The allocation of EU structural funding is not only determined by economic and social needs. It is also a political game.

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The European Union is set to spend more than 300 billion Euros between 2007 and 2013 on Structural Funds which aim to support the development of poorer regions. However, their allocation is not only determined by need, argues ***Achim Kemmerling****, but also by the ability of countries and regions to lobby for and absorb funding.*

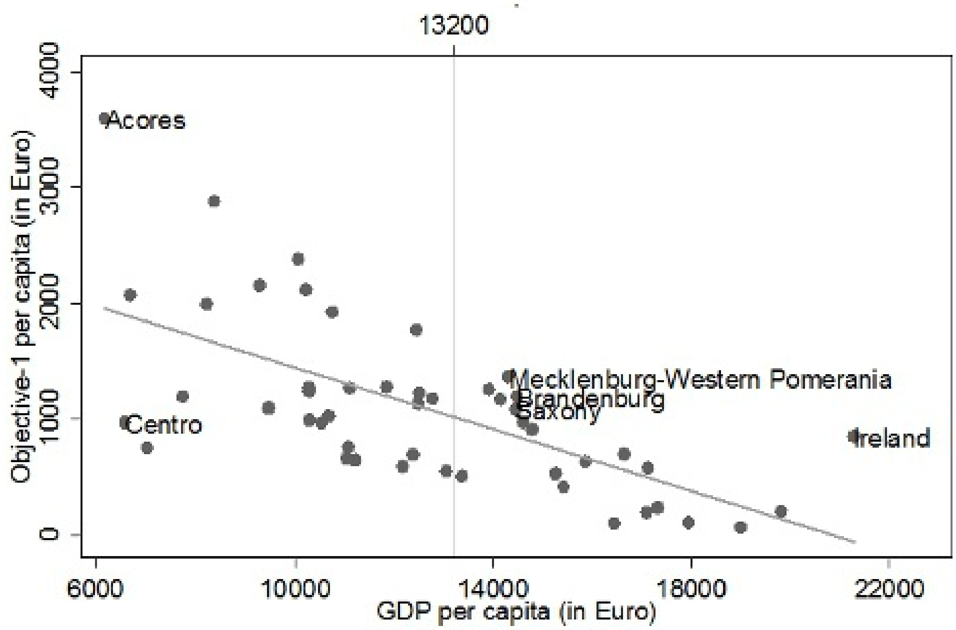
Between 2007 and 2013 the European Union (EU) is set to spend more than 300 billion Euros on regional development through its structural funds. This is the second largest budget item after the agriculture policy and roughly the size of the Greek Gross Domestic Product. The sheer size of these funds and their increase over time has generated much academic interest in their impact on regional growth and convergence between EU countries. The results of this funding are often not very positive, and political scientists have sought to understand why the governance of the funds frequently changes, what impact this makes on the implementation of projects and how to make the funds more efficient and effective. Some authors argue that constant innovation in structural funds policy shows that this is a very experimental and innovative field in new forms of governance.

Both economists and political scientists take the technical criteria which regulate funds policies for granted. For example, for the budget period between 2000 and 2006, two of the major objectives were Objective-1 for the development of poorer regions; and Objective-2 for regions with declining industrial and rural sectors. The official criteria of Objective-1 stipulated that regions should have a per-capita GDP below the 75% average of the EU. For Objective-2, the criteria were less specific, but it meant, by and large, regions with an unemployment rate above the EU average (as well as a declining manufacturing sector).

Do these official criteria explain the regional allocation of spending? First some caveats: it is obvious that the EU had in place some exceptions to the rules, such as fading out transfers to so called 'converging regions'. These are regions almost too wealthy to receive any more aid through the Structural Funds. There are also problems of measurement and aggregation. This, for instance, is the reason that we can only show country –level data for Ireland and Sweden. Despite these caveats, we see that in both cases the official criteria capture only a part of the story.

In both Figures below, the vertical axis shows the amount of Euros per inhabitant each country or region receives. In Figure 1 which shows Objective-1, we see that indeed structural fund transfers fall with average levels of income But we also see that some regions received money although they were too rich to 'make the cut', namely those to the right of the 75% dividing line (roughly some 13,000 Euros). More importantly, some regions with similar levels were given very different levels of (planned) structural fund spending. Low GDP per capita was a necessary but not sufficient condition for getting more structural fund transfers.

