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The Future of Cohesion Policy in Richer Regions

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Summary

i. A difficult policy issue is whether relatively richer regions should be eligible for expenditure from the Structural Funds, especially if these richer regions also happen to be in relatively prosperous Member States. This paper reviews the arguments around this contentious issue.

ii. In the debate on the case for extending EU Regional Policy to more prosperous regions, two distinct issues are often conflated in a way that can confuse the issue. These are whether richer regions should be eligible at all and whether the relative prosperity of the Member State in which the region is located should be taken into account.

iii. While it might be expected that the issue could be resolved easily by rigorous application of the principle of subsidiarity, drawing on theories such as public choice and fiscal federalism, the realities of the EU are much more complex and the factors that have to be taken into account are not just economic, but also constitutional, political and even administrative.

iv. The calls for re-nationalisation of Cohesion Policy partly reflect a wish to curb the costs of Cohesion Policy, but also reflect divergent views about the underlying purpose of Cohesion Policy. Much of the debate turns on whether Cohesion Policy is understood as being predominantly about distributive transfers or as a policy that is intended to promote economic change and development. The latter interpretation brings allocative issues to the fore.

v. There is also quite strong political support from EU institutions and regional associations for having an EU level Regional Policy, as well as general support and interest from citizens.

vi. If the primary role of Cohesion Policy is distributive, then it makes little sense for a richer Member State simultaneously to contribute to the equalisation pot and to draw from it. Moreover, they may be able to customise regional policy more easily to fit the specific circumstances of the regions faced with problems. However, within richer Member States, there are often regional or other interests which favour EU policy being applied to them, even if the central government is opposed.

vii. Allocative arguments can provide support for Regional Policy in richer regions, but may be less persuasive than for poorer regions. However, there has to be a recognition that cohesion has diverse objectives and has moved beyond a narrowly-defined remit. Some of the tasks it is expected to fulfil require coordination across borders or involve projects that cannot be deemed to be place-specific and EU-wide allocative reasons need to be taken into account more extensively.

viii. The interplay between EU policy and national regional policies may affect the impact of Cohesion Policy, especially if forms of state aid replace EU policy in richer regions.

ix. Governance gains from the EU 'economic development model' have undoubtedly been influential and can be regarded as an important benefit of Cohesion Policy. But they may be subject to diminishing returns, especially for richer regions.

x. Coordination as a governance mode can allow an EU intervention to continue while curbing spending. Lessons may be on offer from experience in other policy domains.

Key messages emerging from the paper are that:

- There will never be an easy or purely objective way of determining whether the coverage of EU Cohesion Policy (or, more narrowly, Regional Policy) should include richer regions, especially in richer Member States.
- Different criteria that could be used to judge the merits of the case lead to divergent conclusions and there may be variations in the preferences of different actors that affect how these criteria are interpreted and applied.
- It follows that economic analysis will not, on its own, be able to offer unambiguous answers and that the choice of whether or not to have EU Regional Policy must take into account diverse political and political economy factors, as well as the constitutional position.
- It is important to distinguish between the budgetary dimensions of the issue and the broader policy orientations, especially now that the cohesion budget is called upon to promote a range of objectives, most prominent among which is the Lisbon Strategy, and is not confined to actions motivated by solidarity.
- Future Cohesion Policy has to strike a balance between direct funding and other modes of intervention, while simultaneously reconciling its distributive and allocative roles.
- The scope for EU-level coordination of Regional Policy in richer regions and Member States, rather than direct funding, deserves more attention.
- There has been and continues to be a case for EU-funded regional policy throughout the EU, but it needs to be based on assessments of the purpose and potential impact of the policy and its underlying political value, not just on cash-flow considerations.
- Yet, because the EU is a political as well as an economic entity, decisions on the content, coverage and implementation of Cohesion Policy will inevitably reflect political priorities and compromises.

1. Introduction

One of the great unresolved debates about Cohesion Policy is the extent to which it should be deployed in relatively richer regions, especially if these richer regions also happen to be in relatively prosperous Member States. Although the consensus among the European institutions (and, indeed, among the main political groups in the European Parliament) is that a 'renationalisation' of Cohesion Policy – in which responsibility for assuring cohesion would revert to Member States – should be rejected, it is an issue that deserves serious reflection. Relevant considerations are not just economic, but also constitutional, political and even administrative. Although the resources allocated within Cohesion Policy to richer regions have declined as a proportion of the total, they remain substantial and over the 2007-13 span of the current Multi-Annual Financial Framework, some 18.5% of total cohesion outlays has been allocated for spending outside the poorest regions.

The debate is, however, not only about whether there is a convincing rationale for cohesion spending in richer regions, but also whether the EU level should contribute to regional development in richer Member States. Indeed, a source of confusion in the debate is that these two issues are apt to be conflated. In richer Member States, there are two categories of regions that currently obtain funding: those that fall below the threshold (75% of EU GDP per capita, measured in PPS) for what is now called the Convergence Objective, and the richer areas that are eligible for the Competitiveness and Employment Objective. Some critics assert that Cohesion Policy should be limited to poorer Member States and in so doing are implicitly advocating a form of 'means test', with the eligibility criteria calibrated at the national level, which would allocate cohesion spending predominantly on distributive grounds. Those who support cohesion spending in richer regions, especially those in richer Member States, by contrast, have to rely on allocative criteria or political imperatives other than distributive ones to explain why cohesion spending is warranted.

The purpose of this paper is to set out concisely the arguments on both sides of the debate and to suggest some ways forward. The paper is the result of a contract from DG Regio of the European Commission. The rest of this introduction offers an interpretation of the terms of reference for the study and provides an outline of the paper.

1.1 Project terms of reference and their interpretation

This study deals with the apparently simple, yet ultimately surprisingly complex question of whether EU Regional Policy should be implemented throughout the EU or just in the poorest regions.

The specification for this study states that it 'should briefly analyse whether there is a case:

- for EU intervention in a policy aimed at promoting regional competitiveness and employment throughout the entire EU territory and in particular outside the poorest regions (why the EU should be involved?);
- for EU funding of this intervention throughout the entire EU territory and in particular outside the poorest regions (why the EU budget should contribute?).

and provide some reflections on how such a policy should be conceived (in terms of objectives, nature of interventions, delivery system)'.

