The Price of Europeanization: Why European Regional Policy Initiatives Are a Mixed Blessing

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Over the last three decades, European regional policy has developed into one of the principal areas of EC activity.[1] From the creation of the European Regional Development Fund (ERDF) in 1975, it has developed into the second most important policy area within the EU in budget terms taking up 35 per cent of the EU budget in 2000 (European Commission, 2000). While the European regional policy's impact on the reduction of regional disparities has remained limited at best (European Commission, 2001) its impact on European governance, i.e. the question of how regional policy should be conducted in Europe, has been much more significant.

Reasons for this can be found if one acknowledges the importance of three key dichotomies that have shaped the evolution of the European regional policy regime: (1) development versus compensation; (2) intergovermentalism versus multi-level governance; and (3) cohesion versus competition. A closer analysis of these dichotomies can help to eliminate certain myths that have been persistent in this policy area. First, it can be shown that European regional policy was not created to principally constitute a mechanism with which to achieve the reduction of regional disparities in Europe. Rather, an important part (some might say *the* most important part) of its raison d'être has always been to act as a mechanism through which to compensate imbalances in member states' net-contributions to the European budget. The article seeks to show that one can find ample evidence for this 'compensation logic' even after the recent reform of the Structural Funds in June 1999. Second, one needs to question the general claim that European policy-making is an area in which an intergovernmental logic of decision-making reigns supreme. While this might still be true for strictly budgetary decisions, the planning and implementation of EC regional policy constitutes perhaps the principal example of multi-level governance in the European Union (Marks, 1992; 1993; Marks *et al.*, 1996), with devolutionary effects being felt even in highly decentralized states such as Germany. Finally, there is the myth that

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European regional policy is mainly about the Structural Funds and the Cohesion Fund. Such an assessment ignores the crucial role that has been played by less visible but highly influential areas of the Commission's authority, in particular its powers in the area of state-aid control. Indeed it is no exaggeration to argue that 'for most of the history of the Community, DG IV, the Competition Policy Directorate-General of the Commission, has had more impact on regional policy in the member states than had the Regional Policy Directorate, DG XVI' (Yuill, Bachtler and Wishlade, 1997: 122).[2] In other words, competition goals have always tended to trump cohesion objectives in the EC.

The particular character of European regional policy as it has evolved over the four decades, has left its mark not only on governance at the European level but on domestic regional politics and policy as well. Evidence from East Germany's integration into the EC's regional policy regime supports the claim that European regional policy initiatives can constitute a double-edged sword for the member states.[3] While member states have been able to reap financial benefits, these benefits have come at a political cost as European regional policy initiatives have significantly curtailed the independence of national authorities.

To substantiate these claims the article will start by tracing the evolution of European regional policy initiatives against the background of the three competing dichotomies identified above. The second part of the article assesses the impact of these competing logics in the development of European regional policy, drawing heavily on evidence from Eastern Germany's integration into the EC's regional policy regime. It will show how the importance of the often underestimated principles of 'development', 'partnership' and 'competition' can exert powerful Europeanization effects on regional policy-making in the member states.

COMPETING LOGICS IN THE EVOLUTION OF EUROPEAN REGIONAL POLICY INITIATIVES

This section will focus on three questions that have been crucial for the evolution of European regional policy initiatives. First, to what extent has European regional policy been dominated by a 'regional development logic' or by a concern to more equally distribute the financial burden of European integration among the member states? Second, to what extent has the EC's regional policy regime moved towards a system of multi-level governance? And finally, what has been the impact of 'non-DG Regio' areas of Commission activities (in particular that of DG Competition's control of state-aids) on European regional policy? Each of these questions will be addressed in turn by looking at key stages of the European integration process in relation to regional policy. The stages that will be scrutinized in more detail are the 1957 Treaty of Rome, the creation of the European Regional Development Fund in 1975, and the reforms of the Structural Funds in 1988 and June 1999.

Development vs. compensation logic

Until 1975 there was hardly anything that one could call a systematic EC regional policy (Armstrong, 1995: 136). The first Community enlargement acted as the principal catalyst for the creation of the ERDF as it brought in countries with intense regional problems. While Ireland's problems might have been dealt with in the framework of agricultural assistance, the UK had a number of regions suffering industrial decline, for which existing financial instruments available to the Community offered little help. However, from the outset the purpose of the Fund was not just (or not even principally) about regional development. Martins and Mawson claim that 'the existence of regional disparities in the Community has never in itself been a sufficient reason for the development of a Common Regional Policy' (1980: 29). The UK was not alone in regarding the ERDF as a mechanism to partly offset net-contribution to the EC budget.

During the early years the rationale of the Fund clearly was to let as many member states as possible benefit from it, rather than concentrating its resources on those areas of the Community with the greatest need. Consequently, the first academic treatments of the ERDF in the late 1970s were highly sceptical about the Fund's effectiveness as an instrument of regional development (Wallace, 1977a; 1977b; Armstrong, 1978). Van Doorn's early assessment at the time of the Fund's creation was that 'the establishment of a Regional Development Fund is not so much an instrument to deal with regional disparities as a means to cope with national disparities regarding contributions from and payments to the Community budget' (1975: 400). Thirteen years later, Wise and Croxford's assessment had hardly changed. They concluded that until 1988 the ERDF had remained 'an essentially "cosmetic" policy instrument' (1988: 164). In other words, the early ERDF constituted a regional policy in name only.

In the run-up to the Single Market Programme, one could observe an increasing recognition of the danger that the weaker regions of the Community could end up as net losers from further market integration (European Commission, 1987: 4). In recognition of this danger, the 1988 Regulations allowed DG Regio much greater discretion over the deployment of significantly increased resources which shifted the balance of the ERDF from its initial compensation function further towards a true regional development function (McAleavey, 1995: 146–93).[4] Two principles – additionality and concentration – which formed an important part of the Structural Funds regulations since the 1988 reforms are meant to specifically address the issue of the development-versus-compensation function of European regional policy.

