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Explaining the EU's Policy Portfolio: Applying a Federal Integration Approach to EU Cohesion Policy

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ABSTRACT

This paper engages with the debate about why the nature of the EU's policy portfolio is as it is. It does so by taking cohesion policy and asking the question, why has it come to occupy so important a position in the EU's policy portfolio? It is argued that the two most common conceptually-based approaches applied to cohesion policy – intergovernmentalism and multilevel governance – do not adequately explain either the timing or the dynamic of cohesion policy. A model that combines economic integration approaches and federal approaches is developed in the paper to provide a basis for a new explanatory framework for the prominent position of cohesion in the portfolio. We suggest that our approach – which we call a federal integration approach – has the potential to be applied to other policy areas.

INTRODUCTION

The policy responsibilities of the European Union have greatly expanded over the years. Indeed, they have done so to such an extent that the EU now has at least some responsibility in just about every sphere of public policy. But the extent of these responsibilities varies greatly, with it being very considerable in policy areas such as competition, agriculture and fishing, but being only marginal in areas such as education, health, and public order.

A number of approaches have been advanced and used by academic commentators on the EU to explain the nature of the EU's policy portfolio. These approaches range from the application of grand theories – notably intergovernmentalism and neofunctionalism / supranationalism in their various forms – to the identification of specific causational variables – such as the interests of member states, the influence of pressure groups and other vested interests, and the impact of globalisation and of Europeanisation.

In this paper, we do not question the usefulness of such approaches. On the contrary, we readily acknowledge that most of them provide at least some help in trying to understand the nature of the EU's policy portfolio. But, we suggest that another approach, which we call a federal integration approach, also provides helpful insights. We do not claim that this federal integration approach explains all aspects of the policy portfolio, but we do claim that it has a particularly strong explanatory power. This is so because, unlike the single disciplinary approaches on which most explanations of the policy portfolio are based, our federal integration approach draws from the two key disciplines of politics and economics. More particularly, we draw on economic integration theory and federalist theory and suggest that the use of them can be combined in such a way as to provide a valuable and persuasive explanatory framework of the nature of the EU's policy portfolio.

It is, of course, not possible here to apply in detail our federal integration approach to all of the EU's policy areas. What we do, therefore, to illustrate and test our approach, is to apply it one key policy area: cohesion policy. Our starting point here is that the two most prominent approaches used to explain the increasingly important position that cohesion policy has assumed in the EU over the years – intergovernmentalism and multilevel governance (MLG) – fail to fully capture its evolution and its centrality.

Cohesion policy is an apt policy area to take not only because of its importance but also because over the next two-to-three years EU institutions, member state governments, regional and local governments, political party groups, and societal actors will carry on an intense dialogue to reshape and finance cohesion policy under the 2014-20 Multiannual Financial Framework (MFF). Undoubtedly this will be a highly contested issue, as was demonstrated in the autumn of 2010 when many member states began to signal their (often conflicting) preferences on the next MFF to the Commission. So, in a joint letter sent to Commission President José Manuel Barroso on 18 December, 'the big three' EU member states – France, Germany and the UK – plus Finland and the Netherlands, called for an inflation-adjusted budget freeze in the next MFF at 2013 levels.[1] Naturally, the Commission and the Parliament want no such freeze, and nor do the member states that are net beneficiaries of the budget – which includes all of the 2004-07 accession states and the Mediterranean states. With France likely to achieve its goal of agriculture continuing to account in the next MFF for about 40 per cent of the annual budget,[2] and with many new pressing demands on the budget, cohesion policy – which currently accounts for about 36 per cent of the annual budget (€51 billion of a total budget of €142 billion in commitments in 2011) – will thus be vulnerable to deep cuts.

1 Reuters News Service. States' Budget Freeze Bid Risks More EU Wrangling. 20 December 2010, http://uk.reuters.com/article/idUKTRE6BH0KT20101218?feedType=RSS&feedName=topNews

2 S. Pignal, EU Summit: The Budget Elephant in the Room, *Financial Times*, 17 December 2010.

The paper begins by establishing the importance of cohesion policy in the EU's policy portfolio and by outlining how that importance has grown over the years. In the second section of the paper we examine the merits of the two approaches that are most commonly used to explain the prominence of cohesion policy – integovernmentalism and multi-level governance. In the third section our model of federal integration is developed and applied to cohesion policy. In the final section, we offer some conclusions and consider avenues for future research.

1. The Importance of Cohesion Policy in the EU's Policy Portfolio

The promotion of cohesion is one of the most prominent and important of the EU's many policy responsibilities. It is so for a number of reasons.

First, cohesion has assumed over the years a greatly increased importance in respect of the budgetary expenditure of the European Union. Whilst agriculture policy has decreased in importance as a portion of the EU budget – from well over 70 per cent for much of the 1970s and early 1980s to just over 40 per cent per annum today – cohesion policy has grown, from a modest six per cent just after the European Regional Development Fund (ERDF) was created in 1975 to a figure that now approaches 40 per cent.

Second, cohesion policy is quite remarkable in its broad remit, encompassing a very wide range of EU policy activities. These include infrastructure, telecommunications, and jobs training. Furthermore, the Commission links many of the EU's key broad policy goals – such as expanding diversity in the workplace and promoting environmental conservation and sustainable development – to cohesion policy.

Third, cohesion policy is in a very real sense a microcosm of the EU's historical deepening and widening. In terms of deepening, most of the EU's major reforming treaties have solidified the EU's commitment to economic and social cohesion, beginning with the Paris Treaty establishing the European Coal and Steel Community (ECSC) which created the European Social Fund (ESF) to finance the retraining of workers who would be rendered permanently redundant by the competitive reforms in coal and steel production. Cohesion policy was discussed at the Messina Conference and a reference to it was included in the preamble of the EEC Treaty with the signatory states affirming that they were 'anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions'. EU competence in cohesion policy was given a specific treaty basis by the 1986 Single European Act – with the addition of a new title to the EEC Treaty headed 'Economic and Social Cohesion'. Later treaties have further increased EU competence in cohesion policy with, for example, the last of the trio of structural and cohesion funds – the 'Cohesion Fund' – being established in the 1992 Maastricht Treaty.

In terms of widening, cohesion policy has played an important role in each enlargement round, beginning with the first round which led to the creation of the ERDF and continuing through later rounds which have contributed to the growth and partial re-orientation of cohesion policies. We will expand on this relationship between cohesion policy and enlargement in the next section of the paper.

Fourth, and finally, cohesion policy involves, in one way or another, a direct policy-making and policy-implementation involvement of an unusually large number of policy actors. So, all of the major EU institutions exercise a significant role in at least some aspect of the setting, funding, implementing, and monitoring of cohesion policy. The overall financial frameworks of cohesion policy are set by MFFs, which are made by the Commission, the

Council, the EP, and the European Council. The annual budgetary frameworks for cohesion funding are made by the Commission, the Council and the EP. The Council and the EP (with the latter's powers over cohesion policy having been considerably strengthened by the Lisbon Treaty) set broad cohesion objectives, while the Commission develops and promulgates guidelines for specific programme opportunities. Beyond the major institutions, the Committee of the Regions acts in a consultative capacity on cohesion policy decision-making. Cohesion policy also brings together an array of governmental and non-governmental decision-makers at member state, regional, and local levels: an aspect of cohesion policy that scholars using the MLG approach to analyse the EU have found particularly noteworthy.

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Over the years, cohesion policy has thus moved from being a rather marginal policy area to occupying a very important position in the EU's policy portfolio. Why has this happened?

2. How is the Importance of Cohesion Policy Traditionally Explained?

There is an extensive body of academic literature that draws on theory to provide insights into and to further understanding of the development of EU cohesion policy. So, for example, interest group theory, neofunctionalist theory, and institutionalist theory all have things to say in this context. But, two 'oppositional' theories – intergovernmentalism and multi-level governance – have provided the framework for most theoretically-based studies of cohesion policy.