An initial observation is that these project specifications point to a possible division of interest between EU intervention in Cohesion Policy and the nature of any such intervention, but in both respects there are different ways of interpreting what should be investigated. A first element of complexity is that there are two distinct ways of delimiting 'poorest regions' that have different repercussions for how the problem is approached. The standard way is the threshold of 75% of Community GDP per capita that has long been used to determine eligibility for (initially) Objective 1 status and (more recently) the Convergence Objective. In this approach, the region alone, rather than the Member State, is the spatial unit of concern. Because restructuring regions (old Objective 2) are, by definition, above the 75% threshold, a second interpretation is that the definition of 'poorest region' should encompass those regions that have manifest problems, despite being above the threshold. In this context, despite not being poor enough to qualify according to an EU-wide indicator, an interpretation of 'poor' could be relative either to their Member State or to a previous level of prosperity. There is then another possibility, which has been implicit in many of the calls for a scaling-back of Regional Policy spending, which would be to restrict cohesion spending to poorer Member States, irrespective of the circumstances of any specific region in richer ones. In effect this third approach would impose a double test of Member State ***and*** regional eligibility for Cohesion funding.

A further over-arching question, that also complicates matters, is what is meant by 'intervention' in or via Cohesion Policy. There are differing means by which such policy can be shaped and delivered, including through loans, regulatory obligations and coordination of national policies, as well as the traditional use of payments via the Structural and Cohesion Funds (SCF). Seen in this way, the EU could be deemed to be intervening to promote economic development if it imposed obligations on, or issued recommendations to, Member States to act to diminish regional disparities or to regulate the use of state aids which have an uneven spatial impact. In many other policy domains, variants on the open method of coordination have been used to advance agreed common objectives. Much of this turns on how subsidiarity is or could be interpreted.

An apparently simple administrative question of how to define a region can also have profound repercussions, because the more narrowly a region is defined, the greater the chance that it will fall above or below any quantitative threshold for eligibility. All regions contain pockets of deprivation and relative prosperity, dynamic clusters and industries or firms in difficulty, and dependent and active populations. The obvious question that then arises is whether responsibility for solidarity with regions or localities facing economic difficulties should lie with the surrounding region, the Member State or the EU as a whole. This goes to the heart of subsidiarity. In attempting to resolve this dilemma, it is important to note that even if policies that might mitigate disparities within the wider region or the Member State are not in place, it will be because of political choices. Thus, if the Ile de France or Greater London governments do not have policies to alleviate economic and social problems in, respectively, the *banlieues* or deprived inner city boroughs, with the result that quite severe disparities persist, this is not *of itself* a sufficient reason for a higher level of government to assume responsibility.

At the same time, the 'regional' problem in some Member States may be geographically concentrated because of historical legacies or diverse economic geography influences. The result can be that two relatively richer Member States with broadly similar levels of prosperity may have greater regional inequality when regions are assessed at geographically more aggregated levels such as NUTS II. The upshot can be that regions in, for example, southern Italy and the new *Länder* of Germany are designated as convergence regions, while more dispersed deprived populations – as in metropolitan France – will not be eligible. The significance of these designations is that if Cohesion Policy is not available in richer regions, then it is not available to these dispersed deprived populations, and this may, therefore, be a source of horizontal inequity (that is, citizens in identical circumstances do not have access to the same support). A possible retort may be that other policies, such as social protection, can fill the gap and may even be better suited to do so, but the unfairness is still there.

1.2 Outline of the paper

The paper draws on a number of different themes around the issue of renationalisation of policy and is intended to contribute to the debate on the evolution of Cohesion Policy. Section 2 assesses the merits of renationalisation of Cohesion Policy and, in so doing, introduces a framework for appraising the case for EU intervention outside the poorest region. It shows that there are many dimensions that need to be taken into account and that, in particular, there is a tension between calls for a recasting of policy and the desire simply to reduce the budgetary cost of Cohesion Policy. In section 3, the main categories of arguments for and against EU Regional Policy in richer regions are elaborated, an exercise that demonstrates that arriving at a simple decision-rule in this regard is implausible. The concluding section draws out implications for future Cohesion Policy.

2. Assessing the case for (re)nationalisation of Cohesion Policy

It is tempting to believe that objective economic analysis can render a clear verdict on what should or should not be assigned to the EU level as competencies, especially in determining demands on public expenditure. Valuable insights can indeed be derived from the conceptual apparatus of theories of fiscal federalism and public choice, although the fact that the EU is not a multi-level system in which the central, highest level of government is dominant detracts severely from the utility of these theories.

2.1 From fiscal federalism to subsidiarity tests

The main subject matter of fiscal federalism has traditionally been the problem of how to assign responsibility for different functions across tiers of government. In the standardised presentation, redistributive policies should be assigned to the highest level of government for two overlapping reasons: welfare dependents will tend to migrate to areas where welfare benefits are most generous, while tax-payers in richer regions will tend to vote against higher welfare expenditure, resulting in a concentration of the deprived. Consequently, fiscal federal principles assign redistributive policies to the highest tier of government (Brown and Oates, 1987). However, it should be recalled that the EU budget is small as a share of GDP and is highly likely to remain at around its present level of 1%. Consequently, under any plausible scenario, the resources available at EU level for distributive policy will fall well short of what was canvassed in the MacDougall (1977) report, let alone the scale of inter-governmental transfers that are the norm within mature federations.

By contrast, fiscal federalism tends to push allocative policies down to lower tiers of government on the grounds that this allows the preferences of citizens for public goods to be accommodated better. In this logic, a public good should only be funded at a higher level if there are externalities that override the preferences argument. It is an open question whether economic development policy is such a public good and the diversity of the arguments around this issue demonstrates the difficulties of obtaining a clear answer.

In appraising what can be described either as renationalisation of Cohesion Policy or its limitation to poorer regions, several issues have to be explored, but the way forward is also inextricably linked to broader debates on possible reforms in the aims and priorities of the EU budget. How to accommodate the principle (and expectation) of subsidiarity is also a tricky question, because applying the principle is at once easy yet messy, not least when confronted by political and economic realities. To make subsidiarity operational, tests such as those developed by Ederveen et al. (2008) can be used to pose the question hierarchically of when a policy should be at (or returned to) the national level:

- Is action at the EU level necessary to achieve the stated aims?
- Can it be achieved by coordination of national efforts?
- Even if EU-level expenditure is justified, how much is needed to ensure a proportionate response?

