionment of structural funds across EU regions. It is argued that the Commission's decisions on regional transfer levels reflect its bureaucratic interest and potentially undermine EU goals. Using a new dataset on regional transfer payments in the EU-15 from 2000-2006, and qualitative interviews with decision-makers, this argument is tested and corroborated. In doing so, it is shown that the recipient regions' level of economic affluence is a necessary, but no sufficient explanatory factor for regional transfer levels. In contrast to previous findings in the literature, the empirical record does not suggest that regional partisan politics have an effect on the size of regional transfer levels.

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I   Introduction

Over the past thirty years, EU spending programmes have played an increasingly important role in promoting regional economic convergence. The central instruments of the EU to influence public investment strategies in the member states are the EU structural funds. With about 30 billion Euro per year, the structural funds part-finance hundreds of public investment programmes in the member states in such sectors as telecommunications, energy, environment, health and transport (European Commission 2008). Introduced in 1975, the structural funds today account for almost half of the EU budget and constitute an essential source of resources for many farmers, regional public authorities, and private businesses. For the most part, the structural funds are allocated across EU regions with the aim of promoting regional economic convergence and of supporting relatively poor regions (European Commission 2007). In this article, I argue that the Commission's decisions on regional transfer levels reflect its bureaucratic interest and potentially undermine EU goals. In fact, it will be shown that the recipient regions' level of economic affluence is a necessary, but no sufficient explanatory factor for regional transfer levels.

Although it is widely acknowledged that the Commission exercises substantial influence on the implementation of the structural funds (e.g. Bauer 2006; Wozniak Boyle 2006), we know little about the influence of the Commission's motives and behaviour on the regional allocation of structural funds. The Commission is concerned with how political

decisions in the allocation process affect its own prestige and power (cf. Vaubel 1996; Majone 2000). Bearing the responsibility for the implementation of the EU budget, it is under much pressure to spend the available funds and to minimise errors in the implementation phase for which it is otherwise blamed (e.g. Court of Auditors 2008a). Based on previous literature that deals with the relationship between a region's domestic legal-constitutional position and its lobbying power at the EU level (e.g. Bomberg and Peterson 1998; Marks *et al.* 2002; Bodenstein and Kemmerling 2008), I argue that the Commission has incentives to allocate more transfers to strong regions because they are assumed to have the resources and expertise to manage the structural funds effectively as opposed to their weaker counterparts. In regions with relatively weak constitutional positions, the Commission will prefer to allocate more transfers only if the regions have built a reputation to actually spend the funds they claimed and received for their investment programmes. By imposing this condition for funding on weaker regions, the Commission seeks to avoid ex post charges of ineffectiveness. By not imposing these conditions on and allocating more transfers to stronger regions, the Commission seeks to raise the demand for its services in these regions. The rationale behind this is that these regions are, in turn, likely to lobby "their" central governments effectively for more transfer payments and against a cut back of the overall budget. I test these claims as well as alternative arguments advanced in the literature on the

basis of a new dataset on the apportionment of structural funds across regions in the EU-15 during the period 2000-2006, and qualitative interviews with decision-makers.

The results contribute to the existing literature in a number of ways. First, whereas recent studies suggest that the Commission's behaviour in EU politics is guided by the Commissioners' country affiliations rather than technocratic considerations (e.g. Wonka 2007; Thomson 2008), I find that the Commission is able to shield its decisions from domestic political considerations. Second, I suggest that the analytical focus of studies on structural funds allocation should be extended to include the Commission, rather than simply focusing on the effects of domestic partisan politics on the size of regional transfer payments (Kemmerling and Bodenstein 2006; Bodenstein and Kemmerling 2008; Bouvet and Dall'erba 2010). Third, by showing that the power nexus between the Commission and regional actors can effectively constrain central governments' attempts to trade regional development grants for votes, this article adds new insights to the literature on distributional politics, which provides evidence that incumbents may distort an impartial allocation of regional development grants (e.g. John *et al.* 2004). Finally, the findings are relevant to research on the delegation of competences and discretion to the Commission and domestic administrations in EU executive politics (e.g. Majone 2001; Pollack 2003; Franchino 2007), in that they suggest that these actors indeed exploit their discretion granted by EU secondary

legislation according to their own interests, leading to a distortion of the apportionment of funds.

