

# Structural Funds in an Enlarged EU

## A Politico-Economic Analysis \*

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### **Abstract**

The enlargement of the European Union will now firstly influence the negotiations on the EU budget within the Financial Perspective 2007-2013. It is the aim of this paper to illustrate the bargaining positions of the member states. With the help of spatial rational choice models, the impact of different voting rules on the bargaining outcome are investigated. The results show that future accords on structural policy will be difficult to achieve as the preferences of the old and new member states substantially diverge.

**KEYWORDS:** European Union, EU budget, spatial modelling, structural funds.

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# 1 Introduction

The European enlargement of ten Central and Eastern European countries will heavily challenge the functioning of the European Union (Steunenberg (2002); Felsenthal and Machover (2003)). One of the main challenges concerns the future of the EU budget (Enderlein, Lindner, Calco-Gonzalez, and Ritter (2005); Feld, Kirchgässner, and Weck-Hannemann (2002); Le Cacheux (2005b)). For the first time now, an enlarged Europe has to bargain about the future long-term EU budget.

Relating to this, the negotiations on the Agenda 2007 are now entering a decisive phase. At the EU summit in December 2004, the Luxembourg Presidency failed to make rapid progress in the consultations on the financial framework 2007-2013. It has already become apparent that an agreement about budget questions involving up to € 1,000 billions will be even more difficult than the accord reached in 1999 on the ‘Agenda 2000’. Recently, some papers have dealt with the future EU budget (Buti and Nava (2003)). A few publications calculated the consequences of reform scenarios on the Financial Perspective 2007-2013 (Weise (2002); Richter (2005); Lefebvre (2005); Gros and Micossi (2005)). The EU budget consists mainly of regional and agricultural policies as 80% of the budget is spent on this.

Against this background and focusing on regional policy and structural funds this paper investigates the bargaining process using a spatial rational choice model. Of particular interest are the consequences of changing bargaining positions of EU member states in an enlarged EU. In accordance with most of the literature, this study concentrates on these aspects by focusing on intergovernmental bargaining (Moravcsik (1993); Pollack (2001)). Thereby it is assumed that national preferences regarding regional redistribution will largely determine the outcome of the negotiations.

The main research questions are: How likely is a reform of the current structural policy of the EU? If there are changes, in which direction will they go? Will there be more or less structural policy in an enlarged European Union? How will national preferences regarding structural policy shift in the EU-25?

In order to answer these questions the paper is structured as follows: The first section briefly illustrates the historical development of European regional policy. Section two then presents the theoretical and methodological approach used here. Subsequently chapter four presents the results of the empirical analysis. Finally section five concludes.

## **2 Regional policy and the EU budget**

In this section the basic elements of structural policy within the European Union are presented and related to their budgetary consequences. Firstly, the historical development of the policy area is described. Then the current state of structural policies is discussed. The third subsection deals with the proposals for the new financial framework 2007-2013.

### **2.1 Historical development**

The aim “to strengthen the unity of the (...) economies and to ensure the (...) harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions” was firstly introduced in the preamble of the EEC-Treaty in 1957. Initially, the European budget was very small and the expenditures were concentrated on Common Agricultural Policy (CAP) (Le Cacheux (2005a, p. 4)). Subsequently, EU regional policy developed incrementalistically. This development was enforced by the continuous enlargement processes of the Union. On the one hand the enlargement of Ireland, Greece, Portugal, Spain etc. highlighted the regional disparities within the European Community, which led to a strengthening of the regional policy (Begg (2005, p. 11), Blankart and Kirchner (2003, p. 12-22)). On the other hand the enlargement process has enabled payments of compensations (‘package-deals’). As a result, the European regional policy has developed continuously serving heterogeneous aims. Since 1988, the EU budget was passed within multi-annual perspectives (see appendix, table 5).

The current conception of regional policy was significantly shaped by various reforms: the reform of 1988 led to a duplication of structural funds until 1992 (compared to 1987). Furthermore the reforms of 1993 and 1995 led to a division of four funds to six Objectives within the period 1995-1999.

Nevertheless, within the 1990s the regional policy was increasingly criticised because of its amount, its lack of transparency and its centralised distribution (see Daugbjerg and Swinbank (2004), Baldwin, Francois, and Portes (1997); Weise (2002)). Against this background the European Council passed the ‘Agenda 2000’, a Financial Perspective for 2000-2006 (European Council (1999a)).