If the answer to question 1 is 'no', the policy stays within the Member State, as it does if the answer to question 2 is 'yes', while the third question invites the answer that the EU level should do the minimum possible to achieve the aims of the policy. A comprehensive exercise on assessing which policy areas should receive resources from the EU budget has recently been undertaken by a consortium composed of Ecorys, CPB and IFO (2008) – hereafter, the Ecorys report. The study uses an extension of the Ederveen et al. (2008) subsidiarity test to ascertain whether both existing and prospective EU spending can be justified, using criteria derived from the academic literature on fiscal federalism, public choice and political economy. It is no surprise that the report concludes that the application of such criteria would result in a very different EU budget.

The test is applied to Cohesion Policy, looking separately at the Convergence, Competitiveness and Employment, and Territorial Cooperation objectives. The report notes that the transfers effected by Cohesion Policy between Member States have a structural character, and one that aims to improve allocation. Its overall conclusion is that if the goal of Cohesion Policy is redistribution between rich and poor Member States, the EU is clearly the right level, with classical fiscal federalism arguments to the fore. The report also gives a guarded endorsement to the Territorial Cooperation Objective, principally on externality grounds, given that territorial cooperation will tend to be under-resourced, but is sceptical about richer regions. Hence Cohesion Policy should remain for lagging regions, but end (other than for territorial aims) for richer ones. The box below sets out the reasoning in the report for this finding.

A subsidiarity test applied to Cohesion Policy in richer Member States

The Ecorys report mentions various concerns about support for convergence regions in richer Member States, but does not offer a clear conclusion about whether or not a distinction should be made between convergence regions in richer and poorer Member States.

Noting that the vast majority of EU spending on the Regional Competitiveness and Employment Objective goes to richer Member States, the report observes that 'These Member States have the financial capacity to finance these policies themselves, and they also have the institutional capacity to govern and monitor sponsored projects'.

It argues that although there may be spillovers from supported regions that help to justify the spending, they are empirically small and (thus, by implication) inconsequential. In any case, regulatory intervention could largely achieve the goals.

A further argument advanced is diversity which implies that Member States know better what sort of economic development policy to adopt.

Cohesion Policy support for EU-level aims, such as the competitiveness pillar of the Lisbon Strategy is mentioned as a justification for Cohesion Policy in richer Member States, but the report argues that these could probably be better addressed outside a Regional Policy framework.

Susceptibility to common pool problems is also raised as an objection to funding in richer Member States, partly on the ground that accountability is better at the national level. On the other hand, some other political economy arguments, such as the prospect of lobbying by regions, support the case for EU policy.

The report's conclusion is that 'from a normative point of view, there is not much to be said in favour of the Competitiveness and Employment Objective (in particular within a Regional Policy framework)'.

Source: Ecorys report (2008)

What such studies cannot fully accommodate and often overlook, however, is that the EU is an intensely political arena in which choices on policy assignment reflect compromises and deals, while there is an inevitable path dependency in what can realistically be changed. Consequently, proposals that may reflect a fairly compelling economic logic are prone to be overridden by the politics of the pork barrel, institutional inertia or the sheer difficulty of cobbling together a consensus for reform.

2.2 Making sense of renationalisation

Calls for full or partial (re)nationalisation of the Common Agricultural Policy have been heard – and stoutly resisted – in successive rounds of budgetary negotiations and, more recently, there have been proposals to restrict Cohesion Policy by limiting it to certain regions. Such proposals have also been loosely labelled as renationalisation, but it is worth dwelling briefly on what the term actually means and its salience for EU Regional Policy. Perhaps the clearest statements are in some of the submissions by Member States to the 2008/9 budget review consultation. Thus, the Dutch government calls for targeting of 'direct cohesion funds at the least prosperous regions in the least prosperous countries, supplemented by a programme for cross-border cooperation', while the Swedish government asserts that 'Cohesion Policy needs reform, both in terms of composition and volume. Spending in this area should – in line with the Treaty – focus on economic and social cohesion in parts of the Union most in need, i.e. primarily in the new Member States'.

The UK is even more explicit, arguing that 'Structural and Cohesion Funds will continue to be an important mechanism for targeted redistribution towards less prosperous Member States. Consequently, Structural Funds in the richer Member States should be phased out. Given that aim, the priority should be that standard 'competitiveness and employment' funding is no longer available to richer Member States' (UK Treasury, 2008). However, the Swedish submission, in its proposals on richer Member States goes one step further by calling for 'collaboration, exchange of experiences and benchmarking between regions' as the means by which a European dimension to Cohesion Policy is assured.

But it is in what lies behind these calls that some subtlety in analysis needs to be employed. Essentially, what these Member States are asking for is for the cohesion budget to be reduced by cutting the expenditure that currently goes to richer Member States, although it is noteworthy that the UK position appears not to exclude a continuation of funding for 'convergence' regions in richer countries. However, both the Swedish and Dutch submissions also stress that richer Member States should take financial responsibility for the development of their less affluent regions, and signal no exception for convergence regions. The latter position was also central to the recommendations in the Sapir report (2004) which called for Cohesion Policy to be much more orientated towards the relative prosperity of Member States.

Cutting cohesion spending in this way would either allow the EU budget to devote more resources to other spending priorities or make it possible to cut the EU budget overall. The key point is that this is, at least in the first instance, a plea about budgeting and cash flow, and not so much about Cohesion Policy per se. This distinction was highlighted in characteristically forthright manner by Graham Meadows in oral evidence to the Welsh Assembly where he states that:

> 'I think that there will be a big discussion about whether we should maintain the present scope of the policy or whether we should chop a chunk off in order to save money. That may take place as part of a discussion about the re-nationalisation or repatriation of a part of the policy, or even all of the policy. It is very difficult, in a fast-moving discussion, to realise that what we are actually talking about is the re-nationalisation of the funding. So, we are talking about transferring less money to Brussels from the Member State, and the big question, for which Wales would want the most precise answer possible, is: if you want to get rid of European Union Cohesion Policy or a part of it and present a mixture of European Union policy and national policy, what will the national policy be?'

An alternative interpretation is that these calls are, in fact, about the purposes of Cohesion Policy more than the cash flow. There seems to be little objection to support for economic development in the poorest regions and Member States on equity or solidarity grounds. For the UK especially, the logic seems to be primarily a distributive one, although there is also a recognition (seen also in the Dutch and Swedish positions) that economic development in less developed areas can have benefits for the EU as a whole. But what these calls seem to reject is the idea that much the same logic can be applied to support for richer regions, especially in richer Member States.