2.1 Intergovernmentalism

Informed by international relations theory in general and realism in particular, intergovernmentalism – which in EU studies is most associated with the pioneering work of

Stanley Hoffman[3] and Andrew Moravcsik –[4] is state-centred, emphasising the importance of national governments in negotiating decisional outcomes. It does not view supranational actors as significant policy players other than in servicing and implementing capacities. As applied to cohesion policy, intergovernmental approaches are primarily concerned with describing and explaining the bargaining between governments that intergovernmentalists see as key in determining the existence of cohesion policy and the size of the cohesion budget and cohesion allocations.

The intergovernmentalist perspective lays considerable emphasis on how cohesion policy has in large part been developed in response to and has been considerably shaped by enlargement rounds. This process began with the establishment of the ERDF, which was a response to the 1973 enlargement where cohesion issues featured prominently in the UK/Denmark/Ireland accession negotiations. The British government pressed for a regional fund partly to aid its de-industrialized regions as compensation for the higher food prices Britons would expect to pay upon entering the EEC, but also as *juste retour* for the UK's contribution to the Common Agricultural Policy (CAP). Importantly, the British had an ally in the Italians, who had long sought an EU-based regional redistribution scheme for the *mezzogiorno*, but also had support from the Irish, who stood to benefit upon their accession.[5] The Mediterranean enlargement round of the 1980s – which brought Greece, Portugal, and Spain into the EU – further expanded EU cohesion policy, and more particularly increased the size of cohesion funding, with these relatively poorer countries tying cohesion policy to their cooperation on those EU policy

[3] S. Hoffmann, Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe, *Daedalus*, 95, 1966, pp. 862-915.
[4] A. Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*, Ithaca, Cornell University Press, 1998.
[5] R.A.W. Rhodes, Regional Policy and a 'Europe of the Regions': A Critical Assessment, *Regional Studies*, Vol. 8, No. 2, 1974, pp. 105-114.

initiatives wealthier countries supported. The accessions of Finland and Sweden as part of the 1995 enlargement led to the inclusion of sparsely populated areas as a separate component element of cohesion policy. Finally, the 10+2 enlargement of 2004-07 presented a number of interrelated cohesion policy challenges, with most of the new member states displaying: per capita GNI well below the EU-15 average; inefficient industries (a legacy of communism); a lack of knowledge-industries; and the movement of workers from industry to rural employment and/or unemployment as state-owned factories began to close or privatize. The sheer magnitude of the disparity in regional income and infrastructure between the EU-15 and the EU-12 opened a window of opportunity for the broadening, and more particularly the 'Lisbonization', of cohesion policy.

For intergovernmentalists, cohesion policy is thus essentially an example of 'side payments', in which the richer and more competitive member states assuage the poorer and less competitive states with budgetary monetary transfers.[6] To put this another way, cohesion side payments are part of an elaborate system of 'costs' in which the richer and more competitive member states 'compensate' the poorer and less competitive member states for opening-up their markets to trade and outside investment. Cohesion policy may in one phase focus on de-industrialisation in the UK and in another ageing industrial plants and weak transportation infrastructure in the Central and Eastern European countries (CEECs), but the rationale is the same: weaker member states extract budgetary transfers from those richer countries – particularly Germany – which stand to profit the most from the enlarged internal market. Thus, this pure form of intergovernmentalism interprets cohesion policy as an elaborate game of side payments.

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[6] G. Marks, Structural Policy and Multilevel Governance in the EC, in: A. Cafruny and G. Rosenthal (eds.), *The State of the European Community*, Boulder, Lynn Rienner, 1993, pp. 391-410, p. 393.

But does intergovernmentalism really provide a wholly convincing explanation of the importance of cohesion policy? Several objections can be made to its claimed explanatory capacities, of which three are now briefly outlined so as to demonstrate the limitations of the approach. The first objection is a broad-based criticism that rests on a rejection of the notion that the EU is best viewed as an inter-state system. Rather, for many scholars coming from a comparative politics perspective the EU is a 'polity' invested with a constitutional architecture.[7] The EU's treaties, legislation, policy actors and policy processes mimic what happens in states more than they do what happens in the anarchic international system. Hence, cohesion policy should be studied with intrastate tools rather than through intergovernmental approaches. A second criticism is that intergovernmentalism tells us little about the motivations of key policy actors in particular policy situations, and so in the particular context of cohesion policy does not explain how it is that rich and powerful states would agree to a policy based on transfer payments. There are other options for constructing budgetary revenues and expenses to favour marginalised, struggling states. A third criticism is that whilst intergovernmentalism may be useful in helping to explain high-level EU decision-*t*aking, it is of very limited value in explaining the day-to-day functioning of EU policy-making. So, in the case of cohesion policy, intergovernmental critics suggest that the role of supranational institutions – and in particular the role of the Commission – is not limited to policy implementation but extends to all stages of the policy-making process, including policy formulation and policy proposing.

Intergovernmentalists have responded to these criticisms in a number of ways, but none is arguably wholly convincing. So, the most common response to the third criticism is the adopting

7 S. Hix, The Study of the European Community: The Challenge to Comparative Politics, *West European Politics*, Vol. 17, No. 1, 1994, pp. 1-30.

of delegation or principal-agent theory,[8] which results in the argument that the supranational authority of bodies such as the Commission is illusory: the Commission is an *agent* of the member states in the same way that traditional public administration theory has seen civil servants as the 'agents' of elected officials and their appointees. But, there are weaknesses in this 'defence' for whilst principal-agent theory may be useful for explaining the importance of some types of policies it is not useful for others. So, as studies dating from the 1980s in United States' federal practice suggest,[9] principal-agent theory is indeed a useful model to frame delegation in respect of regulatory and monetary policies. In the former, legislators do not wish to be blamed by powerful business interests when they regulate for market failure, whilst in the latter legislators are unable to resist populist inflationary policies: hence, the creation of regulatory agencies and central banks – which may be theoretically independent but which in practice must operate within frameworks determined by the principals. But, principal-agent theory is less useful for explaining redistributive policies because these motives do not hold. Redistributive policies are developed to mitigate the gulf between haves and have-nots rather than to regulate the actions of powerful societal interests – with regions substituting for 'class' in EU cohesion policy. Redistributive policies need not be individual-based, but can involve transfers from the central to regional governments. So, for example, in the US the federal government utilizes 'block grants' to redistribute funds from Washington to the state capitals. The states' executive branches then, in turn, redistribute these block grant funds throughout their states. Accordingly, the territorial-dimension of cohesion policy will break the neat principal-agent relationship, simply because a territorially-based policy sets up a quasi-federal relationship. In essence, two

[8] See M. Pollack, Regional Actors in an Intergovernmental Play: The Making and Implementation of EC Structural Policy, in: S. Mazey and C. Rhodes (eds.), *The State of the European Union, Vol. 3: Building a European Polity?*, Boulder, Lynne Rienne, 1995.

[9] M. Pollack, Learning from the Americanists (Again): Theory and Method in the Study of Delegation, *West European Politics,*Vol. 25, No. 1, 2002, pp. 200-219.

sets of actors – in this case the Commission and the national agencies making the distributive decisions – have wide latitude in their decisions regarding the criteria for determining the distribution of cohesion funds. Muddying the clarity of the delegation chain is that sub-national units (using the term loosely in the EU's case), too, can have a great deal of leeway in determining the distribution of funds within their territorial boundaries, again, setting off a round of competition among the local governments and non-governmental actors (such as non-profit agencies) which seek a share of these funds.

Another, and more specific, criticism of the usefulness of the principal-agent approach in respect of explaining the importance of cohesion policy is that sometimes the Commission is viewed as the agent and other times as the principal. So, for example, the Council (working with the EP, post the Lisbon Treaty) acts as the principal in the taking of major cohesion policy decisions (though not necessarily in the formulation of them), delegating agency to the Commission. But, at the policy implementation stage roles reverse: the Commission becomes the principal to the agency member states. Is it possible to pinpoint when these roles reverse, and, if so, would not the role reversal alter the Commission's perception of its roles, particularly of agency?