The remainder of this article is organised as follows. In the ensuing section, I briefly describe the formal rules of decision-making in allocating regional transfers and enquire about where EU secondary legislation provides the Commission and domestic actors with strategic room to maneuver. In the third section, I discuss recent studies on the effects of domestic political considerations on regional transfer levels. Fourth, I develop the argument outlined above in greater detail and derive two hypotheses on the influence of the Commission on regional transfer levels. Section five presents the dataset, whereas section six discusses the empirical results. The final section concludes by discussing implications for further research.

II The Commissions' and domestic actors' discretion in allocating the structural funds across regions

EU regional policy consists of two elements: the structural funds, which part-finance sectoral and regional investment programmes in the member states, and a set of conditions that have to be fulfilled in order to receive funding. More specifically, the structural funds are allocated across sectoral programmes managed by central governments, and regional programmes managed by regional governments or administrations. There are four structural funds: the

European Regional Development Fund, the European Social Fund, the European Agricultural

Guidance and Guarantee Fund – Guidance Section, and the Financial Instrument for Fisheries

Guidance (Art. 2 Council regulation (EC) No 1260/1999 of 21 June 1999 laying down

general provisions on the Structural Funds).

The allocation process involves several actors. First, the Commission apportions the

structural funds across member states by using the following criteria: eligible population,

regional prosperity, national prosperity, and the level of unemployment (cf. Art. 7(3) Council

regulation No 1260/1999). As these criteria are not operationalised in detail, the Commission

retains some discretion (Kemmerling and Bodenstein 2006). After the Commission has fixed

the amount of structural funds available to each member state, member state governments and

their regions draw up investment programmes for each region and negotiate the financial

allocations across these programmes under the supervision of the Commission. Once the

regional programmes are elaborated, the Commission fixes the indicative amount of funding,

which can be spent by the region during the programming period.

This process operates within the boundaries of the EU's financial perspective. At the

Berlin summit in 1999, the financial framework for the period 2000-2006 was negotiated and

the eligibility criteria for the structural funds were fixed. Importantly, structural expenditure

is directed to individual regions under two objectives (European Council 1999). Under

'Objective 1', regions with a GDP per capita below 75% of the EU average are eligible and

subject to specific expenditure ceilings, leaving almost no discretion to negotiate the eligibility status of and financial allocations to regions. By contrast, actors enjoy substantial discretion in determining the eligibility of regions and in negotiating regional transfers under 'Objective 2'. This is due to the less strictly defined eligibility criteria, which mainly prescribe that regions with an unemployment rate equal to or greater than the EU average qualify for Objective 2 funding (Sutcliffe 2000). The Commission's discretion is limited by the fact that central governments propose a list of eligible regions (Kemmerling and Bodenstein 2006), but it retains discretionary power in determining the size of financial allocations and in transforming the programmes into binding legal commitments.

The official objectives of EU structural expenditure are grounded in economic efficiency considerations. While Objective 1 is designed to create wealth in relatively poor regions, payments under Objective 2 are intended to support the economic and social conversion of regions facing structural deficiencies (Art. 3 and 7 Council regulation No 1260/1999). However, there are good reasons to claim that political considerations bias the economic needs-based allocation of regional transfers. I conducted interviews with five Commission officials, five Members of European Parliament (MEPs) and eight civil servants and politicians in German regions involved in EU regional policy, all of which indicated that domestic actors and the Commission do not necessarily pursue EU goals in the allocation process. They were asked how much discretion the Commission had in the allocation process,

and how it would use this discretion to influence the apportionment of funds across specific groups of regions. The vast majority of the interviewees indicated that the Commission retained some discretion (Interviews 1, 3-11, 13, 15).[1] According to one German regional civil servant, there was a general uncertainty among domestic actors as to whether the Commission would request changes regarding the apportionment of funds after the domestic negotiations have been finalised (Interview 13). In line with two other interview partners, he stated that he was aware of the possibility of anticipated reactions both of regional and national actors (Interview 4, 7, 13).

Before proceeding with the analysis of the relative influence of the Commission on the allocation process, the next section reviews the literature focusing on the effects of central and regional politicians' (re-)election concerns on regional transfers.

III National and regional incumbents' vote-buying behaviour in allocating structural funds

Scholars of EU regional policy have long assumed that regional transfers through the structural funds are purely driven by regional economic need (for a recent overview, see Wozniak Boyle 2006). Three recent studies depart from this standard view in the literature.