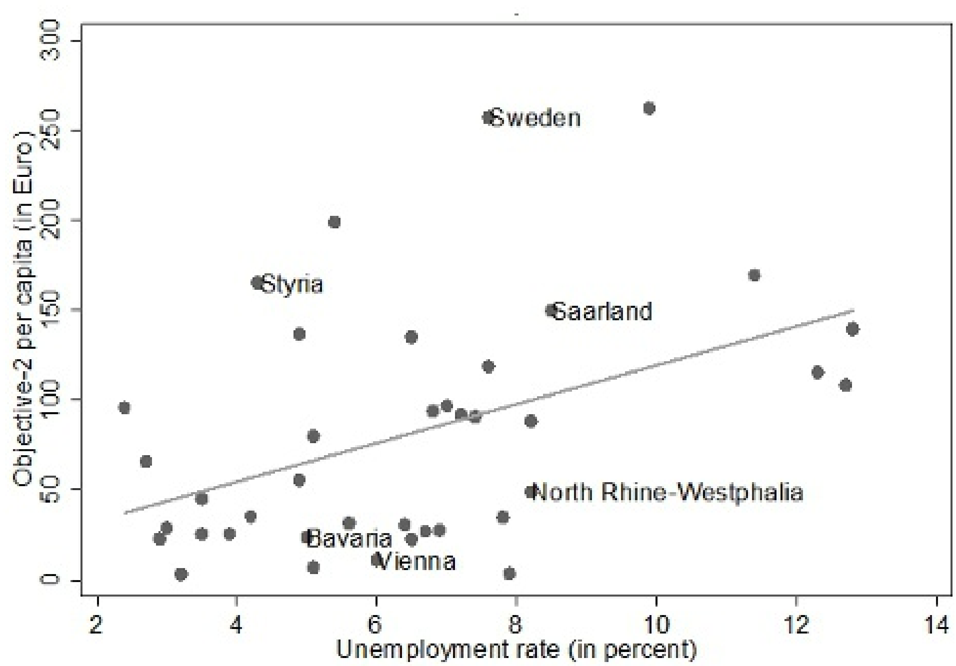
Figure 1 – EU Structural fund transfers based on GDP per capita rates



Note: The 75 percent criterion for Objective-1 eligibility is approximately 13200 Euro.

These patterns are even stronger in the case of Objective 2, shown in Figure 2 which shows transfers based on unemployment rates. While regions with higher rates of unemployment do get more structural fund transfers, the relationship is very weak and there are huge differences between similar regions. Why do these huge differences occur?

Figure 2 – EU Structural fund transfers based on unemployment



We have investigated the structural funding recipients at regional levels with a battery of economic and political variables, experimenting with several econometric techniques. We found that GDP per capita indeed plays a (relatively) strong role, but so do some political factors. For instance, we find that federalist regions get more Objective-1 transfers than others. This might be due to several reasons; for instance, better administrative capacities. But we think it is also because these regions are more successful in lobbying both the national and, in particular, the EU level.

For Objective-2 we even find that unemployment either does not play a role, or its influence is actually the reverse: regions with higher rates of unemployment receive less money, arguably because it would be difficult for them to match or absorb structural fund money (as Vicky Pryce mentioned in her recent interview on this blog). And again we find that political factors such as the 'political power' of regions matter, especially the political weight of a region in national and regional elections.

The literature on the political economy of structural funds policy is still in an early stage and future studies may challenge some of our findings. Yet, these findings are both intriguing and important. On the one hand, they show that the EU uses structural funds policy for various purposes, and as the national literature on regional policy suggests, there are important trade-offs between efficiency, equity and political legitimacy. In this sense it is perhaps naive to expect that structural funds policy should have an immediate and direct influence on regional growth. On the other hand, our findings demonstrate some of the regional politics of this policy and provide evidence of the role of 'pork-barrel' politics and lobbying in regional redistribution.

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About the author

Achim Kemmerling – *Central European University Budapest*

Achim Kemmerling is an Associate Professor of Political Economy at the Department of Public Policy at the Central European University Budapest. He has published on issues of tax policy, social and labor market policies, and fiscal federalism and worked as a consultant to the German Federal Parliament (Deutscher Bundestag), the German Society for Technical Cooperation (former GTZ, now GIZ) and the European Investment Bank (EIB).

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