The additionality principle requires that European grants should be additional to (and not a substitute for) national assistance to target regions. Scharpf notes that for all European programmes and especially those of the ERDF 'the only interesting question is whether European funds will add to, or substitute for, national expenditure', claiming that 'the ability of national dogs to wag the European tail is not really in doubt' (1988: 251). Since a relaxation of additionality provisions in 1993 (Bache, 1998), no significant changes regarding additionality were made in the recent reform which means that it is still difficult for the Commission to ensure that European funding will be truly additional to national assistance.

The principle of concentration seeks to ensure that Structural Fund money is concentrated in those areas which are most in need of financial assistance. As a result of these considerations the 1988 reform introduced five priority objectives (European Commission, 1989).[5] The definition of these European regional policy objectives represented a significant development, as not all the areas designated as eligible to receive European aid were at the time approved to receive regional aid under the member states' own regional policy schemes. Moreover, because of Community requirements for additionality and co-financing (matching funding), these new measures meant that member states had to initiate spending on the relevant regions if they were to attract Community funds. Thus, it can be argued that for the first time national regional policy was to some extent subordinated to Community regional policy. However, the authority to take decisions on the eligibility for Objective 1 status (for which more than two-thirds of ERDF money is reserved) was retained by the Council of Ministers. As a result, the process of designating regions for assistance under the various objectives has thus remained a process of political negotiations rather than an automatic application of objective criteria.

In response to continued criticism that the spread of EC money was still too wide, the 1999 reform of the Structural Funds reduced the number of objectives from six to three.[6] These three new objectives, however, have been widened to accommodate at least partly the old additional three objectives. Moreover, those regions which are to lose European regional assistance as a consequence of the new provisions will benefit from generous transitional payments. Notwithstanding some genuine concentration efforts in the area of Community Initiatives which were reduced from eleven to four,[7] the new regulations do not constitute a dramatic move towards 'concentration' or the fundamental strengthening of a 'regional development logic'. This assessment is supported by a look at the new 'performance reserve' scheme introduced by the June 1999 reform. This institutional innovation involves the withholding of four per cent of the original appropriation to each member state. The withheld money is to be used as a reserve to enable supplementary funding after the mid-term review on a performance related basis, i.e. those regions which are most successful in achieving their regional policy objectives will receive additional resources. The new scheme, despite great initial hopes, does not signify a move away from the logic of compensation either, as regions compete for money from the performance reserve only within each member state and according to national criteria. Initial Commission proposals to introduce Europe-wide competition on the basis of European criteria, with DG Regio rather than member-state authorities picking the winners, proved to be unacceptable to the member states. Clearly, there continues to be a strong compensation logic at the heart of member states' attitudes towards European regional policy. The persistence of this logic owes much to the strength of national governments in the European regional policy process. To what extent intergovernmentalism has been weakened by the recent reforms and given way to forms of multi-level governance will be discussed in the next section.

Intergovernmental vs. multi-level governance logic

The question to what extent the European regional policy process is characterized by an intergovernmental or a multi-level governance logic is a second issue which has left its mark on recent debates about the principal characteristics of European regional policy. During the early period of the ERDF, it was clearly national governments which shaped the design of the new policy. Preston notes that during negotiations which led to the establishment of the ERDF, 'proposals were consistently referred up the hierarchy of authority whenever vital national interests were claimed to be at stake' and all 'major decisions regarding the creation of European regional policy were taken by the Council of Ministers' (Preston, 1984: 86). National governments also dominated the implementation process in those early years. 'That the Commission was able to influence the agenda was important, but not decisive' (Bache, 1998: 46). The role of the subnational level in the ERDF process during those years also remained minimal. Central governments remained successful in their role as gatekeepers between European institutions and subnational actors.

Some hoped that the 1988 reforms of the Structural Funds would change that. Whereas earlier Commission proposals in the late 1970s and early 1980s had encountered strong opposition within the Council, in the late 1980s, a period of general economic optimism and pro-integration sentiments in the aftermath of the Single European Act, the Commission's proposals were accepted by national governments with few changes. There were particularly strong expectations regarding the institutionalization of the principle of partnership which constituted one of the crucial innovations of the 1988 reform. For the first time, the 1988 Regulations officially recognized the role of not just supranational, but also subnational actors under the principle of partnership. In the Regulations, the principle was defined as ‘close consultation … between the Commission, the member state concerned and the competent authorities designated by the latter at national, regional, local or other level, with each party acting as a partner in pursuit of a common goal’.[8]

Although the new emphasis on partnership was couched in the language of policy-effectiveness, it is clear that the changes, at least potentially, could have important political implications. They could affect the territorial politics in both centralized and federal states, as the partnership principle meant the formal involvement in decision-making of subnational actors, where their role had previously been consultative, challenging existing hierarchical relationships between central government and subnational authorities. Moreover, with the 1993 reform of the Structural Funds, the remit of the partnership principle was widened to address not only the relationship between the different levels of governments involved in regional policy-making but also to propagate the involvement of economic and social partners (such as trade unions, trade and industry associations, and social and environmental groups) in the European policy process. These widened partnership provisions were upheld in the 1999 reform of the Structural Funds which stated that ‘partnership should be strengthened’ and that the economic and social partners and other competent bodies ‘shall be associated in the preparation, monitoring and evaluation of assistance’.[9] Although the 1999 reform reconfirmed the key position of central governments or actors selected by the central governments, the reforms did not, as some had feared, renationalize the Structural Funds (Sutcliffe, 2000: 306).