Kemmerling and Bodenstein (2006) were the first to show that even though poorer regions receive more regional transfers, "'being poor' is neither a strong nor a *sufficient*

predictor" (Kemmerling and Bodenstein 2006: 382, emphasis in original) of regional transfer levels. By examining the structural funds as an instance of national intergovernmental grants, they show that regional parties on the left pressurise central governments and the Commission more effectively for higher funding than regional parties on the right since higher levels of public investment correspond to the preferences of their core constituencies. This finding is corroborated by Bouvet and Dall'erba (2010) as well as by Bodenstein and Kemmerling (2008), who, in addition, find that the dispersion of the regional party system and district marginality influence the size of regional transfers. All of these studies provide evidence that a relatively Eurosceptic public within a region increases the predicted amount of structural funds this region receives. The rationale behind this is that EU funds are used to increase public support for the EU, as a critical public could put pressure on a member government and, in this vein, possibly hamper further European integration (Carrubba 1997).

Although these studies have greatly advanced our understanding of EU cohesion policy, they also have important limitations. First, they rest on the premise that regional lobbying strategies are linked to "ideology rather than to the political fissures between national and regional actors" (Kemmerling and Bodenstein 2006: 374). However, many recipient regions at NUTS 1 and 2 level throughout Europe do not have popularly elected bodies, but are simply public administrations managing the structural funds.[2] Civil servants in these regions derive utility from an increase in income, power, and prestige (cf. Vaubel

1996), and not from electoral support, and are thus likely to lobby for more transfers regardless of voters' preferences.

Second, Kemmerling and Bodenstein (2006) use data from the European Parliamentary (EP) elections in 1999 to test the effects of regional partisan politics on the size of regional transfers. Using "data on EP elections has some advantages over national data, since they reveal the actual voting behaviour at the same point in time for all countries" (Kemmerling and Bodenstein 2006: 381). Yet these measures may not accurately display the features of political competition in regions as EP elections are second order elections, implying that neither policy positions on the left-right dimension nor on matters regarding European integration are likely to have a substantial effect on electoral outcomes (Hix and Marsh 2007).

Third, the conceptualisation of EU structural funds as national intergovernmental grants directs the focus on the relative influence of domestic actors on regional transfers. Kemmerling and Bodenstein (2006) have, perhaps for this reason, assumed that the Commission will "faithfully" implement the domestically negotiated regional transfers. However, this assumption appears to be weakly grounded, as the Commission ultimately turns the negotiated allocations into legally binding decisions, and bears the responsibility for their implementation (Court of Auditors 2008b). Several scholars contend that the

Commission pursues its own agenda in EU regional policy that fundamentally differs from the preferences of member governments (e.g. Pollack 2003; Bauer 2006).

In sum, the Commission's influence on the regional allocation of structural funds and its ability to shield its decisions from the political influence of domestic actors and public pressures in the allocation process remain underspecified. The aim of the next section is to develop an explanation for the size of regional transfers that puts the Commission centre stage.

IV Bureaucracy at the Commission and regional lobbying power: expected effects on regional transfer levels

At the outset of a programming period, the Commission, central governments and regional governments or administrations have to reach an agreement over the apportionment of the structural funds across regions. The Commission has the final authority to adopt legally binding decisions on regional transfer levels. Because of its distributive quality, the allocation of funds generates conflict among the different actors at the regional, national and supranational government level.

Regional politicians have different constituencies than national politicians. While national politicians care about the benefits and losses of their constituencies located across regions, regional politicians attempt to attract as many funds as possible to their region,

assuming that voters in the region reward this behaviour because the EU funds create value

for them. However, as argued above, not all regions in the EU have popularly elected state

governments. In regional administrations, civil servants lobby for transfer payments. As their

income, prestige and power depends on the size of the discretionary budget they manage

(Niskanen 1994), they are interested in attracting as many EU funds as possible to their

region as well.

Civil servants in the Commission are, like all bureaucracies, concerned with how

distributional outcomes affect their prestige and power, as well as the demand for their

services (Vaubel 1996). In particular, there is a central concern within the Commission that

its bad reputation in regional policy "may stick in the public perception, and further limit the

Commission's political room for manoeuvre" (Bauer 2008: 629). Failures of domestic

authorities cause reputation problems for the Commission with respect to its effectiveness

and credibility (Majone 2000). This becomes evident in EU regional policy as the

Commission is blamed for errors in the implementation of the EU budget by its European

peers, for example in the case of funds being misused or not being spent (Bauer 2006).