A further element in the calls for reform is, though, that Member States that lose eligibility for EU funding can then make their own choices about how to structure and implement Cohesion Policy. Three outcomes can be postulated:

- The Member State largely emulates EU policy, but simplifies the administrative procedures by cutting out the loop between the national or regional capital and 'Brussels'. In this scenario, the national budget substitutes for the EU budget, but from the standpoint of recipient areas there is little difference.
- The Member State establishes its own priorities and rules for cohesion (or, more narrowly, regional) policy, as a result of which the mix of beneficiaries becomes substantially different from what it would have been had there been no renationalisation.
- The Member State makes a political choice to devote significantly different resources to cohesion policies. In many cases this may be cuts, but increases are also conceivable. This third option has ramifications both for recipient regions in the Member State and for potential competitor regions in other Member States.

2.3 Attenuating regional imbalances – the wider policy context

Plainly, in all EU Member States, areas confronted by weak competitiveness, high unemployment or geographical disadvantages obtain 'solidarity' from a plethora of sources. For some, receipts from the EU budget are sizeable, coming principally from the CAP and from Cohesion Policy. Mechanisms within countries include formula-driven public expenditure that can result in very substantial inflows of public expenditure, while national tax systems that have income-related tax bases tend to weigh less heavily on economically weaker regions. Such flows are not always or necessarily equilibrating. A large dependent population may be the result of residential choice by pensioners leading to sizeable net inflows, even if the regional economy is dynamic and prosperous. But in most cases, net transfers associated with national public expenditure will accrue to poorer areas.

Most countries have forms of indigenous spatial policies in which certain regions, rural areas, or urban areas are designated for particular types of assistance. Other policies have an indirect spatial impact. For example, public support for research and development tends to gravitate to the dynamic, usually richer, regions that are research leaders. Active labour market policies, by contrast, will typically be more prominent in regions with higher rates of unemployment. The fact that there remains a substantial amount of spatially-targeted policy within Member States means that an end to EU policy in richer Member States would not mean an abandonment of cohesion or solidarity policies – indeed, Tarschys (2003) calls renationalisation 'a misnomer' for just this reason.

2.4 Categories of arguments

Although much of the debate is about whether or not there is a persuasive economic argument for EU Cohesion Policy to be applied to richer Member States, there are several other aspects that have to be examined. First is a constitutional consideration: the Treaty stipulates in Article 2 TEU that economic and social cohesion is a fundamental aim and does not restrict cohesion to selected Member States. The Lisbon Treaty adds a commitment to Territorial Cohesion, a concept that (while still being refined) cannot be understood purely in terms of existing Member State or regional boundaries. It follows that cohesion is, at the highest level, central to European integration.

Second, there are diverse political or political economy arguments around the question of richer country eligibility for SCF spending. They encompass fairly standard concerns about legitimacy and subsidiarity, more tricky issues around the balance of power in a multi-level system of governance and the rights and expectations of citizens, and the viability of alternative modes of governance in promoting cohesion.

Third, there are diverse economic issues that have to be confronted, encompassing not only economic development, but also distributive matters and competition policy. These economic arguments are about how policy can be effective and efficient, as well as whether incentive structures are well-aligned. The fourth class of arguments has to do with administrative issues and governance, not just of Cohesion Policy itself, but of how Cohesion Policy relates to the broader economic governance framework. There has to be a recognition that cohesion has diverse objectives and has moved beyond a narrowly-defined remit. Some of the tasks it is expected to fulfil require coordination across borders or involve projects that cannot be deemed to be place-specific. In addition, there are issues to do with the quality of administration and the appropriate balance to be struck between national, regional and EU-level inputs into the economic development process.

3. Cohesion funding for regions in richer Member States or not?

This section fleshes out the categories of arguments just presented. It is important to emphasise that many of the issues do not point unambiguously in one direction or the other, but should instead be seen as shades of grey and will depend on the weights that different stakeholders attach to specific factors in arriving at decisions. An annex summarises the arguments and indicates whether they can be used to justify either EU intervention in, or EU funding of, Regional Policy in richer regions.

3.1 Constitutional factors

Title XVIII TEC spells out the constitutional commitment to cohesion by referring to disparities between regions (Art. 174 TEC), explaining that the purpose of the European Regional Development Fund (ERDF) is to 'redress regional imbalances' and to participate in the 'structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions' (Art. 176, TEC). It is worth noting that Art. 175 TEC refers not only to the Structural Funds as instruments for advancing cohesion, but also specifically mentions 'the European Investment Bank and the other existing Financial Instruments'.

While the notion of lagging behind is reasonably clear-cut and the 75% of Community GDP per head threshold for eligibility for Objective1/Convergence status is a transparent rule, how to determine what is a declining industrial region is less straightforward. By being juxtaposed with lagging regions, it is implicit that such a region is distinctive from a lagging region and thus has a GDP per head higher than the lagging regions. It is also germane that the Treaty language refers in this context only to regions and not to Member States, signalling that eligibility for ERDF support has to be assessed at the level of the region and not the Member State. Furthermore, the ERDF is a financial resource, so that its function in redressing imbalances entails expenditure. The conclusion to draw is that in constitutional terms there is an obligation to assure ERDF and European Social Fund (ESF), if not Cohesion Fund (CF), coverage in all Member States, irrespective of level of prosperity.

Constitutional niceties can, within reason, be overridden by political decisions and it could be argued that limited budgets oblige decision-makers to be more selective in allocating funding. Indeed Art. 177 TEC gives the Council the final say on defining the rules applicable to the SCF, as well as their tasks and priorities. This would appear to allow the Council discretion to limit SCF only to certain Member States or to certain regions within them, but equally to leave open the prospect that the rules could be amended to restore eligibility for all.

3.2 Political

The political motivations behind calls for ending funding of Cohesion Policy in richer Member States and regions are varied and three separate strands of thinking can be identified in these calls. The first is, as noted above, that the overall cost of the policy can be diminished if allocations to richer Member States (most of which are also net contributors to the EU budget) end, while the second is (implicitly) that more can be allocated to poorer regions in poorer Member States within a given cohesion budget – hence the support of some of the poorer Member States for greater concentration in the targeting of Cohesion Policy. This second argument may be somewhat disingenuous, because the caps imposed on receipts as a percentage of GDP are manifestly a constraint, and even if they were not, the scope for absorption is likely to be a de facto barrier. Indeed, it would only be if any additional receipts could be channelled into consumption rather than investment that more could plausibly be absorbed. This would be contrary to the principle of additionality – one of the core principles of the SCF – and would make the transfers an instrument of income equalisation rather than one that is focused on economic development as such.