2.2 Multi-level Governance

Beginning with Marks' analysis of structural funds[10] (1993), the now much-used concept of multilevel governance has been built to a considerable degree on the empirical base of EU cohesion policy. Though MLG is more of a descriptive than an explanatory device – in that its main purpose is to describe structural aspects of the operation of the EU – it does offer the most

[10] G. Marks, Structural Policy and Multilevel Governance in the EC, in: A. Cafruny and G. Rosenthal (eds.), *The State of the European Community*, Boulder, Lynne Rienner, 1993, pp. 391-410.

serious challenge in the existing literature to the intergovernmental approach in explaining the development of cohesion policy.

An important aspect of MLG theory is that sub-national levels of government, when acting as agents to the federal or central government, work sometimes in extended time horizons (such as when managing multi-year grants) and often with considerable leeway in the implementation of policy programmes. In the context of EU cohesion funds, this is seen by MLG advocates as greatly empowering sub-national governments and taking them in some respects beyond a role that is confined to that of implementing agencies. They are seen to both accumulate and provide the Commission with much-needed information to improve the use of structural funds and also to work actively to influence the Commission in promulgating policy of benefit to their regions – even if this means circumventing the national government's traditional gatekeeping role.

Hence, MLG EU policy processes operate within a tangled web of vertical federalism (Type 1), horizontal federalism (Type 2), and policy networks. Responsibility shifts among the actors according to the particular project, capacity to deliver, and so forth. Flat networks replace hierarchical, centralised policy-making. Cohesion policy evolves and is shaped by these forces.

But, notwithstanding all of the multi-level activity, a central problem for MLG has been in closing the circle between regional power and the shaping of cohesion policy. In a recent comprehensive analysis of MLG theory, Piattoni[11] captures the essence of the empirical dilemma MLG adherents face in explaining cohesion policy:

> By drawing attention to the *policy* (emphasis in original), MLG theorist could effectively counter the intergovernmentalist *polity* (emphasis in original) claims: the central governments of member-states might well have decided framework regulations and financial envelopes, but the Commission had reserved for itself ample room to decide the terms of fund disbursement, and had requested to this end the collaboration of regional and local governments, social patterns, and

[11] S. Piattoni, *The Theory of Multi-Level Governance*, New York, Oxford University Press, 2010, pp. 105-106.

> organized civil society…*By shifting the level of discourse, Marks and the others certainly won a battle, but also committed themselves to prove that policy dynamics accumulate and escalate into policy transformations, and this is a much tougher test* (our emphasis).

So while studies have documented the large number and variety of sub-national governments and societal actors involved in the implementation of cohesion policy –[12] it is another matter to make the leap of faith that their involvement has made an appreciable difference in the evolution of cohesion policy. MLG-informed work has uncovered independence on the part of the Commission –[13] a core prediction of neo-functionalist theory – but scholars focusing on various countries have reported that the EU's member states are firmly in control of the process and that regional entities react to rather than formulate policy.[14]

In sum, MLG has been unable to produce evidence as to the bottom-up nature of the evolution and shaping EU's cohesion policy. Hence, MLG likely mistakes multi-level activity for multi-level governance. To put this into a comparative perspective, horizontal federalism is underdeveloped in *all* federal systems because of the complexity in both understanding and implementing these arrangements. Indeed, federalism scholars have noted that inter-unit efforts to deal with issues of wide scope without the participation of the federal government ('federalism without Bern/Berlin/Washington') are 'generally of limited success' because of their confederal character.[15] Nevertheless, MLG – by identifying and recognising numerous territorially-based

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[12] See, for example, L. Hooghe and G. Marks, *Multilevel Governance and European Integration*, Lanham, Maryland, Rowman & Littlefield, 2001.

[13] L. Hooghe, Building a Europe with the Regions: The Changing Role of the European Commission, in: Liesbet Hooghe (ed.), *Cohesion Policy and European Integration: Building Multilevel Governance*, Oxford, Oxford University Press, 1996, pp. 89-127 and G. Marks, An Actor-Centered Approach to Multi-level Governance, *Regional & Federal Studies*, Vol. 6, No. 2, 1996, pp. 20-40.

[14] I. Bache, *Europeanization and Multilevel Governance,* Lanham, Maryland, Rowman & Littlefield, 2008; C. Jeffery, Sub-National Mobilization and European Integration: Does it Make Any Difference?, *Journal of Common Market Studies,*Vol. 38, No. 1, 2000, pp. 1-23; P. McAleavy, The Politics of the European Regional Development Policy: Additionality and the Scottish Coalfields, *Regional Politics and Policy,* Vol. 3, No. 2, 1993, pp. 88-107.

[15] See R.L. Watts, *Comparing Federal Systems in the 1990s*, Kingston, Ontario, Institute of Intergovernmental Relations, Queen's University, 1997, p. 53 on the inherent difficulties of managing horizontal federalism.

actors – offers a more realistic understanding of the continuous and complex bargaining found in federal arrangements than intergovernmentalism/delegation theory. We will pick up on this strand (Type 1) of MLG in the next section of the paper.

3. Using a Federal Integration Approach to Explain EU Cohesion Policy

It is now nearly half a century since Haas and Schmitter famously asked:

> Does the economic integration of a group of nations automatically trigger political unity? Or are these two processes quite distinct, requiring deliberate political steps because purely economic arrangements are generally inadequate for ushering in political unity?[16]

They advanced the thesis that 'under modern conditions, the relationship between economic and political union had best be treated as a continuum' meaning that

> […] definite political implications can be associated with most movements toward economic integration even when the chief actors themselves do not entertain such notions at the time of adopting their new constitutive charter.[17]

It is hard to quarrel with this observation, but explaining the phenomenon has proven elusive.

Notwithstanding the early recognitions of the importance of looking at both political and economic factors in integration models, over the years single discipline-based approaches have tended to prevail. So, for the most part, political scientists have not much emphasized the many economic factors constraining political decisions while economists have tended to minimize the significance of political variables. This impermeableness of single disciple-based theoretical work can be explained to some extent by the different instruments political scientists and economists utilize in scholarly inquiry, but also by the questions they pose. Economists analysing the integration process tend to be mainly concerned with the optimum conditions for

[16] E. Haas and P. Schmitter, Economics and Differential Patterns of Political Integration: Projections about Unity in Latin America, *International Organization*, Vol. 18, No. 4, 1964, p. 705.
[17] *Ibid.*, p. 707.

achieving economic efficiency, while political scientists are mostly focused on such matters as institutional and policy-making arrangements and the power relations between political actors. So while these two branches of inquiry have contributed significantly to our understanding of European integration and policy development, there has been an insufficient attempt to develop explanatory models that blend both the economic and political components of European integration.

In this section of the paper we suggest an approach to explaining the evolution and nature of the EU's policy portfolio, and especially EU cohesion policy, that draws on both economic and political science-based thinking. It takes into account both the compelling economic efficiency of integration and the nature of political relationships and motives. The key questions we seek to cover are: in what circumstances and when do economic considerations drive integration?; in what circumstances and when do political considerations trump economic arguments?; and are 'real world' politics and economics so overlapping and intermingled as to defy individual analysis? The approach that we suggest draws on economic integration theory and federal theory.

3.1 Economic integration theory

Bela Balassa's [18] theory of economic integration has been highly influential in understanding the sequencing of European integration. His model evolved from the free trade tradition among neoclassical economists[19] but introduced a dynamic element and set of logical explanations to a non-economic audience. Balassa articulated a stage-based model (depicted in Table 1) in which economic integration would proceed via a predictable path of stages marked

[18] B. Balassa, *The Theory of Economic Integration*, London, Allen & Unwin, 1962.

[19] For example, J. Viner, *The Customs Union Issue*, New York, Carnegie Endowment for International Peace, 1950.

by increased integration. So, for example, the common market could be achieved once both the free trade area and the customs union had been established. Moving forward in the model, cohesion policy would come into play under ‘economic union’; hence, the common market would need to be achieved before progress could be made on the policies comprising ‘economic union’.

Balassa’s model is thus first and foremost a theory of economic integration. It predicts that once member states choose the path of economic integration, economic determinism comes into play, carrying members toward a point of no return with economic dependence in one area triggering the necessity for economic integration in another. Although not a perfect fit, we can see in Table 1 how the succession of EU treaties line up with the consecutive phases of the Balassian Model, with the EEC Treaty addressing the first two stages, and each subsequent treaty focussed on policies associated with subsequent stages of integration.