There is little disagreement in the literature that the reforms since the late 1980s have constituted fundamental steps in the evolution of European regional policy. The extent to which the reforms have constituted a change in existing governance structures, however, is more contested. With regard to changes to the European budget, intergovernmentalist accounts (Moravcsik, 1993) appear most convincing. As outlined above, the substantial increase of the Funds (agreed as part of the 1988 and the 1993 reforms) may be regarded as a side payment by the net-contributors in order to secure support by the poorer member states for the completion of the Single Market (Pollack, 1995). However, as Marks (1993: 395) rightly claims, ‘determining the size of the budget does not determine the manner in which it is spent'. While budgetary decisions on the Structural Funds have remained a largely intergovernmental affair, central governments' dominance in the areas of design and execution of the Funds, has clearly decreased since the late 1980s. Marks notes that 'beyond and beneath the highly visible politics of member state bargaining lies a dimly lit process of institutional formation, and here the Commission has played a vital role' (1993: 392). Proponents of multi-level governance claim that 'the reforms have created new and untried issues of governance and jurisdiction; they have spawned new arenas in which decisionmaking will take place; and they have multiplied the number and type of groups that contend for influence over substantive outcomes and, more important, for control over the decisionmaking process' (Marks, 1992: 214–15).

The new regulations introduced since the mid 1980s have clearly changed the European Commission's ability to shape the operation of the Funds according to its own priorities. They have also enabled the Commission to engage with national and sub-national actors in a relationship of political exchange which can best be understood as that of a multi-level policy network (Rhodes, 1997).[10] The institutionalization of the partnership principle significantly increased the input of European-level and subnational-level actors, thereby, at least potentially, changing the governance structures of European regional policy-making. The importance of such 'governance effects' will be discussed in more detail below, in an analysis of the impact of partnership in East Germany.

Cohesion vs. competition objectives

A third, and often neglected aspect of European regional policy is the control of the EC's and member states' regional development aids under the competition policy provisions of the Treaty (Schina, 1987). This is an important omission. Indeed it has been argued that DG Competition, the Competition Policy Directorate-General of the Commission, has had more impact on regional policy in the member states than had the Regional Policy Directorate, DG Regio (Yuill, Bachtler and Wishlade, 1997: 122). In the event of a clash between the Community's cohesion and competition objectives, DG Competition's priorities tend to reign supreme.

In all EU member states, companies decide freely on where to invest. However, increasingly such decisions are influenced by actions of public authorities, who through various incentives (indirect assistance such as the provision of infrastructures, as well as more direct financial incentives) seek to integrate company location decisions into their wider regional policy objectives. Such regional incentives become voluminous as numerous member states and regions compete for mobile investment. This development can lead to the distortion of competition as exaggerated investment aids can lead to location decisions which could not be justified on commercial grounds.

With regard to the control of state-aids on competition grounds, the Treaty of Rome was quite specific, giving substantial powers to the European Commission. Article 87 (ex Article 92) provides for a general prohibition of state-aids insofar as they affect trade between the member states.[11] However, Article 87(1) also identifies aids which *may* be considered to be compatible with the common market. With regard to the impact on regional aids, the provisions of Articles 87(3)(a) and 87(3)(c) are the most important ones, as both envisage that regional aids *may* be exempted from the general ban on state-aids. Under Article 88 (ex Article 93), the Commission is charged 'in co-operation with the member states' to keep 'under constant review all systems of aid' existing in the member states. The rationale for these Articles must be seen against the background of the creation of the Common Market. As member states could no longer use traditional trade barriers such as customs quotas and duties, there was the perceived risk that they would increasingly resort to the use of state-aids in order to out-bid one another in their attempt to attract mobile investment. According to Schina, this was 'a race that the poorer, worse-equipped, peripheral regions were condemned to lose' (1987: 65). In response, the Commission moved to tighten the EC's state-aid regime in the late 1980s.

A 1988 Commission Communication to the member states, which dealt with the issue of which areas could be designated as being eligible for regional aid, constituted an important development in the evolution of state-aid rules.[12] This tightening of state-aid rules led to protests by member state officials who complained that the Commission relied too heavily on too few indicators. Some officials felt that DG Competition frequently employed 'an essentially spurious justification for decisions that were largely subjective' (Yuill, Bachtler and Wishlade, 1997: 140). As a result of the Commission's increased assertiveness regarding the designation of areas eligible for regional aid, the 1980s witnessed major disputes between the Commission and the member states. As DG Competition started to have a significant impact on assisted area coverage in the member states, some member states complained that the Commission was intent on imposing its own assisted area map with little regard to national preferences. As a consequence of DG Competition's new activism, most of the wealthier EU member states were forced to cut back on the spatial coverage of their regional aid policies in the course of the 1980s (Yuill, Bachtler and Wishlade, 1997: 128). Many member states have found this hard to accept, arguing that their principal concern is with national, not European, regional disparities and contesting that there is a relevant link between assisted area coverage and distortion of competition.

Commission activities in the area of state-aid control led not only to disputes between the Commission and the member states. On DG Competition's insistence, the 1988 Structural Fund Regulations also required each Community Support Framework (CSF) to contain a standard clause to the effect that only aid notified and approved in accordance with state-aid provisions of the Treaty could be eligible for European aid. As a result, EC state-aid policy and EC regional policy, and hence DG Competition and DG Regio, came into direct conflict (Yuill, Bachtler and Wishlade, 1997: 141). The Structural Funds may part-finance national aid schemes, but these must be notified and approved in accordance with Articles 87 (ex Article 92) and 88 (ex Article 93) of the Treaty. This effectively empowers DG Competition officials to control where European regional policy can be used and where not. This has led to disputes, not only between the Commission and member states, but also between competition officials and regional policy-makers within the Commission, with DG Regio accusing the Competition Directorate of undermining Community cohesion objectives (Wishlade, 1993).