Although the Commission's capacity to control how domestic authorities spend the

structural funds in the course of the programming period is limited (Blom-Hansen 2005),

there are rules helping the Commission to ensure the correct implementation of the budget.

Importantly, if the money committed by the EU budget in a particular year is not spent on

projects by the end of the second year after that ("N+2" rule) then that money is "lost". Furthermore, according to the jurisprudence of the European Court of Justice, the member states have to provide the Commission with any information that may facilitate fulfilling its task, even if this is not explicitly specified in European secondary law (Majone 2001). In regional policy, however, domestic actors are often in breach with this duty and, in the absence of credible sanctioning possibilities, have few incentives to cooperate (Blom-Hansen 2005). It therefore is difficult for the Commission to prevent errors since structural actions in regions are only infrequently and randomly controlled (Court of Auditors 2008b).

These arguments imply that the Commission is under pressure to avoid errors in the implementation phase. Previous studies argue that the domestic constitutional position of a region influences that region's lobbying power at the EU level (Bomberg and Peterson 1998; Marks *et al.* 2002) and that constitutionally strong regions, that is regions in countries with federal constitutions that strengthen regional autonomy, have particularly benefitted from the increasing power-sharing between actors at regional, central and supranational level in EU regional policy (Hooghe and Keating 1994; Marks *et al.* 2002). A testable implication of these studies is that the Commission has incentives to allocate more structural funds to constitutionally strong regions (Bodenstein and Kemmerling 2008). These regions can mobilise more resources and expertise in managing regional development funds than their weaker counterparts, and should therefore be able provide the Commission with the relevant

information it needs to control the implementation of funds effectively. Furthermore, by allocating more transfers to constitutionally strong regions, the Commission can raise the demand for its services in these regions which are, in turn, likely to lobby "their" central governments for more transfer payments and against a cut back of the overall budget.

Hypothesis 1: The more constitutionally strong a region, the more transfers that region is likely to receive.

Yet, although an unequal treatment to the benefit of strong regions may lead to an economically sound management of funds, it potentially runs counter to EU goals because moral hazard is not eliminated. The regional authorities may not provide the Commission with the information needed to monitor the structural funds' implementation effectively (cf. Court of Auditors 2001; 2008a) and may have incentives to overstate their economic need to attract more funds, which can, in turn, lead to problems spending the available funds during the budgetary period (Beugelsdijk and Eijffinger 2005). If regions are under high pressure at the end of the programming period to spend the funds, the risk that co-financed projects are hastily set up and not in line with EU rules increases (Court of Auditors 2008b: 8-9). The Commission does not want to retain the available money, since it is likely to suffer from reputation losses when misjudging the absorption capacity of a region at the outset of a

funding period (cf. Dreher 2004). It should therefore be inclined to allocate more transfers to constitutionally weak regions only if these regions have a reputation of actually spending the funds they claimed and received for their investment programmes. Weaker regions are less likely to provide the Commission with relevant and reliable information on the feasibility of investment programmes than their stronger counterparts because they have less expertise in managing development funds. Therefore, the Commission can avoid ex post charges of ineffectiveness by imposing the condition that weaker regions have to have a good track record of absorbing the available funds in order to receive more funding.

Hypothesis 2: The less constitutionally strong a region, the more likely it is that the size of transfers that region receives will depend on its previous track record of absorbing the structural funds.

To conclude, the regions' and the Commission's distributive goals are expected to have an effect on regional transfer levels after controlling for the relative influence of regional partisan politics and central governments' vote-buying behaviour as postulated by previous literature, and after controlling for regional economic performance.

V   Research design and data

The previous section has developed an explanation for the effects of the Commission's strategy towards regions in different institutional contexts on regional transfer levels. I therefore have consciously restricted the dataset by excluding Luxembourg, Denmark and the Eastern European member states where funds are not distributed to regions, but received by central governments. As shown in table 1, regional transfer payments in the sample constitute the greater part of the total structural funds allocations in the period under study. Almost 120 billion Euro were indicatively allocated to regional programmes, varying in size from 4.6 million (Åland in Finland) to 7840.4 million (Andalucía in Spain).