But a third strand is that, in the richer Member States, choices made will be better matched to what is needed, a potential gain that will be reinforced without the conditions and overheads applied by 'Brussels'. Political arguments for retaining EU Regional Policy are, nevertheless, made forcefully by several Member States and, as noted below, by many interest groups at EU level, though often stated as assertions and with only limited economic justification. Nevertheless, the submissions to the 2008/9 budget review reveal the extent of disagreement. Within a Member State there are then two further political questions to consider which are whether the 'volume' of cohesion spending would be the same as if it were delivered through Community policy and whether the coverage would be the same.

There may also be political disagreements between central and sub-national government about maintaining Regional Policy. Regions tend to fear that the Member State will be unwilling to match the regional development effort of EU policy, though it should be noted that there can be an element of special pleading in these representations. The Commission, in short, is an ally and in a multi-level governance system, new balances of power in governance are warranted. This leads on to one of the more contentious arguments for maintaining Community Regional Policy in richer Member States, namely that the recipient regions want it to continue even when their national governments disagree. The argument often made is that the Brussels-region connection offers an attractive alternative to reliance on national budgets. There is, therefore, a tricky question about which political interests should prevail in determining whether, and if so how, Cohesion Policy should be targeted at richer regions and also at convergence regions in richer Member States.

Legitimacy raises a related issue which is, simply, whether citizens want and expect the EU to 'do something' – Figueira (2007) notes, for example that studies of what the EU does as a budgetary authority from a political science perspective have tended to focus on whether or not the public accepts an EU role, as opposed to the cost-benefit approach adopted by economists. Moreover the attitudes of authorities at different levels and with different responsibilities may clash: a finance ministry might be expected to resist a broader Cohesion Policy because it has to sign the cheques, even though some money might flow back to regional authorities, while an economic development ministry may see Cohesion Policy on offer to richer Member States as one way of obtaining a higher share of public spending. Common pool problems of this sort are central to the political economy of Cohesion Policy.

Perhaps the most simple political argument for a broad Cohesion Policy is that it attracts political support. Certainly, in the European Parliament, the major political groups seem to favour a wide geographical coverage for Cohesion Policy and reject the idea of renationalisation, while accepting the need to concentrate on the poorest regions. Thus, in recent statements, both ALDE and the EPP-ED groups have reaffirmed their commitment, with EPP-ED stating that it 'is in favour of a strong Cohesion Policy for the EU, able to withstand all future attempts at renationalisation and continuing to cover all regions of the European Union'.

Similarly, though predictably, regional associations are supportive, and bodies such as the CEMR seem opposed to renationalisation, although it is less clear whether this applies to all Member States, while the Conference of Peripheral and Maritime Regions of Europe advocates 'structural policy for all European regions' suggesting that there be a split between a Convergence Objective and a 'Territorial Excellence' Objective, with the former including (not surprisingly), outermost regions, and not just the least prosperous. In practice, the second objective seems to be closely linked to Lisbon aims in that it refers to knowledge and innovation capacities, though it also highlights climate change and rural development. Yet an inevitable concern is that the support of such bodies is precisely what would be expected from them and, as such, somewhat suspect.

One political risk, highlighted by the Commission, is that dividing Member States into donors and recipients will entrench juste retour thinking (often based on dubious calculations that leave out feedback flows) and confuse rather than focus Cohesion Policy. As Eiselt (2008) notes, citizens (especially in poorer countries) seem to expect that the EU will underpin their prosperity through the fiscal transfers of Cohesion Policy, but Member States are more insistent on the economic rationale.

3.3 Economic

Many of the economic disputes about richer regions turn on the underlying purpose of Cohesion Policy, especially whether it is, at heart, a distributive policy or an allocative policy designed to optimise investment in public goods. Further complicating the picture is the fact that a reduction in income inequality can, of itself, be considered as a public good[1]. The trend towards decentralisation in economic governance can, to some extent, also be connected to the debates on re-nationalisation of Cohesion Policy. In deciding what to undertake at EU level, one sometimes overlooked question is whether the EU level produces a different sort of public goods from the Member States (Tanzi, 2007). There has also been a macroeconomic rationale for Regional Policy, dating from Kaldor (1970), that by balancing demand across regions a better aggregate trade-off between inflation and unemployment (or for those who doubt Phillips' curve reasoning, between 'over'- and 'under'-heating) can be achieved. To some extent, the notion of territorial balance is a related point.

Cohesion Policy has, however, struggled to define its economic rationale in relation to support for the less competitive regions of richer Member States that do not fall below the 75% threshold. In the two programming periods for the Structural Funds from 1988-1999, these regions were labelled as Objective 2 and the support was largely targeted at areas where 'old' staple industries such as coal mining, textiles, shipbuilding and steel-making had been in long-term decline, with only limited growth of newer sectors. Subsequently, the range of regional problems eligible for support has been broadened, with Member States afforded more discretion to determine the spatial objectives they pursue. These are murky waters and there have been various ploys in a number of Member States to usurp the power of the Commission

1 See the contribution of Sapir to Begg, Sapir and Eriksson (2008).

to designate support on policy grounds by re-defining regional boundaries so as to maximise eligibility.

Distributive arguments

Distributive policy is relatively easy to analyse, as much of the distributive case hinges on *ability to pay* as a principle. Very simply, in any well-conceived distributive system, the rich pay and the poor receive. Hence if the purpose is predominantly to effect a net transfer of budgetary resources between richer and poorer Member States, then it makes little sense for a richer Member State simultaneously to contribute to the equalisation pot and to draw from it. In assessing the case for cohesion spending, however, a distinction could nevertheless be made between convergence regions in richer Member States (which fulfil the 75% criterion) and richer regions. Convergence regions, by definition, are relatively poor wherever they are located, whereas richer regions are not. However, if ability to pay is assessed at the level of the Member State, the distinction is immaterial. German and Finnish GDP per capita in 2005 were virtually identical, the year used to benchmark the 2007-13 SCF allocations, yet Germany is due to receive just under 0.1% of GDP over the period for convergence regions, whereas Finland will receive none. But the total amounts allocated to these two countries from SCF will be almost the same.

A more compelling distributive argument is that European integration creates its own economic development dynamic from which some regions gain hugely while others lose ground (whether relatively or absolutely). There is then an expectation that goes back to routine welfare analysis that the winners should compensate the losers. In this logic it should not matter that a region which loses is above an eligibility threshold, so long as there is a convincing case that integration has contributed to its difficulties. Both the Padoa-Schioppa (1987) and the Delors (1989) reports drew on this reasoning in advocating a reinforced Cohesion Policy. However it is, essentially, a side-payment logic which has been criticised (for example in the Barca report, 2009), as unconvincing. Moreover, Barca is surely correct to assert that if the aim is income transfers, there are easier ways of effecting them.