More recent initiatives have reinforced the impression of increased activism on the part of DG Competition in the area of state-aid control. In 1998, DG Competition published revised 'Guidelines on National Regional Aid'.[13] Overall, the new guidelines represent a further toughening of DG Competition's attitude towards national regional aids. It is striking that the new guidelines do not mention specific competition concerns, which after all are the principal brief of DG Competition. Wishlade notes:

It is perhaps easy to lose sight of the fact that the new Guidelines on National Regional Aid are concerned with preventing distortions of competition and trade. Instead, the focus of the new provisions is very much on the spatial coverage of national regional policy (Wishlade, 1998a: 357).

The main objective with these new guidelines is to further reduce the total assisted area coverage of the regional policies of the member states. According to Wishlade, 'the limitation on assisted area coverage, together with the conditions to which the area designation systems must comply, will straitjacket national regional policy designs' (1998a: 357). The new guidelines are likely to provoke considerable controversy within countries as subnational authorities will compete among themselves, each trying to avert the prospect of being the one on whose shoulders the reduction in the size of assisted area maps falls.

In respect to the spatial coverage of assisted area maps, the Commission has most recently proposed in its Agenda 2000 proposals that the percentage of the population of the Union covered by Objective 1 and 2 should be reduced from 51 per cent to 35–40 per cent.[14] These suggestions clearly had DG Competition's handwriting. Together with the announcement in Agenda

2000 that some assisted areas in the present member states could be crowded-out as a result of enlargement, they make uncomfortable reading for many of the existing member states. It will be shown below that the impact of DG Competition's activism in the control of public subsidies and designated assisted areas has been felt particularly strongly in post-unification Germany, where cohesion and competition objectives were frequently at odds with one another, with the former usually having to give way to the latter.

THE PRICE OF EUROPEANIZATION: EAST GERMANY'S INTEGRATION INTO EUROPE

The discussion above suggests that European regional policy initiatives have always been highly political. The recent reforms have only mildly strengthened European regional policy's 'regional development logic' and have only had a limited impact on reducing regional disparities across Europe. However, their effects on governance – not only at the European but also at the domestic level – have arguably been much stronger. The empirical part of this article will analyse the extent to which alterations to the European regional policy regime have changed the way regional policy is conducted in the member states. Three examples, highlighting the experience of East Germany's integration into the European regional policy regime, will demonstrate the impact of recent European regional policy initiatives in the three areas highlighted above. In doing so, the article seeks to contribute empirically to the burgeoning debate on Europeanization (Knill and Lenschow, 1998; Radaelli, 2000; Bomberg and Peterson, 2000; Goetz and Hix, 2000).

Beyond the 'compensation logic': Europeanizing Germany's regional policy regime

That national regional policy-makers still have to fully acknowledge the 'development' objective of European regional policy is underlined by the fact that national policy-makers continue to regard regional policy-making as a primarily member state prerogative. German policy-makers, for example, might agree in principle with the solemn Treaty objective of reducing regional disparities across Europe. However, they strongly feel that their task is above all to concentrate on domestic (not European) regional disparities, i.e. on disparities which may have immediate financial and migratory consequences within the Federal Republic (and hence domestic political effects). These priorities of German officials have gone hand in hand with the their conviction that long-established national regional policy institutions are best suited to solve regional problems at home and that one should therefore seek to prevent, or at least minimize, the intrusion of European institutions into national policy regimes. However, evidence from East Germany's integration into the Structural Funds suggests that the European Commission has the will and the resources to substantially influence domestic politics and policy.

The relationship between DG Regio and the German authorities in the run-up to the 1994–99 funding period of the Structural Funds was marked by a severe conflict over negotiations for the East German Community Support Framework, i.e. the document which laid down the details for the integration of the East German *Länder* into the Structural Funds. The bone of contention was whether all ERDF funds intended for East Germany should be routed exclusively through Germany's domestic regional policy regime, the GRW,[15] and disbursed according to the GRW's aid criteria, or whether European funds could in part be 'de-coupled' from the GRW, allowing some of this money to be used according to often wider European criteria.[16] The Federal Ministry of Economics in Bonn insisted that Structural Fund expenditure in Germany should be subject to GRW and not Community assistance criteria, as it hoped to create a single, unitary administrative process in the light of the infant bureaucracy in the new *Länder* (Anderson, 1996: 181). In contrast, the *Länder* were generally favourably poised towards the European criteria as they allowed for the support of a broader variety of projects (e.g. in areas such as R&D, training and non-business related infrastructure). The Commission openly supported the *Länder* in their quest to 'de-couple' European money from the GRW. Some senior DG Regio officials regarded the application of the narrow (West German) definition of GRW eligibility criteria as problematic in the case of the former East Germany.[17] The director of DG Regio, in charge of the negotiations with the German government at the time, consequently initially refused to approve the German 'Objective 1' CSF (1994–99), thus withholding the flow of Structural Funds money until well into the new funding period.[18] In mid-1994, the German Federal Government (under mounting pressure from the eastern *Länder* which were waiting for their money) finally made concessions on this issue, allowing the *Länder* to 'de-couple' European Funds, i.e. use parts of the Structural Fund money outside the GRW framework. Saxony, Brandenburg and Mecklenburg-Western Pomerania used the opportunity to 'de-couple' parts of the European money allocated to them.