EU structural funds are allocated to regions at the level of NUTS 1 and 2, which are either governed by administrations created for the purpose of structural funds management, such as the Portuguese Commissions for Coordination and Regional Development (*Comissões de Cooperação e Desenvolvimento Regional*), or correspond to pre-existing administrative units, such as the state governments (*Landesregierungen*) in Germany. While the cases are NUTS 1 and 2 regions, the units of analysis are the financial transfers allocated to these regions.

(Table 1)

The dependent variable is the level of *regional transfers* indicatively allocated for the programming period 2000-2006. The data are derived from official Commission decisions from 2000 and 2001, which reflect the outcome of the negotiation process at the outset of the programming period more accurately than the aggregate figures used by previous research (cf. Kemmerling and Bodenstein 2006). *Regional transfers* are divided by regional GDP in million purchasing power standards (PPS) in 1999, derived from Eurostat, to account for differences in the relative value of the same absolute amount of money, which is especially important when comparing relatively poor Objective 1 to relatively rich Objective 2 regions.

To operationalise the constitutionally guaranteed strength of a region, I use the index of federalism provided by Lijphart (1999: 313), ranging from 1 (unitary and centralised) to 5 (federal and decentralised). The empirical results support Hypothesis 1 if there is a positive and statistically significant relationship between *federalism* and *regional transfers*.

Hypothesis 2 refers to a positive effect of a region's reputation to spend the available funds on regional transfer levels, which should be strengthened in constitutionally weak regions. The concept of reputation cannot be directly measured. In the political economy literature, scholars frequently use the ratio between total public sector output and available resources to measure public sector efficiency (cf. Borge, Falch and Tovmo 2008). In a similar fashion, I use the lagged *absorption rate* of structural funds in regions, that is the ratio of actually spent and available structural funds from 1994-1999. The data are derived from a

Commission report from 1999 reflecting the knowledge of the Commission about the absorption rates when the programmes for 2000-2006 were negotiated (European Commission 1999). The empirical evidence supports Hypothesis 2 if there is a negative and statistically significant relationship between the interactive term *absorption rate × federalism* and *regional transfers.*

Furthermore, the effects of two sets of variables are explored. First, the lagged regional *GDP in million PPS* and the lagged regional *unemployment rate* are derived from Eurostat (1998) to capture the economic efficiency argument.

Second, different political explanations advanced in previous literature are tested. To capture the argument that regions where left parties are strong should lobby more effectively for higher funds (Kemmerling and Bodenstein 2006), I calculate the *political centre of gravity* in regions, which is an aggregate measure of political parties' position on a left-right scale (Gross and Sigelman 1984). The measure displays the sum of the parties' positions on a left-right continuum weighed by their vote share (e.g. Cusack 1999). These data are derived from a database provided by the Norwegian Social Science Data Services (NSD). To place the parties on a political left-right scale, I use the expert survey conducted by Benoit and Laver (2006),[3] because it encompasses expert placements of a wide range of political parties competing at the regional level.[4] The larger the number, the more the political centre of

gravity tends to the right. We would expect a negative relationship between the *political*

centre of gravity and *regional transfers*.

To capture the argument that the structural funds are used to compensate the losers of

European integration (Kemmerling and Bodenstein 2006; Bouvet and Dall'erba 2010), I

derive a measure of diffuse support for the EU from the Eurobarometer 52.0 from 1999.[5] The

question wording is: "Generally speaking, do you think that (country's) membership of the

European Union is a good thing, a bad thing, neither good nor bad?", whereby the

respondents had to chose either of the categories. The measure is created by weighing the

responses coded as 1 (good), 0 (neither good nor bad), and -1 (bad) with the number of

respondents and then by taking the average for each region. Accordingly, the number

decreases as public support for the EU within region decreases. The argument is supported if

there is a negative relationship between *EU support* and *regional transfers*.