Allocative arguments

The case for EU Regional Policy – certainly in the way in which it is presented – has long been made primarily on allocative grounds and is generally regarded as very robust for convergence regions. Part of the challenge in assessing the merits of Regional Policy for richer regions is, therefore, to ascertain whether the arguments apply equally strongly to them. Here, fiscal federalism arguments can be brought in, and a separation needs to be made between the shaping and implementation of the policy and its funding.

A key fiscal federalism argument for external funding is that if there are spillovers or other externalities, then it is important to match the jurisdiction funding the policy to the span of its effects, failing which the investing region will tend to under-invest. Hence, unless it can be shown that there are pronounced spillover effects to the rest of the EU from public investment in a richer region, an allocation logic would suggest that the funding should come from either local or national, rather than EU resources. This is essentially an empirical matter and, according to the analysis in the Ecorys report, such spillovers are small, so that the case for EU funding is weakened. Manifestly, they might also be small in a poorer region, although one argument often made is that richer regions gain substantially from demand for investment goods and consultancy services from poorer regions. To investigate this convincingly would require research well beyond the scope of the present paper, but intuitively, it seems likely that richer Member States will be relatively more specialised in the industries that benefit directly from cohesion spending. Moreover, what is critical here is that the spillover argument would be one among many for poorer regions, but much more crucial for richer ones.

Second-generation fiscal federalism adds a further argument about the centralisation versus heterogeneity debate which has to do with public sector incentives. A strong principle is that matching funding to the scope of the policy is efficient. In addition, analysis of incentives and of the interplay between market forces and the public sector is needed in allocating expenditure functions (see: Oates, 2005; Weingast, 2006). Weingast, citing a number of other studies, argues that attention should focus, especially, on whether policy interventions have growth-enhancing effects and that less attention should be paid to equity issues – this has echoes of the reasoning under which Cohesion Policy should add to the effort to advance the Lisbon strategy. Hence, although the matching principle suggests that regional policy should be retained at, or pushed down, to the national level, there is a specific argument for policy at the EU level to help fulfil broader policy aims.

Building on this point, a different perspective on allocation comes from considering EU-level public goods other than the economic development of lagging or uncompetitive regions. Increasingly, cohesion funding has been asked to contribute to other Community objectives, such as the Lisbon Agenda goals. The Lisbon Strategy is clearly at the heart of EU economic governance and an intensification of EU-level responses to climate change is increasingly likely. If contributions to these goals are loaded on to Cohesion Policy it is hard to see how such pan-European objectives can be dealt with convincingly without having some cohesion spending in richer Member States.

It can also be argued that making territorial cohesion operational may well necessitate spending in richer Member States to develop the public goods, such as physical or soft networks, that underpin effective cooperation across borders. The fact that successive Interreg programmes have commanded wide support suggests that there is a willingness to persevere, although a cynical viewpoint might be that because these programmes have not cost much and generate considerable visibility and goodwill, they have acquired a legitimacy that should not be squandered. However, assigning greater prominence to spatial balance could entail rather higher budgets in future for cross-border purposes. One inference to draw is that the political economy will never be clear-cut.

A competition policy rationale

A further consideration is that, in the absence of EU Regional Policy, Member States or regional governments may, in their own regional policies to promote regional development, resort to state aids. The usual rationale for regulation of state aids is to ensure that the internal market is not at risk, but it can also be argued that a cohesion rationale is germane. If assistance to a region from any source improves its position relative to competitor regions, it may aggravate the problems of the latter, and it is evident that richer Member States can afford higher subsidies to relatively rich regions. Consequently, to the extent that they support richer regions, some state aids may hinder efforts to stimulate the development of lagging regions and thus be detrimental to poorer regions. It is not, however, as simple as saying that because region 'x' obtains a competitive boost from Regional Policy, region 'y' will lose. Some regional development policies can have 'win-win' effects, either through demand channels or because supply-side linkages are mutually beneficial. Equally, there are consequences of Regional Policy, such as a decision by a company to invest in region 'x' (perhaps because the regional government is able to afford better infrastructure paid for by national regional policy), rather than region 'y' which are often zero-sum in nature.

The practical problem, though, is that it can be very difficult to calibrate the degree to which subsidies in one locality have an actual or potential effect on another. In addition, the term 'state aids' covers a wide range of interventions and some tricky pathways would have to be navigated in assessing whether horizontal aids or support for networks are more desirable than direct aids to companies. Regional Aid Guidelines are one means by which these issues are regulated, but they give rise to many disputes and uncertainties (Wishlade, 2008). For the richer region debate, a policy conclusion may be that it is best to mediate at the highest level (that is for all Regional Policy to be administered and funded at the EU level) so as to prevent conflicts from arising between national and EU policies.

A further argument that is sometimes made about state aids is that they are subject to a high degree of deadweight, whereas the much more targeted interventions of the Structural Funds in richer regions can unblock obstacles to economic development. Yet there is a puzzle to be confronted of whether the apparently better performance of EU policy in this regard is a feature of it being from outside, or whether instead well-designed national policies could be equally effective. What the observation also hints at, though, is that EU policy has attributes that enable it to be more effective.

3.4 Governance and administration

Indeed, if EU intervention in Cohesion Policy can be shown to lead to superior outcomes, it would imply that the mechanisms of governance adopted had been influential. A key challenge is, consequently, to establish whether EU-mediated Regional Policy can result in better implementation in richer regions or whether instead the additional bureaucracy involved becomes a hindrance to good policy. Some protagonists even regard the governance improvements that EU policy can engender to be pivotal. Leonardi (2005) asserts that Cohesion Policy has had a major influence in the governance of economic development policy, including the empowerment of sub-national levels of government. He claims that an outcome has been economic development policies better attuned to local circumstances. Certainly, many commentators would accept that the 'Brussels' policy model has its advantages and that the very fact that it is outside the cut and thrust of domestic politics allows it to be applied over longer periods without being subject to more short-term political tinkering.

EU policy has also fostered a constructive partnership approach, even in richer regions. Thus, for Leonardi (2005: 1), one of the distinguishing features of the EU's Cohesion Policy is the 'extensive involvement of different administrative levels and socio-economic groups in the formulation and implementation of policy'. The clear implication is that EU policy can add value if it can break the mould in how economic development policy is conducted and this is often cited as one of its great accomplishments, even in richer regions. Governance benefits of this sort are often underestimated and will not easily be captured in econometric exercises that attempt to quantify the effects of Cohesion Policy.