The impact of European regional policy principles was not limited to the process of *European* policy-making (by strengthening the multi-level character of European governance) but such European initiatives affected *domestic* policy processes and outcomes as well. The reform of the German regional policy framework (GRW) in 1995, for example, can only be fully understood by reference to the domestic impact of European regional policy priorities. During the early 1990s the GRW, and Federal and Land Ministries of Economics in charge of it, came under heavy criticism from a number of both European and domestic corners. The main criticisms voiced were as follows: first, the GRW's support framework was considered too narrowly focused on investment support; second, the GRW was accused of showing a lack of responsiveness to demands for the regionalization of regional policy; third, the participation of the social partners was widely regarded as insufficient; and finally, the system's overly bureaucratic nature as well as the lack of co-ordination between the GRW and other policy fields came under criticism (see e.g. DGB 1994). An analysis of the long and protracted process which finally culminated in the GRW reform lies beyond the scope of this article. Suffice it to say that while the reform left the principal decision-making structures and the fundamental character of the GRW (as a specialized instrument for regional economic assistance focusing on investment grants and infrastructure assistance) intact, the first three of the above criticisms were addressed and some important changes in these areas were made.[19] First, the eligibility criteria for investment grants were widened and are now also available for certain non-investment projects such as consultancy, training and R&D. GRW support opportunities for infrastructure were also broadened and now allow for the assistance of infrastructure which is not just business related. Second, GRW money can now be used to co-finance the (integrated) regional development programmes of the *Länder* under the condition that GRW money does not crowd out *Länder* funds. This change at least in part addressed calls for more 'regionalization' within the German regional policy regime. Finally, while not being part of the formal changes introduced, there is an observable institutionalization of meetings on GRW matters between the Federal/Land Ministries of Economics, other ministries, subregional authorities affected by regional policy-making and the economic and social partners. Two committees, hosted by the Federal Ministry of Economics, now meet regularly twice a year.[20]

All of these changes appear to have been influenced in part at least by the European Structural Funds. With regard to the first two, the perceived narrowness of GRW criteria (when compared with Structural Fund criteria) was the principal sticking point during the CSF negotiations. The widening of GRW criteria now allows the *Länder* to utilize Structural Funds money on a much broader basis within the GRW Framework. As a consequence, previously excluded Federal and *Länder* agencies have gained access to European regional policy networks, reinforcing the networks' increasingly multilateral character. Moreover, the condition attached to the new provision which allows GRW monies to be spent on the *Länder*'s own regional policy programmes, follows the logic of the 'additionality' principle of the Structural Funds (Nägele, 1996: 296). Finally, the institutionalization of meetings between the Federal Ministry of Economics with sub-*Länder* authorities and social partners is clearly within the spirit of the EC's partnership principle, even though it might not have been solely responsible for these changes. Given the kind of changes made to the GRW, it is hard not to come to the conclusion that certain aspects of the reform specifically tried to make the coupling of Structural Fund money with the GRW more attractive to the *Länder*, while other aspects of the reform were clearly influenced by European regional policy principles such as partnership. The evidence presented therefore suggests that the European Commission had at least partly managed to give 'developmental' issues a higher priority on the European regional policy agenda. The GRW reform demonstrates the 'Europeanization' of both the process and content of domestic policy-making.

European induced devolution: The Commission's 'partnership' agenda'

It has been argued above that the evolution of policy-making in the Structural Funds, and in particular the development of the partnership principle, was aimed at moving European regional policy-making from an 'intergovernmental' to a more 'multi-level governance' logic. What is the evidence for such changes in European governance and what has been the impact on domestic politics?

If one treats the concept of partnership in institutional terms, as was suggested earlier, i.e. as a set of specific rules and norms, such an analysis points towards Europeanization effects that revolve around the question of who should participate in regional policy-making at the domestic level. It has already been seen in the previous section that by drawing the new German *Länder* more strongly into European regional policy networks, the principle of partnership has helped to legitimize direct contacts between the new *Länder* and the Commission in European regional policy-making. Partnership appears to have enhanced the self-confidence of both the Commission and the East German *Länder* to call on national governments to take their interests into account at the *planning stage* of the programming process which traditionally has reflected mainly the preferences of national governments. At the *implementation level*, partnership has also affected the role of the economic and social partners. One could already see that the partnership logic has crept into Germany's own domestic regional policy regulations, where it has strengthened the formal involvement of subregional authorities and semi-public actors in the regional policy process. In the case of the implementation of European Structural Fund regulations at the domestic level, the Europeanization effects of the partnership principle have been even more obvious. Although the Structural Funds Regulations clearly state that it is up to the member state authorities to choose partnership structures in accordance with domestic institutions, the Commission (DG Regio) has always had its own particular idea of what partnership should stand for.

At the implementation stage of European regional policy initiatives, the Structural Fund Monitoring Committees represent the primary example of the formal institutionalization of the partnership principle. 'In the implementation of structural assistance, the Monitoring Committees are the principal mechanism for conducting the partnership at national, regional or even subregional level' (European Commission, 1996: 229). According to the Structural Funds Regulations, the Monitoring Committees include 'within the framework of each member state's national rules and current practices, the economic and social partners, *designated by the Member States* at national, regional, local or other level'.[21] In Germany, most operational decisions concerning the 'monitoring' of Structural Fund implementation are taken at the subnational level (i.e. in the Monitoring Sub-Committees created in each Land). From the start, the Federal government left it to the *Länder* themselves to decide how to implement partnership in these monitoring sub-committees.[22] Article 6 of the German Monitoring Committee's Rules of Procedure foresees the creation of a Monitoring Sub-Committee in each of Germany's Objective 1 regions (the five new *Länder* and East Berlin). Permanent members of these Sub-Committees are the European Commission and the Federal Ministries of Economics, Employment and Agriculture. These Sub-Committees are chaired by the respective *Land* Ministry of Economics (Article 6(2)). The chair, together with the Fund-managing department of the particular programme, appoints further *Land* ministries as permanent members of the Committee. 'Further participants *can* be admitted by the chair of the Sub-Committee' (Article 6(1), my translation and emphasis). With few exceptions the *Länder* representatives have used their position as chair of the monitoring sub-committees to prevent the economic and social partners from exercising any substantive participatory rights.[23] At the start of the programming period they made it clear that they did not want the economic and social partners to be represented in the sub-committees, as in their opinion this would only make the monitoring system more complicated. They argued that there was no need for such direct representation as there were already informal contacts between the Fund managers and the economic and social partners.[24] The 'Rules of Procedure' initially adopted by all five Monitoring Sub-Committees did not foresee the direct participation of neither sub-*Land* authorities nor that of the economic and social partners. The closest these actors got to direct participation was in the case of Saxony-Anhalt, where a 'pre-meeting' between the Ministry of Economics of the *Land* and the sub-*Land* actors and economic and social partners (following the example of arrangements that are in place at the Federal level) was established.[25]