Furthermore, I include three variables to account for the argument that central

governments trade structural funds for votes (Kemmerling and Bodenstein 2006; Bouvet and

Dall'erba 2010). First, to measure the *electoral support* for central governments, I use the

distance between the political centre of gravity in regions and the political centre of gravity of

national incumbent parties, based on vote shares. If incumbents were to use the funds to win

votes in regions where electoral support is relatively weak, there should be a positive

relationship of *electoral support* and *regional transfers*. Second, I calculate the *effective*

number of parties to test whether incumbents allocate more transfers to regions where they can, due to the relatively small effective number of parties, more effectively claim credit for the allocated funds. The empirical record would support this claim if there were a negative relationship between the *effective number of parties* and *regional transfers* (Kemmerling and Bodenstein 2006). Third, I include a variable coded 1 if *general elections* were held in 1999 or 2000, that is the years in which the great majority of regional programmes were decided by the Commission, and 0 if otherwise. The argument that incumbents are more likely to use the structural funds to maximise their re-election chances the longer the time interval until the next general elections, is examined by using two interaction terms. One is calculated on the basis of *general elections* and the *effective number of parties*, and the other on the basis of *general elections* and *electoral support*. We would expect a negative relationship between either of the interaction terms and *regional transfers*.[6]

VI Empirical results: discussion and implications

Table 2 reports the results from the multivariate OLS regression analyses of structural funds allocation across 142 regions.[7] The dependent variable is logged to meet the OLS regression assumption of normally distributed residuals. Since the size of regional transfers depends on the investment volume available to a member state, there may be dependencies between the cases. I therefore report robust standard errors clustered at the level of countries in the

dataset. Column 1 shows the baseline model that tests for an effect of regional economic need on transfer levels. Models 2 and 3 include the variables operationalising the two key concepts developed above. In models 4 and 5, I control for the alternative arguments advanced in the literature, which postulate an effect of regional partisan politics (model 4) and central governments' vote-buying behaviour (model 5) on regional financial transfers. I consider the empirical record as convincingly supportive of the hypotheses if the corresponding coefficients have a p-value above 0.05 and the expected sign.

(Table 2)

All models indicate that poorer regions indeed receive more transfer payments, as prescribed by EU secondary legislation. The size and significance of the coefficients for regional economic performance remain unchanged across all models. This is in line with previous research on structural funds allocation (Kemmerling and Bodenstein 2006; Bouvet and Dall'erba 2010). However, a comparison of the R-squared of model 1 with the other models indicates that the political variables add explanatory power.

Model 2 tests the hypothesised link in Hypothesis 1. The coefficient of the variable *federalism* in model 2 is statistically insignificant (two-sided p-value of .13), thereby not supporting Hypothesis 1. This finding is in line with previous literature on the regional

allocation of structural funds (Kemmerling and Bodenstein 2006). Yet, it contradicts previous studies that present evidence for a positive statistically significant effect of federalism on regional transfer levels in Objective 1 regions (Bodenstein and Kemmerling 2008), as the result presented in model 2 remains robust when estimated with a reduced sample that only includes Objective 1 regions. This may be due to the fact that Bodenstein and Kemmerling (2008) include only 116 regions in their analyses instead of the 140 regions that are examined here.

With regard to Hypothesis 2, the empirical results corroborate the expectation that there is a positive effect of the *absorption rate* on *regional transfers* in constitutionally weak regions. In model 3, the coefficient of the interaction term between the *absorption rate* and *federalism* is statistically significant and in the expected direction, even though regional economic performance is controlled for. This is consistent with the view of several interviewees that have emphasised that the reputation of regions to spend the funds in the past increases the bargaining position of these regions in the future allocation process (Interviews 3, 4, 9, 10, 13, 15).

To illustrate this result, consider the example of a region in the UK: Scotland has a score of 1 (highly centralised and unitary) on the federalism index, an absorption rate of 60%, a GDP of 100583.5 million PPS and an unemployment rate of 6.6 in 1999. If the *absorption rate* in the previous funding period had increased by 1%, all else being equal, then Scotland

would have received 41 million Euros more in transfers than it actually did. To examine to

what extent this effect depends on *federalism*, figure 1 presents the marginal effect of the

absorption rate on *regional transfers* at different values of the *federalism* index, based on the

estimates of model 3. While the solid line shows the estimated marginal effect, the dashed

lines indicate the bounds of the 95% confidence interval for this estimate. The effect of the

absorption rate on *regional transfers* declines as the *federalism* index increases, and is no

longer significantly different from zero once the index reaches 3. This implies that the effect

of the interaction measure is statistically significant for the greater part (72.3%) of the

regions. In conformity with Hypothesis 2, this suggests that the effect of the *absorption rate*

on *regional transfers* is only present in constitutionally weak regions.