Yet even if past gains of this sort are acknowledged, it could be argued that they are transitory, such that once the lessons are learned, further rounds of EU policy will be subject to diminishing returns, and may even become counterproductive. Thus, the UK government (2003), in a wide-ranging reassessment of Regional Policy, notes that although there have been undoubted benefits from EU policy and gains from new governance approaches, problems of implementation and rigidity have diminished its effectiveness. This is, in practice, an assertion of the fiscal federalism principle of tailoring policies to the circumstances of heterogeneous regions, allied to the efficiency argument that there is a lower overhead when Member States deal directly with the problem.

Another administrative consideration is that the scale of structural interventions may have to attain a certain critical mass to have much effect in aggregate. While individual localities or interests might well benefit from support for specific projects, the probability that an Objective 2-style intervention will have lasting effects is likely to be diminished if the interventions are too limited. This notion has long underpinned the programming principle for the Structural Funds. In addition, a temporary Keynesian injection of spending – possibly redistributive in form – is different in character from public investments that seek to alter a region's underlying competitiveness and to break out from an economic structure that inhibits its development. The latter requires a long-haul approach with consistent and coherent policy, rather than compensatory payments.

The role of EU policy mechanisms in fostering policy learning may be crucial, and one aspect of this that deserves to be aired in the richer Member State debate is how long the learning process takes. This also highlights a separate argument about the case for retaining EU policy in richer Member States, namely the importance of institutional capacity in ensuring effective policy implementation. In this regard, there is something of a paradox in the finding of Ederveen et al. (2006), that strong institutional capacity allows regions to make more effective use of cohesion receipts, while the fact of such capacity means that there is a much lesser need for the EU administrative model to be imposed.

Is coordinated policy an alternative to direct funding?

In assessing the governance attributes of Cohesion Policy, an important consideration is whether the governance benefits that are often claimed for the EU's 'SCF model' require continued engagement with the EU level and possibly also funding, or whether it is reasonable to expect the lessons to have been assimilated by, especially, regions in richer Member States. If some continuing input from the EU level is justified, it would pose the question of whether greater coordination should become the governance mode for the future, rather than direct funding.

For EU policy-making, the principal coordination issue relevant to Cohesion Policy is whether there should be a common basis for policy in all Member States, perhaps emulating the forms of open method of coordination seen in the employment and social policy domains. In this approach, strategic goals and (in some cases) numerical targets for key variables and guidelines for policy are common to all Member States, but implementation is left to national discretion. Scrutiny processes, periodic recommendations to Member States about where or how to reform policy and focus attention, and organised means of fostering mutual learning are among the means through which the EU level continues to intervene. If boosting the scope for policy transfer from one region to another is accepted as a valid aim of Cohesion Policy, greater coordination may be an answer.

4. Ways forward

In the 2007-13 programming period, around a quarter of cohesion spending has been allocated to convergence regions in Member States with GDP per capita above the EU-27 average – principally to regions in Spain, Italy and Germany. In the total cohesion budget, 36% goes to countries with above-average GDP, and 7/8ths of the cohesion budget for purposes other than convergence goes to these same countries, with France, the UK and Spain (again) obtaining most. There are, therefore substantial sums of money at stake in proposals to curb EU Regional Policy spending in richer regions or in poorer regions of richer Member States. In deciding whether, and if so how, there should continue to be EU intervention in Cohesion Policy throughout the Union, an easily overlooked question is what the policy's objectives are. A useful, if possibly idealised definition offered in the Barca report (2009: xiii) is that 'the main purpose of Cohesion Policy is not redistribution but to trigger institutional change and to break inefficiencies and social exclusion traps through the provision of public goods and services'. What this is about is the ability of the state to counter market failures. An administratively competent state would be expected to deal with such problems, but one which is subject also to forms of government failure may well benefit from the intervention of an external agency. This facet of EU Regional Policy is discussed at length in the Barca (2009) report, but possible implications for whether EU money should continue to flow to richer regions are only tangentially addressed.

Barca maintains that a public goods rationale, allied to the fact that it dispels the idea that the main purpose of Cohesion Policy is financial redistribution, debunks the idea that re-nationalisation of Cohesion Policy is desirable. He also refers to the role of Cohesion Policy in unlocking potential. Yet, as the range of arguments presented in this paper shows, there is no easy answer to whether or not there should continue to be funding for richer regions or even for convergence regions in richer Member States. A key reason is that, for many of the factors that influence the debate, political and policy preferences may differ widely, making it difficult to reach a consensus.

From a political perspective having some funding everywhere has the advantage of underpinning support for the policy in net contributor countries, even if an economic case that might be constructed from fiscal federalism principles is weak. From 1988 onwards, it could be argued that the completion of the single market had exacerbated the competitive pressures on old industries to rationalise. Intervention by the EU level could, therefore, readily be justified. But with the broadening of aims, that case is less easy to make. Should urban decline in the UK or remoteness in France be part of the policy if there is no demonstrable link with economic integration?

When, in addition, cohesion spending in richer Member State regions is used as the balancing item in the very fraught juste retour calculations that have become the core of EU budget negotiations, with allocations poorly rationalised in terms of policy objectives, the policy as a whole risks being dragged into disrepute. A counter-argument is that the last-minute adjustments that are inevitably made in budget negotiations are a trivial proportion of the cohesion budget (no more than 3% according to one estimate) and that the bulk of the money is rationally allocated. But the argument can become circular: if the initial budget sums are apportioned more on a *'juste retour'* basis (and thus mainly using a distributive calculus) than on purely allocative grounds, it is not just the late adjustments that constitute horse-trading but quite possibly the whole 'envelope' for richer Member States.

It is also important to recall that one of the strongest economic arguments for EU funding regional policy in poorer countries is that the fiscal resources available to the Member State will be much more scarce than in richer ones. The result is that in the absence of Community funding, cohesion spending would be unlikely to happen. By contrast, in richer Member States, a choice may be made not to fund regional policies, but the point to stress is that it is a choice, not a resource constraint, and hence is qualitatively different. It is for this reason that much of the re-nationalisation debate can only be understood by seeing it as being more about renationalisation of cash than the policy itself.