When criticized for their restrictive attitude, German officials from the various Ministries of Economics have repeatedly stressed that the procedures put into place are fully in line with the Structural Fund regulations. However, the position taken by the *Länder* did not satisfy the Commission (DG Regio). The East German *Länder*, due to the much greater size of their Structural Fund programmes, became the focus of DG Regio's attention. When there was little progress on the Commission's wish to have the economic and social partners more fully represented on the Monitoring Committees, regional policy Commissioner Wulf-Mathies personally intervened both with statements in the media and in a personal letter to the Minister-Presidents of the new German *Länder*.[26] In it the Commissioner made it clear she considered the participation of the economic and social partners in the implementation of the Structural Funds in Germany as insufficient. She criticized the fact that the economic and social partners had not yet been given a formal seat on the monitoring sub-committees and that they had been effectively excluded from the drawing-up of Structural Fund assistance measures. *Land* officials have made few attempts to conceal their anger about this interference by the Commission. One senior official of the Ministry of Economics in Thuringia interpreted Wulf-Mathies' push for more involvement of the economic and social partners as a barely concealed attempt by the former boss of one of the biggest German unions, 'to take the unions closer to EC money coffers'.[27] Over the next 12 months after Wulf-Mathies' intervention, the economic and social partners were (often grudgingly) granted seats on the monitoring sub-committees in all the East German *Länder*. In many cases, the final list of participants was agreed upon only after protracted and sometimes bitter exchanges between the Fund managers and the economic and social partners.[28] Even Saxony-Anhalt gave up its practice of a 'pre-meeting' with the economic and social partners before the actual meeting of the Monitoring Sub-Committee and made provisions for their formal inclusion on the Committee itself.[29] This is not to say, however, that the increased (formal) participation of these groups has always increased their ability to assert substantive influence. It is still *Länder* Economic Ministry officials who chair the Monitoring Sub-Committees; these *Land* officials have effectively used their power to limit the role of the Committees' new members (Thielemann, 2000).

Partnership, as viewed by the Commission (which is a view that arguably differs from a strict reading of its definition in the Structural Funds Regulations) foresees not just a mere informal role for subregional actors and their economic and social partners but promotes the formal participation of these actors in the member states. It thus could be seen that the principle of partnership has strongly affected the make-up (and partly also the functioning) of regional policy networks in the new German *Länder*, lending at least some support to the claim that 'the existing architecture is being chipped away into a new, diverse and dynamic pattern of multi-level governance' (Jeffery, 2000: 20).

EC State-Aid Control: The 'Trojan Horse' of European regional policy[30]

It has been argued above that the Commission's authority over questions regarding the compatibility of public aids (including regional aids) with the EC's competition regime can have a strong impact on the workings of regional policy in the EU, with the activities of DG Competition frequently highlighting the underlying tension that exists between the EC's cohesion and competition objectives. These tensions were felt particularly strongly in post-unification Germany.[31] Germany has always been and still is one of the richer member states of the European Union with a tradition of widespread use of public subsidies paid by both national and regional authorities. This has always made Germany, irrespective of its cohesion concerns resulting above all from unification, a prime target for DG Competition's control regime. With regard to specific tensions between cohesion and competition objectives that one can identify in the German case, two areas of DG Competition's activities are particularly relevant: (1) control of sectoral aids and (2) area designation.

In the aftermath of unification, the German authorities used sectoral subsidies to influence the regional distribution of mobile investment in their attempt to attract investment to East Germany. From the very start, these activities which aimed at overcoming the enormous regional disparities between East and West German *Länder* attracted the attention of DG Competition. One of the most prominent state-aid disputes resulting from that scrutiny was the Volkswagen (VW) dispute between the Commission and the *Land* of Saxony (Thielemann, 1999b). In its decision of 26 June 1996,[32] the Commission (DG Competition) scaled down an aid package put together by the *Land* of Saxony to support VW investments in Mosel and Chemnitz. The Saxon government launched an appeal to the European Court of Justice to get this decision overturned. However, without waiting for the outcome of this legal challenge, the Saxon authorities decided to pay the full amount to VW, in contravention of the Commission decision. DG Competition's concerns over this action become clear when reading statements from Commissioner Van Miert who stated at the time: 'I have sometimes been attacked by other member states because they felt that we [DG Competition] were too generous with regard to Germany, in particular the new German *Länder*', an accusation that the Commissioner was keen to dispel.[33] On the other hand the authorities in Saxony were clearly guided by cohesion concerns, led primarily by attempts to combat unemployment which stood at levels of more than 25 per cent in certain parts of Saxony at the time. The Saxon authorities felt that they could not wait for the decision by the European Court of Justice which, they (rightly) feared, could take several years. Prime Minister Biedenkopf was worried that by then VW would have decided against Saxony as the location for its investment, thereby endangering 20,000 jobs in the region. This fear was expressed by Saxony's Minister of Economics, who was quoted at the time as saying: 'We have to bribe these companies – otherwise they go elsewhere.'[34] However, keen to prevent the setting of a precedent, DG Competition did not budge. In November 1997, VW finally repaid the disputed DM 90m it had received from the Saxon authorities.[35]