Building on the work of Jan Tinbergen,[20] Balassa thought that the first three phases of economic integration would entail member state removal of artificial barriers to the four freedoms – what Tinbergen had called ‘negative integration’ – while subsequent stages would be characterised by ‘positive integration’, requiring governmental policies and enabling institutional structures. Over the years, as the economic approach has been tested in the laboratory of European integration, we have learned that the separation of policy into such a neat dichotomy of negative and positive vastly underestimates the importance of politics. An obvious weakness of the economic integration model lies in the unfinished internal market project, especially as it pertains to services, the right of establishment, and free movement of persons (where the Schengen opt-outs are a particular problem).

[20] J. Tinbergen, *International Economic Integration*, Amsterdam, Elsevier, 1954.

Table 1: Balassa's Theoretical Evolution of Political and Economic Integration

	Removal of Internal Tariffs	Common External Tariff	Free Flow of Capital and Labour	Harmonization of Social, Economic & Sectoral Policies	Monetary & Fiscal Union (Economic Federalism)	Political Integration
Free Trade Area *EEC Treaty (1957)*	X					
Customs Union *EEC Treaty (1957)*	X	X				
Common Market *Single European Act (1986)*	X	X	X			
Economic Union *Single European Act (1986) & all subsequent treaties*	X	X	X			
Economic Federalism *Treaty on Economic Union (1992)*	X	X	X	X	X	
Political Union *Treaty on Economic Union (1992) & all subsequent treaties*	X	X	X	X	X	X

Many of the reasons why the Balassian model has not wholly 'worked' in the EU[21] can be traced to disagreements amongst policy actors as to the role of the state in advancing successive economic stages. Rather than an inexorable march once economic integration was launched, both negative integration and the policies entailing positive integration promulgated in subsequent stages in the Balassian model have proved to be highly difficult to attain and have included protracted and gruelling policy-making. So, the EU has attempted a number of approaches to open-up its market – based, for example, on harmonization, mutual recognition, and agencification – but there has been considerable resistance in some areas of activity. The right of establishment has been just one problem,[22] with differential professional licensure requirements severely limiting free movement and with, in many cases, remedies originating outside of formal EU decision-making process: one example being the Bologna Process for educational standards and another, the work of international standards agencies.

Given these weaknesses in the predictive capacity of the Balassian model, one could reasonably ask, 'How does Balassa's model differ from neofunctionalism or its 'rebranding' as 'supranationalism'? In essence, what is the value-added to our understanding of the dynamic of integration by the economic approach? Admittedly, economic integration and neofunctionalist approaches resemble each other in the earlier stages of integration in so much as both suggest that once integration occurs in particular economic sectors it 'spills over' into other sectors and, eventually, entails political spillover. But, whilst Balassa identifies economic factors as catalysts

[21] T. Heller and J. Pelkmans, The Federal Economy: Law and Economic Integration and the Positive State - the USA and Europe Compared in an Economic Perspective (Book 1: A Political, Legal and Economic Overview), in: M. Cappelletti, M. Seccombe and J. Weiler (eds.), *Integration through Law: Europe and the American Federal Experience* (Vol. 1: Methods, Tools and Institutions, pp. 245-411), New York, Walter de Gruyter, 1986, p. 324.

[22] F.K.P. Schioppa (ed.), *The Principle of Mutual Recognition in the European Integration Process*, Basingstoke, Palgrave Macmillan, 2004.

for further integration, Sweet and Sandholtz,[23] building from a largely neofunctionalist base, suggest that 'transnational exchange provokes supranational organizations to make rules designed to facilitate and to regulate the development of transnational society'. So while it is evident that in the common market stage the Balassaian model begins to lose some of its explanatory power, it continues to offer an underlying direction and linkage through economic theory.

This paper is mainly concerned with the 'economic union' stage because it is in this phase that cohesion policy should come into play. Economic union ushers in a new 'positive' phase of economic integration, where the member states must affirmatively promulgate policy rather than 'merely' strike down man-made barriers to the free circulation of goods, services, persons, and capital. This stage is associated with the harmonisation of key sectoral policies – such as agriculture, fishing, transportation, and energy – and with the health and well-being of citizens – in the form, for example of consumer protection, environment, and health care.

Policy-wise, this is a particularly complex stage of the model, encompassing as it does all three of Lowi's[24] policy deliberation types – distributive (as in agricultural and research policies), redistributive (as in cohesion, social welfare, employment training, and education policies), and regulatory (as in environmental and food safety policies). And whilst in the first three stages of integration policies are easily linked to the interrelated goals of achieving European-wide efficiencies in production and marketing, the policy level problem familiar to federal arrangements begins to assert itself at the economic union stage. The EU has largely

[23] A.S. Sweet and W. Sandholtz, Integration, Supranational Governance, and the Institutionalization of the European Polity, in: W. Sandholtz and A. Stone (eds.), *European Integration and Supranational Governance*, Oxford, Oxford University Press, 1998, p. 25.

[24] T. Lowi, American Business, Public Policy, Case-Studies and Political Theory, *World Politics*, Vol. 16, No. 4, 1964, pp. 677-715.

escaped the social welfare debate between the public choice school[25] and social democrat preferences, due largely to the fact that economic liberal parties in EU member states have only been able to govern as minority coalition partners. On social issues, the Social Democratic and Conservative/Confessional Parties in postwar Continental Europe agreed to generous safety nets. Thus, the almost complete absence from the EU of social welfare policies is likely too complex for the elegant simplicity of the Balassian model. This is because unlike other integration projects, the EU had the advantage in the early stages of its development of a similarity in policy approaches. So, in this respect, a union of values and norms existed prior to the establishment of the EU, thus diminishing the need for some EU-level policies and making the EU something of an outlier in this aspect of the Balassa model.

Agricultural and fisheries policies – which are the most prominent of the EU's sectoral policies – were enacted years before the completion of the internal market, which further calls into the question the predictive accuracy of the Balassa model. There are a number of possible explanations for the divergence of theory and practice and it may be that particularistic/policy-specific explanations are the best that we can achieve. So, for instance, the early enactment of the CAP might be best explained by the immediate post-war experiences of food shortages rather than the Balassian logic.[26] In sum, the early appearance of agricultural policy on the policy

[25] Rooted in the Tiebout, 1956 hypothesis that citizens should be able to vote with their feet. C. Tiebout, A Pure Theory of Local Expenditures, *Journal of Political Economy*, 64, 1956, pp.416-424.

[26] The CAP is a distributive policy designed to ensure sufficient income to farmers, a substantial sector of the workforce in mid-1950s France (31%) and Italy (44%), but also significant in other Western European countries as compared to contemporary workforce participation rates, E. Rieger, Chapter 7: Agricultural Policy, in: H. Wallace and M. Pollack (eds.), *Policy-Making in the European Union*, Oxford, Oxford University Press, 2005, p. 396. The CAP was also designed to increase food supplies, with the post-war food shortages still very much on the minds of governmental representatives at the Messina conference. See T. Judt, *Postwar: A History of Europe since* 1945, New York, Penguin Books, 2005, pp. 22 & 96 for an excellent survey of postwar shortages. The CAP's survival also owes much to the collective action effects of an exceptionally well-organized pan-European agriculture industry as well as concerns among the European polity over both food security and the cultural aspects of food.

agenda may be explained by highly specific historical circumstances and, therefore, should not be interpreted as a challenge to the predictive capability of the Balassian model.

Turning to our policy case study, Balassa[27] had predicted the necessity of cohesion policy in regional integration in the economic union stage, arguing that:

> Common markets take up the issue of regional disparities because free movement of factors might, in a combination of ways: 1) disproportionately benefit wealthy regions by inducing labour and capital to flow towards agglomerated industry; 2) disproportionately benefit poorer regions by – largely in response to wage differentials – increasing demand for the underdeveloped regions' products, attracting capital and labour, and encouraging the relocation of plants.