## **2.2 Distribution within the Agenda 2000**

The EU budget of the Agenda 2000 consists mainly of structural (35.8%) and agricultural (45.5%) expenditures (see appendix table 5, also: Gros and Micossi (2005, p. 5)). Added together these items add up to over 80% of the EU budget. As this paper focuses on regional policy, the main features are presented now. Due to the Agenda 2000, the number of Objectives was reduced from six to the three following:

*Objective 1* shall promote the development and structural adjustment of regions whose development is lagging behind. Objective 1 for the period 2000-2006 will be conferred on (a) regions whose per capita GDP is less than 75% of the Community average. Furthermore (b) the most remote regions<sup>1</sup>; which are all below the 75% threshold are supported. In addition areas eligible under Objective 6 for the period 1995-1999 pursuant to Protocol No. 6 to the Act of Accession of Finland and Sweden receive financial means. In total, within the period 2000-2006 over two thirds of the structural policy are spent on Objective 1.

*Objective 2* shall support the economic and social conversion of areas facing structural difficulties. These shall include areas undergoing economic

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<sup>1</sup>The most remote regions are the French overseas Departments, the Azores, Madeira and the Canary Islands.

and social change in the industrial and services sectors, declining rural areas, urban areas in difficulty and depressed areas depending on fisheries, defined on the basis of Objective criteria laid down in the legislative texts.

The member states proposed to the Commission a list of areas which meet the Objective criteria, subject to a population ceiling to be applicable to each member state. This population ceiling for each member state will be fixed by the Commission on the basis of the total population of the areas in each member state which meet the Community criteria, and the seriousness of structural problems assessed on the basis of total unemployment and long-term unemployment outside Objective 1 regions (European Council (1999a)). The total share of Objective 2 subsidies of the total regional policy amounts to 11% (€ 21.5 bn).

*Objective 3* will lend support to the adaptation and modernization of policies and systems of education, training and employment. It shall apply outside Objective 1. Each member state will receive a percentage of the total resources available for Objective 3 on the basis of its share of the total target populations of the Union yielded by indicators selected on the basis of the Objective criteria listed in paragraph 45 below. Objective 3 subsidies amount to 11% (€ 20 bn) of the total EU expenditures on regional policy.

Apart from these expenditures, the European budget was spent on the financial instrument for fisheries guidance (FIFG), “Community initiatives and innovative actions”,<sup>2</sup> means by the Cohesion Fund<sup>3</sup> and agricultural policy.

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<sup>2</sup>There are four Community initiatives, namely INTERREG (cross-border, transnational and interregional cooperation), EQUAL (transnational cooperation to combat all forms of discrimination and inequalities in the labour market) and LEADER (rural development). Generally the Community initiatives are accepted by the European Commission.

<sup>3</sup>Originally the cohesion fund was set up to strengthen further economic and social cohesion in the Union and solidarity among the member states by providing a financial contribution to projects in the field of the environment and trans-European networks. According to the Cohesion Fund those member states are supported that have a per capita GNP of less than 90% of the Union average. In total € 18 bn will be spent for the cohesion fund between 2000-2006.

## **2.3 Financial Perspective 2007-2013**

In 2004 the Commission published its proposal for the next budgetary Financial Perspective 2007-2013 (European Commission (2004)). The main changes put forward concern (a) the broad headings of spending and (b) the size of the budget.

Five new headings relating more closely to the Lisbon' aims have been suggested. These include "sustainable growth", "sustainable management and protection of natural resources", "citizenship, freedom, security and justice", "EU as a global partner" and "administration".

Much of the criticism has been about the increase of the size of the budget. The governments of the six largest net contributors already demanded in 2004 the total EU budget not to exceed 1% of gross national income (GNI), rather than the 1.25% ceiling of the Union's GNI. This demand was more or less adopted by recently published reports on the forthcoming budget (European Commission (2004); Sapir, Aghion, Bertola, Hellwig, Pisani-Ferry, Rosati, Vinals, and Wallace (2003); European Parliament (2003)) proposing a financial limit for the total European budget of between 1% and 1.15% of GNI. The talks on the long-term budget plans for the EU collapsed in June 2005. Finally, it was not possible with the compromise formula (1.06% of GNI) to find an agreement for the enlarged EU-25. From 1 July 2005, the UK took over the Presidency of the EU. It is likely that the UK is going to initiate a debate on the long-term future of the European budget.