The second prominent aspect of DG Competition activity in the 1990s which had immediate impact on Germany's domestic regional policy objectives was in the field of area designation. As outlined above, DG Competition can decide what size of regional development areas in the member states are compatible with the Single Market and therefore eligible for national and European regional assistance. On many occasions, this has led to heated disputes between DG Competition and the German authorities and resulted in significant changes to the way regional policy is conducted in Germany (Benterbusch, 1996). Shortly before unification, DG Competition had forced the German Federal government to accept a reduction of maximum area coverage in West Germany from 38 to 30 per cent (Nägele, 1996: 283). Losers of this step were in particular *Länder* on the border with the former GDR, in particular Hesse and Bavaria. Hesse's share of the GRW funds fell by 70 per cent as a result, that of Bavaria by half (Deutscher Bundestag, 1991: 10). In addition, by eliminating preferential assistance rates in the border areas with former East Germany, the maximum award rate in the West German *Länder* was cut from 23 to 18 per cent (Deutscher Bundestag, 1991: 6).

In the aftermath of German unification, the tensions between the German authorities and DG Competition reached unprecedented levels.[36] Germany's domestic concerns about hitherto unknown degrees of regional disparities clashed with DG Competition's concern that subsidies flowing into eastern Germany on a massive scale might seriously distort competition in Europe. As the eastern part of Germany became a significant recipient of regional aid, DG Competition directed its attention to both domestic and European regional assistance inside Germany. DG Competition was not only interested in supervising aid to the new *Länder*. It also kept a close eye on regional subsidies to the old *Länder* and pushed for their further reduction. During the negotiations of the East German CSF in 1993, DG Competition made its approval subject to an assurance by the German authorities that all subsidies that had their origin in the division of Germany were to be ceased (Hummel, 1993: 75). This demand became an important priority of DG Competition, as Commissioner Brittan at that time had personally promised concerned member states that he would ensure that the German authorities would discontinue such aids in due course (Spence, 1992: 47). To underline its determination, the Commission started two Article 88(2) (ex Article 93(2)) procedures in 1992 with the aim of making sure that ceased instruments were not simply replaced by new ones.[37] After long and arduous negotiations, a compromise was agreed which foresaw that the maximum area coverage should be 22 per cent of the West German population (Benterbusch, 1994: 135). This meant a further significant reduction in the size of the West German assisted area maps (from 38 per cent in 1990 to 22 in 1994). At the same time the special award rates which had existed for the border areas with the former GDR were abolished (Toepel, 1995: 32–3).

In the eyes of many German officials, these actions by DG Competition prevent them from fulfilling their constitutional obligation under Article 72 of the German Constitution which requires them to equalize living standards across Germany (Anderson, 1996: 171). Moreover, German officials are worried that DG Competition's activities are in the process of unravelling delicate domestic compromises between rich and poor regions in Germany, compromises which have been constructed over many years. If DG Competition insists on further reductions of assisted area coverage in West Germany, the West German *Länder* might decide that the small size of assisted areas and the corresponding small benefits no longer justify the administrative costs of the GRW system. With the scaling down of GRW assistance in the old *Länder*, the number of those in the old *Länder* who regard the GRW as a vital instrument of regional policy is decreasing.[38] This could have dramatic consequences for East Germany as well as for Germany's system of co-operative federalism more generally, as regional policy decisions in Germany require broad consensus between all actors involved (Article 91, Basic Law). DG Competition's activism has therefore caused concern among some German officials about the long-term viability Germany's regional policy regime.

CONCLUSION

The evolution of European regional policy initiatives has been marked by heated debates about purpose (development or compensation), decision-making logic (intergovernmental or multi-level) and priorities (cohesion or competition). Although the attitudes of many member states towards the EC's regional policy regime continue to be dominated by a concern with net-contributions to the European budget, the Commission has had some success in strengthening the regional development logic of the Structural Funds. Furthermore, developments at the European level can have a strong impact on the way regional policy is conducted in the member states. The German case shows how European regional policy initiatives have induced strong Europeanization effects. It can be seen from the recent reforms of Germany's domestic regional policy framework that European regional development principles can have a significant impact on domestic policy reform. In particular, the Commission-driven concept of partnership has left its mark. It has promoted the increased participation of subnational and semi-public actors in the European policy process. In the East German case it can be seen how the Commission has used the partnership principle to assert considerable pressure on domestic 'gatekeepers' at the national and regional level in an attempt to further decentralize and devolve powers in the European regional policy process. Resenting such pressures, most German authorities feel that the Commission wants to take partnership further than prescribed in the Structural Fund regulations and that in doing so the Commission violates the principle of subsidiarity. Similar concerns have also been expressed in the often neglected area of EC state-aid control.

The experiences of post-unification Germany suggest that ironically it is DG Competition which must be regarded as the most powerful regional policy actor in Europe, as its competition priorities can severely undermine the cohesion strategies of both national and European authorities. European regional policy initiatives can therefore be seen as constituting a double-edged sword for the member states. While member states have been able to reap financial benefits or have at least managed to decrease their net-contribution to the European budget, these benefits have come at a political cost as European regional policy initiatives can significantly curtail the independence of national authorities.

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NOTES

1. The term European Community (EC) is employed throughout to denote the economic and social pillar of the European Union (EU). The term EU is employed when referring to the collectivity of the member states.