(Figure 1)

In contrast to previous findings (Kemmerling and Bodenstein 2006; Bouvet and

Dall'erba 2010), the results in model 4 do not suggest that regional partisan politics, either on

a left-right or on a pro-anti Europe dimension, have an effect on transfer levels. In addition,

all regional actors and MEPs indicated in the interviews that they were not aware of an

influence of regional partisan politics on the intensity of regional lobbying, as all regions

would be equally interested in more transfer payments. This is in line with case study

evidence showing that regional transfers are largely negotiated within the confines of regional, national and supranational administrations, suggesting that regional transfers are rather a function of bureaucratic considerations than of partisan politics (Olsson 2003).

Finally, results in model 5 concerning the effect of central government's re-election concerns on regional transfer levels are mixed. The coefficient of the effective number of parties is negative and statistically significant at the 1 percent level, which is consistent with previous findings (Kemmerling and Bodenstein 2006). Substantively, this suggests that central governments will direct more transfers to regions where they do not have to share the credit with many parties. However, both interaction terms are insignificant at both values of the variable election year, indicating that the electoral support of central governments within regions does not have an effect on regional transfers.

VII   Conclusion

This article has developed an explanation for the apportionment of structural funds across EU regions that puts the Commission centre stage. The theory claims that the Commission has incentives to raise the demand for its services in constitutionally strong regions since these regions lobby effectively for more transfers and against a cut back of the overall budget in the next round. Constitutionally weak regions will receive more transfers only if they have a

good track of absorbing the structural funds in previous rounds since this condition spares the Commission eventual ex-post charges of ineffectiveness.

It was shown empirically that regional transfers can be to a very large extent explained by the recipient regions' level of economic affluence. Moreover, the results indicate that the Commission imposes the condition that regions have to have a good track of absorption in previous rounds only in constitutionally weak regions. This finding remains robust and substantial even if it is controlled for economic performance, regional partisan politics, and central governments' vote-seeking strategies. Moreover, it is corroborated by qualitative interview evidence. By contrast, the empirical record does not support the expectation that the Commission allocates more transfers to strong regions, which contradicts previous studies on the lobbying power of regions with strong legal-constitutional positions at the EU level (cf. Bomberg and Peterson 1998; Bodenstein and Kemmerling 2008). Last, quantitative and qualitative evidence do not suggest that regional partisan politics distort an impartial allocation of structural funds across regions, and evidence is mixed concerning the argument that incumbents' vote-seeking strategies influence transfer levels.

The results of this research may be regarded as a first step to analyse the postulated causal effects in more depth in case studies focusing on individual regions or countries. In particular, it should be more thoroughly explored in quantitative case studies whether national governments can use EU funds to increase electoral support on the basis of data on

the constituency level. Moreover, we still have little knowledge on the determinants of the allocation of structural funds within regions (Dellmuth and Stoffel 2011). There are indications that the structural funds create their own support groups within regions in terms of long-term networks (Conzelmann 2002) and clientelistic relationships (De Rynck and McAleavey 2001), but it has yet to be systematically analysed what determines the allocation of EU funds across final beneficiaries within regions.

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NOTES

[1] Due to the sensitivity of the information, all interviewees prefer to stay anonymous. The numbers in brackets are the identification numbers for the different interview partners.

[2] The classification of NUTS regions is made on the basis of population figures. I use the classification according to Council Regulation No 1059/2003.

[3] The codings of the tax-spending dimension were used since the codings on the less specifically defined left-right dimension are not available for France. When running the analyses by using the left-right dimension, I did not obtain significantly different results.

[4] Between the time period in which the elections were held (1998-2000) and the time period in which the expert survey was conducted (2002), some parties have split or merged. In case parties have competed separately in elections before the experts estimated them, I use this estimate for both parties. In case they have split, I take the average of the expert rankings for both parties. Only those parties that have been ranked by the experts are included in the data.

[5] It may be objected that the sample size on the regional level, which varies from 11 (Molise in Italy) to 743 (Southern and Eastern in Ireland), may be too small for some regions. However, the samples are representative at NUTS 2 level, since they result from a random selection of sampling points within each of the NUTS 2 regions (Codebook of the Eurobarometer 52.0).