Can integration injure both rich and poor regions, as Balassa suggests? This is the essential debate informing cohesion policy, with economists particularly concerned to discover whether redistribution is ameliorative or injurious to the Union. It is a debate that has become increasingly important over the years, not least in light of the 'Lisbonization' of cohesion policy,[28] which links cohesion funds to sustainable growth, competitiveness and employment.[29]

Much of this economic debate is conditioned by disparate premises and assumptions concerning the nature of and the time-scales involved in economic convergence and divergence. Neo-liberals embrace the positive benefits of divergence for industrial competition and emphasize the long-run tendency toward convergence, while social democrats and critical political economists see divergence as a permanent feature in which the wealthier regions exploit poorer regions.

For neo-liberals, inter-regional disparities in wealth, labour costs, technology, and safety standards (such as environmental protection) are a natural outcome of a region's competitive advantage in one or more of the four factors of production. Indeed, when companies relocate to

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27 B. Balassa, *The Theory of Economic Integration*, London, Allen & Unwin, 1962, p. 204.

28 D. Allen, The Structural Funds and Cohesion Policy: Extending the Bargain to Meet New Challenges, in: H. Wallace, M. Pollack and A.R. Young (eds.), *Policy-Making in the European Union*, 6th edition, Oxford, Oxford University Press, 2010, pp. 229-252.

29 European Commission, *Community Strategic Guidelines 2007-2013*, COM(2005) 0299, 2005, p. 4.

lower wage regions, higher-skilled labour in more technologically-advanced regions can be shifted to the production of more innovative goods and services. Similarly, a region with higher rates of entrepreneurship (innovative products) will eventually lose its dominance to imitators in regions with transportation and labour cost advantages.[30] Accordingly, neo-liberals have long predicted that the expansion of the single market inevitably will reduce inter-state poverty.

Conversely, social democrats see an internal market initiating a race to the bottom in which weaker regulatory regimes in the less-developed regions attract companies fleeing stricter governmental regulations designed to minimize market failure.[31] So for example, lower labour costs in some regions will advantage owners over workers in labour negotiations, placing downward pressure on labour rates in richer member states.[32] To social democrats, then, divergence is corrosive and permanent, requiring affirmative policy action to level the playing field between rich and poor regions.

The social democratic view figured in early deliberations of economic and monetary union (EMU). This was the case because as the EEC started out on the path to EMU, businesses and governments in weaker regions could be expected to experience difficulties adjusting to tighter control (and centralisation) of fiscal and monetary policies. Hence, the 1970 Werner Report recommended the implementation of structural and regional policies to soften the impact of EMU[33] and when it was made clear in the Maastricht Treaty that EMU was imminent, a new cohesion fund was agreed. More recently, 'the Lisbonization' of cohesion policy can also be interpreted as an attempt to finesse the convergence-divergence question by placing

[30] For an international application of the product life cycle theory, see R. Vernon, The Product Cycle Hypothesis in a New International Environment, *Oxford Bulletin of Economics and Statistics*, 41 (4), 1979, pp. 255-267.

[31] See D. Vogel, *Trading Up: Consumer and Environmental Regulation in a Global Economy*, Cambridge, Harvard University Press, 1995 for a counter thesis – 'trading up'.

[32] See Gunnar Mydral's 1956 classic formulation of the thesis: G. Mydral, *Economic Theory and Underdeveloped Regions*, London, G. Duckworth, 1956.

[33] Council-Commission of the European Communities, *Report to the Council and the Commission on the Realization by Stages of Economic and Monetary Union in the Community – 'Werner Report'*, 1970, p. 11.

competitiveness and growth as core objectives. This view has also found its way into the MLG literature. In his original formulation of MLG, Marks observes:[34]

> […] governments in the poorer countries make a convincing case that they face a particular severe economic risk as a result of the twin pressures of Europe-wide economic competition and attempts to meet EMU convergence criteria. Further, it seems sensible to argue that an economic downturn stands to hurt a poorer country more than one that is richer, because the welfare safety net of a poorer country is weaker.

Under Balassa's model, cohesion policy would have been expected to attract attention as European integration advanced, and he was correct: cohesion policy came into its own in the 1970s and 1980s. Nevertheless, there is little in his model to indicate what the direction or nature of the policy would be. More specifically, there certainly is nothing in his model to suggest that cohesion would become so prominent a policy area. Furthermore, there is little in economic analysis more generally that makes a clear case for the economic benefits of the use of re-distributive cohesion funding. There just is no commonly accepted set formula for determining when and under what circumstances the use of targeted cohesion funding will advantage or disadvantage regions. On the contrary, indeed, measuring the effectiveness of cohesion funding policy effectiveness – particularly in such areas as transportation infrastructure and human resource development, linked as they are to macro-indicators – has proven elusive. While there has been no shortage of studies attempting to measure the multiplier effects of cohesion funds – utilizing a variety of methods such as econometric models, qualitative analyses, and counter-factual assessments (a type of quasi-experimental design in which a control group does not receive funding – all manner of results are reported: positive, negative, and neutral.[35]

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[34] G. Marks, Structural Policy and Multilevel Governance in the EC, in: A. Cafruny and G. Rosenthal (eds.), *The State of the European Community*, Boulder, Lynn Rienner, 1993, pp. 391-410, p. 394.

[35] W. Molle, *European Cohesion Policy*, NYC, Routledge, 2007; P. Monfort, *Regional Convergence, Growth and Interpersonal Inequalities across EU*, European Commission-DG Regio Retrieved from http://ec.europa.eu/regional_policy/policy/future/pdf/9_monfort_final_formatted.pdf, 2009.

To take just one example of 'the questionable' economic effects of cohesion funding, the Cohesion Fund which was created by the Maastricht Treaty had as its core aim assisting the weak economies of Greece, Ireland, Spain and Portugal in their transition to the single currency and the strictures of the Stability and Growth Pact. But the recent monetary and fiscal pressures on these four recipient states, and especially the near collapse of the Greek and Irish economic and financial systems, would seem to rather undermine the credibility of cohesion policy as an economic stabilization programme. The safe bet would appear to be to admit that we simply do not know the economic impact of cohesion policy.

So why, given the lack of conclusive evidence that cohesion policy, and more particularly cohesion funding policy, elevates, or even much compensates, disadvantaged regions, does it continue as a firmly established policy? After all, there are numerous competing claims for the EU's limited budgetary resources.

In seeking to answer this question, it is clear that, useful though it may be, economic integration theory cannot be a wholly 'stand alone' theory for explaining the nature of the EU's policy portfolio. This is seen in the many ways that EU policy development has not completely followed the path foreseen by Balassa and his followers. So, for example, under the economic integration model, monetary union and fiscal union should proceed alongside one another, but in the EU they have not done so. In consequence of this, today, during Europe's worst post-war financial and economic crisis, a crescendo of voices is questioning the wisdom of the EU, or at least of most of its member states, having adopted monetary union without fiscal union.[36]

Arguably, this lack of parallelism between monetary and fiscal union has occurred because, despite the seemingly inexorable nature of economic integration, politics has a way of

[36] S. Castle, Some in Euro Zone Propose Further Integration for Bloc, *The New York Times*, 5 February 2011, pp. B1, B6.

derailing 'rational' economics. So, in spite of the unfinished common market project – as seen, for example, in the way in which energy, transportation, and services still largely operate under national rules and enjoy domestic protection – member states formed the eurozone: a later stage of the economic integration model. Similarly, over the last decade or so there has been considerable EU policy development in the field of justice and home affairs (political union), which has 'leapfrogged' such key features of economic federalism as the creation of a harmonized base for corporate taxation.

Economic integration theory in itself is thus not sufficiently equipped to be able to fully explain how national and EU policy-makers and societal actors have conditioned and shaped EU policy development. It needs to be supplemented by a political input.

Federal Theory

There has long been an interest amongst some European political practitioners in the attractions and merits of building European integration with federalist tools and mechanisms. Indeed, during World War II opponents of fascism looked forward to a United States of Europe with a federalist institutional architecture that would eliminate the possibility of future European 'civil wars'. The post-war federal movement can be traced to Altiero Spinelli and Ernesto Rossi, who while interned by Mussolini co-authored the *Ventotene Manifesto* – 'Towards a Free and United Europe' – which proposed a federal system united by a federal constitution.