2. In the remainder of the text, the recently adopted new names for the Commission's Directorate-Generales with be use, i.e. DG Competition and DG Regio.
3. The empirical part of this paper relies heavily on a series of more than 60 interviews Commission staff and national officials which were conducted in the framework of a larger research project (Thielemann 1999a) between March 1997 and January 1999.
4. Part of the reform (in particular, the budgetary provisions and the simultaneous creation of the Cohesion Fund) constituted yet another package deal. On the one hand, it reflected the demands from peripheral member states for more regional transfers. On the other hand, it reflected the recognition among the net-contributors to the European budget that there was a need to 'sell' the Single Market Programme in the disadvantaged regions of the Community (Hooghe and Keating 1994). The agreed doubling of the Structural Funds was the price tag attached to it. While the intellectual origins of the reform were theories of endogenous development, the reforms were 'sold' politically as part of Single Market project, which was based on a neo-classical economic rationale (Behrens and Smyrl 1999). The resulting contradictions can help to explain many of the implementation failures of the 1988 and subsequent regional policy reforms.
5. These five objectives targeted: (1) economically backward regions, (2) regions in industrial decline, (3) regions with high long-term unemployment (4) regions in need of the occupational integration of young people and (5) the development of agricultural and rural areas. In 1993, these objectives were slightly modified and a sixth objective was added which aimed at supporting regions characterized by sparsely populated areas.
6. Council Regulation (EC) No 1260/1999 of 21 June 1999. The three new objectives aim at: (1) the development of regions whose development is lagging behind; (2) the conversion of areas facing structural difficulties; and (3) the modernization of systems of education, training and employment.
7. The remaining four concentrate on promoting cross-border, inter-regional cooperation (INTERREG), the regeneration of cities and urban neighbourhoods (URBAN), rural development (LEADER) and the development of equal opportunities (EQUAL).
8. The above definition of partnership can be found in the preamble to the 'Framework Regulation' (EEC 2052/88).
9. Section 27 of the preamble of Council Regulation (EC) No 1260/1999 of 21 June 1999.
10. For a discussion of the relationship between the concept of multi-level governance (Marks 1992) and the concept of 'network governance' found in the work of Rhodes see Thielemann (2000).
11. References to Treaty articles are based on the consolidated version of the Amsterdam Treaty. The pre-Amsterdam references are in brackets.
12. OJ EC No.C 212, 12 August 1988.
13. OJ C 74, 10 March 1998.
14. COM (97) 2000 final, July 15, 1997.
15. *Gemeinschaftsaufgabe zur Verbesserung der regionalen Wirtschaftsstruktur* (Joint task for the improvement of regional economic structures – Germany's principal domestic regional policy instrument).
16. The West German *Länder* had 'de-coupled' most of their Structural Fund money in the late 1980s, a step which, because of the relatively small size of these receipts from Brussels, did not cause any major tensions at the time.
17. Interviews with senior DG Regio officials responsible for the implementation of the Structural Funds in Germany on 16 July 1997 and 8 July 1998.
18. Parallels can be drawn to the RECHAR dispute when the Commission withheld money to which some Scottish regions were entitled, in order to exert pressure on the UK government to adhere to the principle of 'additionality' (McAleavey 1993).
19. For a more comprehensive treatment of the changes introduced see Yuill, Bachtler and Wishlade (1996).
20. The 'Inter-ministerial Committee for Regional Economic Policy' (*Interministerieller Auschuss für Regionale Wirtschaftspolitik*) and the 'Working Group for Regional Economic Policy' (*Arbeitskreis für Regionale Wirtschaftspolitik*). Interviews with officials of the Federal Ministry of Economics.

21. Article 4 of Regulation (EEC) No.2052/88 as amended by Regulation (EEC) No.2081/93 (my emphasis).
22. Some differences in the treatment of the economic and social partners between the sub-committees of the different Funds can be observed. Here, the focus is on the ERDF sub-committees which are responsible for by far the largest part of Germany's receipts from the Structural Funds.
23. This supports Anderson's claim that 'state governments were able to position themselves as gatekeepers between the GRW apparatus and subregional actors' (Anderson 1995: 30)
24. Interviews with ERDF Fund managers on 15 July and 30 July.
25. See Article 3(5) of the initial Rules of Procedure for the Monitoring Committee in Saxony-Anhalt.
26. See *Handelsblatt* 27 October 1995, 'EU Regionalkommissarin Wulf-Mathies rügt Bundesländer'.
27. '[…] die Gewerkschaften an die Fördertöpfe der EG heranzuführen'. Interview on 30 July 1998.
28. Interviews with officials from the Chamber of Industry and Commerce in Saxony and a trade union official in Brandenburg on 16 and 17 July 1998.
29. in the late 1990s a total of 24 organizations were eligible to be directly represented on the Committee in Saxony Anhalt. These organizations ranged from the trade unions, the chambers of industry and commerce, representatives of districts and municipalities to a large number of environmental and social interest groups.
30. The 'Trojan Horse' metaphor is borrowed from Wishlade (1998b).
31. In the German case such tensions have also partly been attributed to broader incompatibilities between the institutional logics of Germany's co-operative federalism and the more centralized decision-making structures of DG Competition (Thielemann 1999b).
32. Commission Decision 96/6236; C-62/91.
33. Commissioner van Miert in an interview with the *Leipziger Volkszeitung*, 2 September 1996.
34. Interview with *Die Zeit*, Nr. 29, 12 July 1996.
35. Part of the face-saving compromise struck at the time was a German Federal government subsidy of the same amount for another VW investment in West Germany.
36. This is notwithstanding the fact that most German officials felt that the Commission generally played a constructive role in the early period of East Germany's economic transition with DG IV enabling the German authorities to give a number of subsidies that it would not have been allowed to give under normal circumstances (Nägele 1996: 167).
37. See OJ C 35/06, 13 February 1992 and OJ C 35/07, 13 February 1992.
38. In some old *Länder* (Bavaria, Bremen, Hesse and North-Rhine-Westphalia) assistance received from the Structural Funds in the mid-1990s was significantly higher than funds received from the GRW (Nägele 1996: 289).

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