4.1 Modes of policy intervention

It is easy to be lulled into discussing Cohesion Policy only in terms of expenditure from the SCF, but two other modes of intervention that warrant reflection are loans and coordination of national policies. Loan funding for major infrastructure projects is already a prominent component of financing of Trans-European Networks (TENs), with the choice between direct subvention and loan funding being judged by reference to the ability to pay of recipient authorities, the scope for a revenue flow from the investment and the incentives for private involvement. In discussion of reform of the EU's finances, a different balance between loans and direct expenditure has been frequently advocated by the UK government[2], but it has also surfaced in other contexts.

Loan financing has a particularly useful property that when the loans are repaid, it is possible to recycle them to new borrowers. In this regard, Graham Meadows, in evidence to the House of Lords (2008: 89), drew attention to the fact that recyclable loans originally derived from Marshall aid in the late 1940s were still being used in Germany four decades later. His evidence led the House of Lords, in its report, to call for a greater use of loans in future Cohesion Policy, the presumption being that once a loan was granted it could be recycled as the project for which it was originally given achieved full payback.

More contentious would be a variant on the open method of coordination (as discussed above; see also Begg, 2003). If the

2 See, for example, UK Government submission to the 2008/9 Budget review.

constitutional and political arguments in favour of a widespread Cohesion Policy are accepted, a future European cohesion strategy could be constructed so as to combine a Community Cohesion Programme (with funding where needed from the EU budget) and a National Cohesion Programme funded by Member States, but with the presumption that the Community component would be confined to lagging Member States and possibly to those public goods that come closest to being exclusively EU-level ones (energy networks, perhaps). However, it is a truism that no public expenditure can ever truly be space-blind, and part of the awkwardness around the use of EU funding for Lisbon and Cohesion Objectives concerns the balance between 'pure' competitiveness-enhancing investments and 'pure' solidarity transfers.

4.2 What to fund and how?

A statement of the obvious is that what cohesion funding is spent on is very varied. There is also a tricky normative issue about whether the primary purpose of Cohesion Policy is solidarity or contributions to economic development potential of less competitive regions or, for that matter, the EU as a whole and an ambivalence about how the EU adds value (Mairate, 2006). In considering richer Member States, it is therefore useful to explore whether there are priorities or classes of investment that can be more readily justified than others for direct funding as opposed to other forms of intervention. Here attention also has to be paid to the broadening that has already taken place of what Cohesion Policy is asked to do and of prospective new tasks.

The House of Lords (2008: 28), for example, while agreeing that the common ground between Lisbon and regional economic development objectives justifies a focus in Cohesion Policy on innovation and human capital investment, asserts that the SCF should not be used for promoting climate change. To the extent that cohesion money is directed to such complementary objectives, it becomes much harder to argue that it should not also be spent in richer regions where there may be Community-level benefits. Moreover, there are other possible ways of slicing up the cohesion funding cake. Thus, the qualified support from countries like Austria and Finland for continuing EU Regional Policy in richer Member States seems to be predominantly motivated by the need to provide for Lisbon-related objectives in all regions.

Basic infrastructure may be a necessary condition for the development of lagging regions and thus justify high levels of grant-aided support, but the sorts of infrastructure enhancements that make sense in more developed regions could be funded predominantly by loan finance. Politically, an advantage of a loan mediated through the European Investment Bank is that it could be portrayed as being an EU-level policy intervention and thus explicitly linked to Cohesion Policy, yet one which does not call on the budget. EIB terms might also be more favourable than the region could obtain on its own. However, richer Member States are generally able to fund their borrowing on equally favourable terms and the manner in which any increase in loan funding for projects at regional level is treated in public accounts may have ramifications for aggregate fiscal debt as a percentage of GDP.

The Barca report (2009) argues that there is unlikely to be any single mix of ideal measures to include in a Cohesion Policy and therefore pleads for the EU to select a small number of policies which meet the criteria he sets out, but also allow concentration on key EU priorities. An important element in his proposals is that the priorities selected should command wide support. He discusses whether such concentration should be on priorities defined in terms of 'policies' such as infrastructure, research or transport, or in terms of issues, citing demographic change and environmental degradation, and argues that either would be acceptable. An extension of the Barca reasoning could be that a continuation of funding for richer regions should be the subject of a political judgement about the value of maintaining a policy that resonates with so many stakeholders, even if a subsidiarity logic points towards renationalisation.

On this alternative logic, funding for EU Regional Policy interventions in richer regions should continue to be made available, even if greater emphasis is placed on alternative forms of intervention. In the end it will be a political judgement that takes account of, on the one hand, constitutional factors and the realities of a politicised EU, and on the other, of the diverse economic and administrative arguments that bear on the case for Regional Policy in richer regions.

Annex – Synoptic table on arguments in favour of Cohesion Policy in richer regions

Argument	Sub-argument	Reasoning	Strength of argument	Does it support case for EU intervention in richer regions?	Does it support case for EU funding in richer regions?
Constitutional					
	Treaty obligations	Treaty requires cohesion policies; no restrictions by Member State indicated	Quite strong	Yes	Neutral
	Definition of regions	Treaty specifies richer regions	Strong	Yes	Yes
Political					
	Better use of public finances	Cutting support for richer regions, allows other priorities to be favoured	Strong	Does not exclude it	No
	Legitimation	Actors/citizens support it	Moderate	Yes	Yes, but could justify different intensity of spending
	Preferences of regional interests	Regions may support spending in richer regions even if MS does not	Questionable	Perhaps	Marginal
Economic					
	Redistribution	Primary role of cohesion is equalising	Powerful	Neutral	No
	Effects of integration	Source of problem is EU integration, hence so is remedy	Moderate	Yes	Perhaps
	Fiscal capacity	Richer Member States have resources to deal with regional problems, hence no need for EU resources	Quite strong	No	No
	Spillover effects	Regional policy is justified if there are cross-border spillovers	Can only be assessed empirically – dubious	Maybe	Maybe
	Confusion in purpose	Ambiguity about what allocative role Regional Policy plays in richer regions	Moderate	Confused	Maybe
	Wider economic role	Cohesion Policy has to support Lisbon aims as well as 'solidarity'	Reasonably strong, but contentious	Yes	Yes
	Regulating state aids	State aids in richer regions may have negative effect on poorer regions	Quite strong	Yes	Yes
Governance and administrative					
	Enhances governance	EU policy model leads to governance improvements	Previously strong, but may be fading	Yes	Maybe
	Cross-border policy operations	Requires spending in many Member States, not all of which are poorer	Strong	Yes	Yes
	Coordination options	Many of the gains can come through coordination mechanisms	Could become strong	Yes	No

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