But, though widely accepted in Resistance circles, the federal approach to building European integration ran-up against a number of obstacles when 'normal politics' re-emerged after World War II. Kenneth Wheare[37] identified experience in governing as key to the successful

[37] K.C. Wheare, *Federal Government*, Oxford, Oxford University Press, 1953, 3rd ed.

establishment of federal states (because they require skilled negotiators at the helm) but, as Tony Judt[38] has reminded us, 'by 1945 many continental European countries had lost two generations of potential leaders: the first to death and injury in the Great War, the second to the temptation of Fascism or else to murder at the hands of Nazis and their friends'. Another problem with Resistance-inspired hopes and beliefs that European statesmen could draft a constitution for Europe was that it flew in the face of a basic prerequisite of federal union, namely that 'states must have experience of some political association of states concerned prior to their federal union either in loose confederation, as with the American states and the Swiss cantons, or as parts of the same Empire, as with the Canadian and Australian colonies'.[39] This absence of a past history of political association resulted in attachments to national sovereignty being, in some states more than others, blocking instruments to embarking on an openly European federalist road in the post-war years.

In consequence, Monnet's more conservative and functionalist approach to integration was adopted. But, it was an approach that, almost by stealth, was not wholly divorced from federalism, as a number of commentators have noted. Elazar,[40] for example, has observed that the EEC was established as 'in effect, confederal arrangements, based on functionalism' as a 'way out' of the post-war governance crisis. And Pinder[41] has suggested that 'the constitutional federalism of Spinelli and functional federalism of Monnet can be seen to be complementary'. On Pinder's point, it is certainly the case that Monnet's approach to integration was rooted in *policy* while Spinelli's lifelong ambition was to build federal *institutions* as part of establishing

38 T. Judt, *Postwar: A History of Europe since 1945*, New York, Penguin Books, 2005, p. 81.
39 K.C. Wheare, *Federal Government*, Oxford, Oxford University Press, 1953, 3rd ed., p. 37.
40 D. Elazar, The United States and the European Union: Models for Their Epochs, in: K. Nicolaïdis and R. Howse (eds.), *The Federal Vision: Legitimacy and Levels of Governance in the United States and Europe*, Oxford, Oxford University Press, 2001, pp. 36-37.
41 J. Pinder, From Milan to Maastricht: Fifty Years of Federalist Struggle for the Unity of Europe, *The Federalist*, 25(3), 1993, p. 159.

constitutional federalism in Europe – and the founding treaties did create at least quasi-federal institutions.

So, federalism has long had a place in the history of European integration, and has come to do so increasingly as the integration process has resulted in an almost constant expansion of the EU's policy portfolio and of the powers of the EU-level institutions. The word 'federal' may not be much used by EU politicians, but the fact is that though the EU falls short of being a pure federal system (if there is such a thing!) it does now display key federal features: power is divided between national and sub-national levels, with each level having responsibility for important and significant policy areas; there is a considerable measure of political and legal independence between the two levels; and a legal system is established in which the central law is supreme in the event of a clash between it and regional (which means national in the EU's case) law.

The argument for the employment of federal theory to European integration studies – and thus expanding the sample size from one (the *sui generis* nature of the EU) to all federal systems (historical and contemporary) – is thus persuasive. So persuasive in fact, that it has produced a burgeoning literature in recent years, with European integration studies informed by federal theory having addressed a wide variety of matters: institutions;[42] the polity;[43] power-sharing dynamics;[44] policies;[45] and the virtues of comparison.[46]

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42 A. Sbragia, The European Community: A Balancing Act, *Publius: The Journal of Federalism*, 23(3), 1993, pp. 23-38; R. Schütze, *From Dual to Cooperative Federalism: The Changing Structure of European Law,* Oxford, Oxford University Press, 2009.

43 M. Burgess, Federalism, in: A. Wiener and T. Diez (eds.), *European Integration Theory*, Oxford, Oxford University Press, 2004, pp. 24-25; R. Koslowski, A Constructivist Approach to Understanding the European Union as a Federal Polity, *Journal of European Public Policy*, Vol. 6, No. 4, 1999, pp. 561-578.

44 N. Bolleyer, *Intergovernmental Cooperation: Rational Choices in Federal Systems and Beyond,* Oxford, Oxford University Press, 2009.

45 D. Benson and A. Jordan, Understanding Task Allocation in the European Union: Exploring the Value of Federal Theory, *Journal of European Public Policy,* Vol. 15, No. 1, 2008, pp.78-97.

A good place to begin our quest to examine cohesion policy from a federalist perspective is with a snapshot of the policy areas in which the EU plays some role. Table 2, which is based on Nugent's[47] analysis, categorizes EU policy involvement on a continuum from extensive EU to virtually no EU policy involvement. There is no question but that this table shows a few policy areas that in established federal systems are mostly handled by the central level of decision-making which in the EU are more of a mixed competence between the central and sub-national levels. The most obvious of such areas are foreign policy, defence policy, and macroeconomic and monetary policies (though there is, of course, a common monetary policy for the seventeen eurozone member states). But, notwithstanding these differences, looking at the overall picture it is striking how many points of similarity there are in terms of the allocation of policy responsibilities between the two levels of government in the EU and in traditional federal systems. Taking, just a few illustrative examples of this:

- Giandomenico Majone,[48] in his work examining the EU as a regulatory state, has drawn explicit parallels between the policy outputs of the EU and of the US federal government. Building on Majone's work, Kelemen (2004)[49] has taken a similar view in his advancement of a theory of regulatory federalism.

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46 N. Bolleyer and T.A. Börzel, *Non-Hierarchical Coordination in Multilevel Settings – American, Canadian and Swiss Lessons for the European Union,* Paper presented at the American Political Science Association, Chicago, Illinois, 2007; T. Börzel and M.O. Hosli, Brussels between Bern and Berlin: Comparative Federalism Meets the European Union, *Governance*, Vol. 16, No. 2, 2003, pp. 179-202; S. Fabbrini, *Compound Democracies: Why the United States and Europe are becoming Similar,* Oxford: Oxford University Press, 2007; A. Sbragia, The United States and the European Union: Overcoming Two "Sui Generis" Systems, in: A. Menon and M. Schain (eds.), *Comparative Federalism: The European Union and the United States in Perspective,* Oxford, Oxford University Press, 2006; F. Scharpf, The Joint Decision Trap: Lessons from German Federalism and European Integration, *Public Administration,* Vol. 66, No. 2, 1988, pp. 239-278.

47 N. Nugent, *Government and Politics of the European Union*, Basingstoke, Palgrave Macmillan, 2010, p. 283.

48 G. Majone, The Rise of the Regulatory State in Europe, *West European Politics*, Vol. 17, No. 3, 1994, pp. 77-101; G. Majone, *Regulating Europe*, New York, Routledge, 1996; G. Majone, Managing Europeanization: The European Agencies, in: J. Peterson and M. Shackleton (eds.), *The Institutions of the European Union*, Oxford, Oxford University Press, 2006, 2nd ed., pp. 190-209.

49 R.D. Kelemen, *The Rules of Federalism: Institutions and Regulatory Politics in the EU*, Cambridge, Harvard University Press, 2004, p. 160.

- A number of scholars have pointed to the federal characteristics of environmental and even some aspects of energy policy.[50] Buchan,[51] for example, has written of EU energy policy: 'By way of comparison with another federal system, the Commission will come closer to getting a standard electricity-market design for the twenty-seven EU member states than the US federal authorities have done with the fifty states'. Energy policy is thus one of a number of policy areas where it is evident that EU policy is sometimes more federalized than the federal system to which it is most often compared, namely the United States.[52]
- College tuition is another example of a policy area that is more federalized than in the US, with the European Court of Justice having prohibited differential tuition rates for EU citizens as a violation of free movement of persons. In the US, public universities typically charge higher tuition for out-of-state residents.
- Zeroing in at the granular level of policy-making, the EU has even mandated the standardisation of mobile phone power cords,[53] while the US has not.
- Taking those (relatively few) policy areas that in Table 2 are categorized by limited or virtually no EU policy involvement, they are almost invariably the same policies that in 'full' federal systems are the responsibility of sub-national levels of government.[54]

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50 See, for example, D. Benson and A. Jordan, Understanding Task Allocation in the European Union: Exploring the Value of Federal Theory, *Journal of European Public Poliy*, Vol. 15, No. 1, 2008, pp.78-97; Kelemen, 2004, op cit.; McCormick, J. *Environmental Policy in the European Union*. Basingstoke: Palgrave Macmillan, 2001; D. Vogel, M. Toffel, D. Post and N. Aragon, Environmental Federalism in the European Union and the United States, Working Paper 10-085, Harvard Business School, 21 February 2010.