## **3 Theoretical and methodological background**

In this section the theoretical and methodological ground for the empirical analysis of future EU structural policy within the Financial Perspective 2007-2013 is presented. The section is divided into three parts: Firstly, a bargaining model of EU structural policy is discussed. Secondly, the theoret-

ical concept of spatial models is introduced. Finally the spatial bargaining model is operationalised in relation to the analysis of EU structural policy.

### **3.1 A bargaining model of EU structural policy**

Following Bodenstein and Kemmerling (2005) EU structural policy can analytically be seen as a two stage bargaining process (see also European Council (1999b)). According to the intergovernmental literature (see e.g. Hug and König (2002); Moravcsik (1993, 1998)) on the *first level* of bargaining national governments negotiate on the total size of the structural funds per country and the general allocation criteria. At this stage, which is called the structural programming phase, a budgetary envelope is set and plans for the different Objectives are developed. Eligibility criteria for regional funding are an important subject in these discussions. The Commission has considerable agenda setting power via the introduction of (soft) eligibility criteria whereas sub-national authorities influence the selection of regions and the elaboration of the plans (European Council (1999b)). The decision-making at this stage ultimately lies in the hands of the member states.

The *second stage* consists of negotiations at the national level. According to the principles of ‘additionality’ and ‘partnership’ (Kohler-Koch (1996)) potentially eligible regions have to bargain with national authorities about the allocation of the national fund shares to the regions. This is by no means a mere technical implementation as e.g. political intention, strategy and capacity (co-financing) can differ considerably between the regions (Bodenstein and Kemmerling (2005)). The final allocation of structural funds on European regions thus results from complex multi-level governance processes. There are many case studies corroborating this analytical distinction (see e.g. Gualini (2003)).

The focus of this paper lies on the first stage of intergovernmental bargaining over structural funds. Therefore the medium-term re-allocation of structural funding in the EU is investigated.

## **3.2 Spatial models and the analysis of political decision-making**

The analysis is rooted in the institutional-rationalistic paradigm of analytical politics (Shepsle (1989); Tsebelis (1990); Aspinwall and Schneider (2000)). Policy outcomes are shaped by given preferences of actors and their interaction within a specific institutional setting. Here, spatial models (see e.g. Hinich and Munger (1997); Tsebelis (2002); Tsebelis and Yataganas (2002)) are used to analyse these questions. The general idea and the basic concept shall now be presented.

### **3.2.1 Assumptions and general idea**

Spatial analysis rests on certain assumptions regarding the preferences of actors. In the simplest case preferences are assumed to be symmetric, single-peaked, separable, equally salient and measurable on a cardinal scale (see Hinich and Munger (1997)). These assumptions bear consequences for the theoretical analysis and are rarely met in empirical reality. For the sake of analytical clarity and simplicity they are regularly assumed to hold, though.

The basic idea of the concept is the spatial representation of actors' preferences regarding different political issues. Every political actor has an ideal point, which can be localised in the policy space of the respective policy field. He prefers the outcome closest to his own ideal point to any other outcome. For  $n$  policy variables the preferences of actors can be analytically represented in a  $n$ -dimensional policy space which results mathematically from the Cartesian product in  $\mathbb{R}^n$ . Against this background it is possible to analyse comparatively the policy positions of different actors.

### **3.2.2 Analytical concept**

The theoretical concept aims to explain policy stability and policy change under a given institutional setting and preference distribution. If the status quo is changed, one can roughly predict the direction of this change. To

predict these outcomes the individual policy positions are combined applying game theoretic concepts. Under the assumptions of complete and perfect information, outcomes depend on the voting system and the location of the status quo (Hinich and Munger (1997)).

The theoretical concept of the core is defined as a set of policies that cannot be beaten by any other alternative under a given decision-making rule (see e.g. Tsebelis and Garrett (2001). Actors possess veto power (i.e. they are veto players), if their ideal point lies within the core. Accordingly every actor is interested in being located close to or inside the core. Depending on the decision-making rule an unanimity core or a qualified majority core results. The core simplifies the analysis as it allows to abstract from the location of the status quo.

The size, location and shape of the core depend on the ideological distances of the actors (their respective ideal points), their number and their distribution (see Tsebelis (1995, 2002)). In the following the size and the location of the core centre as well as the actor's relative position to the centre of the core are interpreted. The bigger the size of the core, the more policy positions exist that cannot be changed. A positional shift in the centre of the core indicates the general direction of possible policy changes. If the actor's distance to the centre of the core increases, the policy change is not likely to be embraced by this actor. If the distance shrinks, he will support the reform.