[6] The dataset that contains the above discussed variables is available on http://www.lisadellmuth.net/.

[7] The problem that OLS estimates are downward biased in case of censored data may not occur when there are only few zero-value observations (cf. Greene 1981). As only 6 regions, that is less than 4% of all observations, do not receive structural funding, I compare the model fit of both OLS and Tobit model specifications by using the Bayesian information criterion (BIC) (cf. Scott Long and de Freese, 2003, 112-113). There is positive support that the OLS model is preferred to Tobit.

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Table 1. Indicative allocations in the EU-15, million Euros (1999 prices), 2000-2006

Country	Regions (sample/total) [a]	NUTS level	Structural funds grants (sample) [b]	Structural funds grants (total) [c]
Austria	9/9	2	974	1473
Belgium	8/11	2	1092	1829
Germany	16/16	1	21646.3	28156
Greece	13/13	2	7041.7	20961
Denmark	0/1	1	0	745
Finland	2/5	1 and 2	845.9	1836
France	21/26	2	6616	14794
Ireland	2/2	2	972	3088
Italy	20/21	2	17761.9	28484
Luxembourg	0/1	1	0	78
Netherlands	4/5	1 and 2	749.3	2635
Portugal	7/7	1 and 2	8977.8	19029
Spain	16/17	2	28774.3	43087
Sweden	6/7	1 and 2	1088	1908
UK	16/19	1 and 2	9743.5	15635
Total	**140/160**	**1 and 2**	**106282.7**	**183738**

[a] The sample size is reduced due to missing data in the Eurobarometer, six regions not receiving funding from 2000 to 2006, and nine regions not receiving funding from 1994 to 1999. [b] Source: Commission decisions from 2000 and 2001. [c] Exclude Community initiatives and innovative measures. Source: European Commission (2001: 14).

Table 2. OLS regression analyses of regional transfers

Independent Variables	(1) Economic model	(2) Supplemented Model I	(2) Supplemented Model II	(3) Model testing alternative hypotheses I	(4) Model testing alternative hypotheses II
GDP in million PPS	-0.00 [a]	-0.00 [a]	-0.00 [a]	-0.00 [a]	-0.00 [a]
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Unemployment rate	14.19 [a]	15.85 [a]	17.78 [a]	17.13 [a]	16.46 [a]
	(3.75)	(3.50)	(3.08)	(3.55)	(3.38)
Federalism		-26.34	100.98	83.65	131.59
		(12.58)	(59.36)	(63.94)	(66.37)
Absorption rate			6.64 [b]	7.13 [b]	8.97 [b]
			(2.59)	(2.57)	(3.00)
Absorp' × federalism			-2.23 [b]	-1.94	-2.58 [b]
			(0.95)	(0.97)	(1.08)
EU support				59.36	
				(54.27)	
Centre of gravity				-1.45	
				(11.62)	
ENP					-38.68 [a]
					(11.38)
Political alignment					-11.46
					(7.80)
Election in 1999/2000					37.32
					(94.48)
ENP × Election					-18.83
					(23.45)
Pol' align' × Election					9.37
					(12.90)
Constant	877.81 [a]	920.31 [a]	458.24 [b]	455.61 [a]	554.53 [a]
	(64.39)	(74.08)	(150.41)	(147.85)	(167.24)
Adj. R^2	0.39	0.45	0.53	0.54	0.61

Note: N=140. Figures in the table are unstandardised regression coefficients. Standard errors clustered at the level of countries in parentheses. Coefficients and standard errors are multiplied by 100 for the sake of exposition. [a] significant at 1%, [b] significant at 5%.
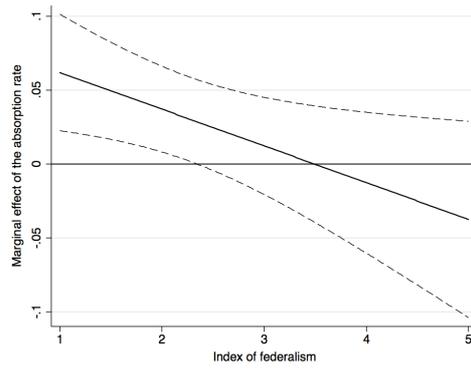
Figure 1: The marginal effect of federalism on regional transfer levels

Length: 7285 words

Date: 20 March 2011