51 D. Buchan, Chapter 15: Energy Policy, in: H. Wallace, M.A. Pollack and A.R. Young (eds.), *Policy-Making in the European Union*, Oxford, Oxford University Press, 2010, pp. 357-379, p. 364.

52 See S. Fabbrini, *Compound Democracies: Why the United States and Europe are becoming Similar*, Oxford, Oxford University Press, 2007 for a study which utilizes federal theory to compare the US and the EU.

53 D. Pogue, Getting Over Our Two-Year Itch, *The New York Times*, 2 January 2010.

54 For an exhaustive survey of the allocation of policies in federal systems, see R.L Watts, *Comparing Federal Systems in the 1990s*, Kingston, Ontario, Institute of Intergovernmental Relations, Queen's University, 1997, p. 36.

So this much we know: the EU's policy portfolio displays strong federalist features. How does cohesion policy fit into this picture and, more particularly, to what extent can its prominent position in the portfolio be explained by it being a 'federalizing' policy?

Here, the federal dimension of our federal integration model is useful because 'federal relations' and 'federal behaviour' may be deemed more important to EU goals than unconfirmed and increasingly diluted (by enlargement) claims that cohesion policy undermines the economic efficiency effects of the single market. There appear to be at least three aspects of cohesion policy that support the application of federal theory.

Table 2: The Varying Extent of EU Policy Involvement

Extensive EU involvement	**Considerable EU involvement**	**Policy responsibilities shared between the EU and the member states**	**Limited EU policy involvement**	**Virtually no EU policy involvement**
External trade Agriculture Fishing Monetary (for euro members)	Market regulation Competition	Regional/Cohesion Industry Foreign Environment Equal opportunities Working conditions Consumer protection Movement across external borders Macroeconomic (especially for Euro members) Energy Transport Cross-border crime Civil Liberties (especially via the Charter of Fundamental Rights)	Health Education Defence Social welfare	Housing Domestic crime

First, cohesion policy offers the EU (the 'central government') an opportunity to take credit for economic development within those member states qualifying for cohesion funds. Hence, we have Allen's[55] observation that Ireland 'had been transformed with the help of structural and cohesion funding to the extent that it became ineligible for them', when it is equally possible that other variables better explain Ireland's economic miracle – low corporate taxes, foreign direct investment (mainly from the US), return of Irish-Americans (tourism, real estate), and a highly-educated English speaking population.[56] The EU can 'claim' credit for economic success in Ireland and elsewhere because no one can definitively prove that cohesion policy has *not* been responsible for economic growth and development. Indeed, the Commission claims that 'GDP in the EU25 as a whole is estimated to have been 0.7% higher in 2009 as a result of cohesion policy over the 2000/2006 period – meaning a good return for spending accounting for less than 0.5% of the EU GDP over the same period'.[57]

One of the characteristics of federal systems is a direct link between the citizens and both the central and sub-national levels of government. EU cohesion policy is connected to the need for the EU central level to develop direct linkages with societal actors and thus help to promote a European polity. By necessity, these links are utilitarian, but if cohesion policy can assist in the EU being seen to be a 'good thing' this should promote a sense of identification with the EU

[55] D. Allen, The Structural Funds and Cohesion Policy: Extending the Bargain to Meet New Challenges, in: H. Wallace, M. Pollack and A.R. Young (eds.), *Policy-Making in the European Union,* 6th edition, Oxford, Oxford University Press, 2010, pp. 229-252, p. 244.

[56] R. Berry, U.S. Foreign Direct Investment in Ireland: Making the Most of Others People's Money, 2001.

[57] European Commission, *Communication from the Commission to the European Parliament, the Council, the European Social and Economic Committee, the Committee of the Regions, and the National Parliaments: The EU Budget Review*, Brussels, 2010, p. 6, retrieved from http://ec.europa.eu/budget/reform/library/communication/com_2010_700_en.pdf.

level.[58] Hence, cohesion policy is a tool to promote solidarity and shared identity among the European polity. That any EU-funded project must display the EU flag provides a powerful iconic symbol to anyone who passes by an EU-funded construction site or vocational training centre. Of course, with credit also comes blame, with the now familiar 'Blame it on Brussels' habit[59] being equivalent to a feature of all federal (especially dualist) systems – 'Running against Washington' being the US counterpart.

Second, cohesion policy involves the redistribution of resources on a territorial basis – a practice that is found in all federal systems and may be said to be virtually a federal requirement. Watts[60] suggests that financial transfers from the federal government to its regions are necessary to correct two types of imbalances – vertical (constitutionally-assigned revenues collected by federal and regional levels do not match constitutionally-assigned expenditures) and horizontal (revenue capacities vary among regions). He observes that 'The need for such (equalization) transfers arise in most federations from a recognition that disparities in wealth among regions within a federation are likely to have a corrosive effect on cohesion within a federation'.

Turning to our case study, Bache,[61] utilizing Lowi's[62] classification of public policy, identifies cohesion policy as 'the main redistributive policy of the EU'.[63] The Commission, in its

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58 The promotion of national identity (Europeaness) is a different subject, beyond the scope of this paper. See, European Commission, *A People's Europe*, Luxembourg, 1985, European Community retrieved from http://aei.pitt.edu/992/01/andonnino_report_peoples_europe.pdf; and the Standard Eurobarometer, which poses a series of questions aimed at gauging attitudes toward the EU. The EU's actions are wholly consistent with the Eastonian hypothesis regarding the state's purposeful employment of utilitarian policy to forge an identity among the polity with the state (Easton, 1965, p. 273).

59 Charlemagne Column, The Endless Election Round, *The Economist*, 11 June 2009; A. Curry, Bang Boom: Germans Blame Polish Fireworks for New Year's Injuries, *Speigel International OnLine*, 29 December 2009; Select Committee on European Scrutiny, *Democracy and Accountability in the EU and the Role of National Parliaments*, UK Parliament, 2002, retrieved from http://www.publications.parliament.uk/pa/cm200102/cmselect /cmeuleg/152-xxxiii/15204.htm

60 R. Watts, *Comparing Federal Systems in the 1990s*, Kingston, Ontario, Institute of Intergovernmental Relations, Queen's University, 1997, pp. 42, 45.

61 I. Bache, *Europeanization and Multilevel Governance*, Lanham, Maryland, Rowman & Littlefield, 2008, p. 39.

62 T. Lowi, American Business, Public Policy, Case-Studies and Political Theory, *World Politics*, Vol. 16, No. 4, 1964, pp. 677-715.

2010 budgetary review, observes 'Cohesion has proved one of the most successful ways for the Union to demonstrate its commitment to solidarity, while spreading growth and prosperity across the EU'.[64] Thus, in a policy area in which redistribution of governmental revenue is earmarked primarily for territorial units rather than individuals, the EU has constructed the typical arrangement found in federal systems – the political representatives of the territorial units bargaining for a share of resources. In the EU's case, the political bargaining is carried out mainly in the European Council (in respect of MFFs) and in the Council of Ministers and the European Parliament. Implementation – which naturally involves rule-making and monitoring – is the Commission's responsibility.

So, taking the US federal system as a basis for comparison, congressmen and senators bargain over the allocation of monies from the centre (block grants). Meanwhile, the fifty states – and more particularly the executives of the states – acting as unitary governments in their relationship with sub-regional units, determine which localities will receive these monies. Using our federal integration model as a guide, cohesion policy facilitates federal transfers from the centre to the constituent units, binding central (EU) and regional (member states) levels in a

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63 While typically redistributive policies in contemporary democracies transfer governmental resources from the upper- and middle-class taxpayers to the eligible poor, this welfare function remains the exclusive policy competence of member states. Furthermore, if general rules can be deduced to ascertain the most efficient level at which policy is enacted and implemented, then federalism can afford to be flexible in the assignment of policy responsibilities. On this basis, the EU's division of policy responsibilities, which reflects aspects of both public choice and liberal visions of the optimal level for where public policy should be made and implemented, can be seen as making sense. It can be so seen not least because of the heterogeneity of the EU's population, which means that relatively few goods are perceived as being collective in nature. The relatively small EU budget makes it difficult to engage in redistributive policies, and, so 'bail outs' for member states (such as in 2010 with Greece's and Ireland's financial difficulties) come from member state budgets. Hence, social welfare, education, and unemployment policy are generally viewed as properly residing at the member state rather than the (federal) EU level.

64 European Commission, *Communication from the Commission to the European Parliament, the Council, the European Social and Economic Committee, the Committee of the Regions, and the National Parliaments: The EU Budget Review*, Brussels, 2010, p. 12, retrieved from http://ec.europa.eu/budget/reform/library/communication/com_2010_700_en.pdf. The European federations refer to equalization transfers as 'solidarity transfers', Ronald L. Watts, *Comparing Federal Systems in the 1990s*, Kingston, Ontario, Institute of Intergovernmental Relations, Queen's University, 1997, p. 45.

vertical relationship. There is a horizontal dimension as well, because while the implementation mechanism flows from the European Commission to member state ministries, cohesion policy classifications are based on shared regional characteristics – notably low per capita gross national income, high unemployment, poor integration of transportation infrastructure with major European metropolitan centres, and sparsely populated territory – rather than being different for each member state.

A third commonality with federal practice is in the tying of cohesion policy to innovation. One of the benefits of federal systems is innovation in policy formulation and implementation associated with multiple constituencies.[65] In the past decade or so, cohesion policy in federal systems has increasingly been tied to the concept of a 'laboratory of democracies' wherein – especially in more loosely organised or dual federal systems – cohesion policy has moved away from the purely economic logic articulated in the economic integration model. In the EU, cohesion policy has also moved in this direction, being re-calibrated to the Lisbon Strategy priorities in the 2007-2013 MFF and even further integrated with innovation and competition through the Europe 2020 Strategy.[66] EU cohesion projects are now required to be innovative, so as to serve as demonstration projects or laboratories of good practice that can then be utilised in other localities.

It is also relevant to note that the conditionality attached to the use of EU cohesion funds – which on first blush might support the intergovernmental/delegation approach – is common to *all* federal systems, albeit in varying degrees. The different levels of conditionality are instructive with the US and the EU at the high end: the US federal government attaches

[65] D. Elazar, Cursed by Bigness: Or Towards a Post-Technocratic Federalism, *Publius: The Journal of Federalism*, 3, Fall 1973, pp. 239-298.

[66] European Commission, *Communication from the Commission, Europe 2020: A European Strategy for Smart, Sustainable and Inclusive Growth*, 2010, pp. 8-9.

conditions to approximately 80% of transfers, whilst Australia attaches them to only 34%.[67] This difference can be explained by the commonsense notion that conditionality tends to be lower in federations in which the state and provincial legislatures are organized on the parliamentary model because of the stronger claim to accountability. In the US separation of powers systems with bicameral state legislatures (only Nebraska is unicameral) and a directly-elected governor, the federal government has more difficulty in holding state-level units accountable. Again, we see a similarity between the EU – itself a system sharing more characteristics of separation of powers than the parliamentary mode –[68] and the US, where the EU's cohesion policy, too, is highly conditional and characterized by rigorous monitoring and accountability requirements.[69]

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So, in conclusion on the federal theory side of our model, the key point being advanced here is that whereas international organizations – groups of cooperating sovereign states – do not have cohesion policies, federal systems invariably do. They do so because they are politically useful to the federal project. This is so in three main ways, with cohesion policy: providing an opportunity to build a direct relationship with the polity through focusing on utilitarian policy-making; establishing a territorially-based scheme for promoting equalisation, or at least the appearance thereof; and, helping to promote best practices in innovation, growth, and competitiveness. As the EU has acquired a quasi-federal character, so has cohesion policy also come to be seen as having a similar usefulness for it as it has for established federal systems, and so has the policy area been accordingly developed.

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67 R. Watts, *Comparing Federal Systems in the 1990s*, Kingston, Ontario, Institute of Intergovernmental Relations, Queen's University, 1997, pp. 44-45.

68 S. Fabbrini, *Compound Democracies: Why the United States and Europe Are Becoming Similar*, Oxford, Oxford University Press, 2007.

69 W. Molle, *European Cohesion Policy*, NYC, Routledge, 2007.

Conclusion and Future Research

It has been argued in this paper that a helpful way of explaining the importance of cohesion policy in the EU's policy portfolio is through a model that links economic integration theory with federal theory. Regarding economic integration theory, our key point is that the economic approach lays out a (largely) convincing sequencing of integration policies, but cannot account for the fact that some policies in the economic union stage have gone forward while others, such as transport and energy policy, are still largely the responsibility of the member states.

As regards cohesion policy, the economic integration model predicts that disparate forces are at work – with common markets sometimes producing advantages for wealthy regions and at other times producing them for poor regions – which suggests that cohesion policy cannot be easily targeted to deal with inequities presumed to arise from integration. Drawing from this uncertainty, our argument has been that an economic integration approach cannot fully explain the prominence that has been given by the EU over the years to cohesion policy. We have suggested that cohesion policy appeared in the EU's policy portfolio at a relatively early stage and has since been developed further than economic integration theory would suggest in large part because it is politically useful to the federal project.

As the ongoing economic and fiscal crisis suggests, it is instructive to note that cohesion policy has not been proven to fulfil its objectives in lifting recipient countries to a more competitive level in the EU. But, cohesion policy continues to receive support from EU institutions and the member states because it strengthens federal relations by ensuring that richer states commit to the redistribution of EU funds to their less well-off partners. The need to use both economic and political perspectives to explain cohesion policy is thus seen in the way in which despite the seemingly inexorable nature of economic integration and the usefulness of the economic integration model, politics has a way of de-railing 'rational' policy.

This 'derailing' is part of a wider process in which the impact of politics on policy development is not wholly consistent or predictable. In the particular context of federal politics, a key feature of federal processes, and of the political, social, and economic forces that shape them, is that they are perennially evolving. Power shifts – sometimes slowly and subtly, other times quickly and transparently – between the federal government and constituent units.[70] Like the Balassian model, federalism is thus a dynamic arrangement.

The federal integration approach has been applied in this paper to understand a single policy area. Future research might expand the number of cases by identifying and analysing other policy areas in which the EU is engaged that exhibit characteristics of the federal process. Examples that come readily to mind and that are very much on the EU's current policy agenda include food safety, foreign and defence policy, and divorce law (where the EU is attempting to ease the complications involved when trans-European marriages break down).

Adding a federal perspective to an economic integration perspective strengthens our understanding as to why, in spite of the unfinished internal market project, most member states 'jumped' a stage when they formed the eurozone (economic federalism). Similarly, a federal perspective may prove useful in explaining the EU's substantive policy development in recent years in the field of justice and home affairs (political union), which has 'leapfrogged' corporate taxation (economic federalism). These 'departures' from the economic determinism implied by the economic integration model may arise because the traditional Balassa-based model is not equipped to fully explain the way in which national and EU policy-makers and societal actors

[70] M. Burgess, Federalism, in: A. Wiener and T. Diez (eds.), *European Integration Theory*, Oxford, Oxford University Press, 2004, pp. 24-45; C.J. Friedrich, *Trends of Federalism in Theory and Practice*, New York, Praeger, 1968.

have conditioned and shaped the integration process. For a more rounded account we need to combine a political perspective – and, more particularly, we argue a federal perspective – with the model of economic integration.

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