### **3.3 Model operationalisation**

In this section the operationalisation of the bargaining model on the medium-term perspective of the EU structural policy is presented. It is the principal aim to build a spatial model that reflects the bargaining process between the member states as well as possible.

Three different points are to be addressed: First the selection of quantitative indicators is justified. Then the derivation of national preferences on regional policy from regional data is explained. At last different decision-making scenarios are discussed.

Tab. 1: Key indicators for structural policy

Objectives	Key indicators
(1) Promotion of regions whose economic development and structural adjustment is lagging behind	Regional GDP per capita in purchasing power parities
(2) Support for the economic and social conversion of areas facing structural difficulties	Regional unemployment rate (unemployed in relation to active population)
(3) Support for the adaptation and modernization of policies and systems of education, training and employment	Regional level of qualification (share of the active population with tertiary education)

Sources: European Commission (2005); own illustration.

### 3.3.1 Three dimensions of structural policy

Three quantitative indicators are used to operationalise the main features of structural policy in the EU. There have been no detailed proposals for a fundamental reorganisation of this policy field yet. Furthermore the existent structural Objectives are reflected, albeit stated in very general terms, in some preliminary propositions on the future of regional policy within the new financial framework (see e.g. European Commission (2004)). As it is the aim to analyse the negotiations on the future EU budget and on structural funds especially, it is not possible to avoid that possible reform proposals are part of these ongoing discussions. That is why the indicators are related pragmatically to the current state of regional policy. Table 1 documents the key indicators chosen.

The analysis is limited to three indicators – one key indicator per Objective. For Objectives one and two the selection is rather clear, because these Objectives are defined by quantitative targets (see European Council (1999b)). With regard to Objective 3 the choice of a key indicator is more problematic as eligibility criteria are not explicitly quantified. For technical

reasons (primarily data availability) an indicator for the regional qualification level is used.

The descriptive statistics of the indicators at the regional level for the year 2003 are presented in table 6 (see appendix). Comparing the status quo of EU-15 with EU-25 one can easily see that Eastern enlargement implies substantial consequences for all Objectives of structural policy. The regional average of GDP per capita (Objective 1) decreases by more than € 1,700 whereas the average regional unemployment rate (Objective 2) rises by 0.8 percentage points. Only the qualification level (Objective 3) remains stable. The same pattern holds for the variance of the indicators for Objectives 1 and 2. Regional disparities increase sharply in these two dimensions. However, the level of highly qualified people does not change in an enlarged union of 25.

The empirical analysis is based on regional data at the NUTS 2-level (see European Commission (2003)). The current distribution of structural funds varies between NUTS 1 and NUTS 2 depending on the administrative structure of the respective country.

### **3.3.2 Deriving national preferences from regional data**

One critical feature of any spatial analysis is a plausible (theoretical) explanation of actor's preferences. Relying on the regional data set used here it is possible to derive national preferences for regional redistribution in all three dimensions of structural policy. This empirical approach is inspired by the work of König and Bräuninger (2004). They deduce national preferences on the theoretical grounds of a tax payer model. Here, a more intuitive, empirical approach is used.

For a consistent interpretation of preferences the regional indicators have to be standardised. Two of the three indicators are therefore linearly transformed, the regional GDP per capita (Objective 1):

$$\text{Standardised indicator Obj. 1} = 100000 - \text{Indicator Obj. 1} \quad (1)$$

and the qualification level (Objective 3):

$$\text{Standardised indicator Obj. 3} = 1 - \text{Indicator Obj. 3} \quad (2)$$

The standardised indicators are perfectly correlated with the original indicators but they directly measure regional need for structural funds. To give an example: the higher the value of the standardised indicator for Objective 1 the lower the GDP per capita and consequently the higher the demand for structural funds money.

The intuition behind the method to derive national preferences for regional policy rests on three assumptions:

- The more regions the member state has above the EU average, the more it prefers greater regional redistribution.
- The greater the distances of the ‘regions in need’ are to the EU average, the more the member state prefers greater regional redistribution.
- National preferences for structural policy depend on the relative need of regions in comparison to other European regions.

The starting point to operationalise these assumptions is the semi-variance, which is a statistical concept for conditional heterogeneity and defined as follows:

$$s^2 = \frac{1}{n} \sum_{i=1}^n (x_i - \bar{x}_t | x_i > \bar{x}_t)^2 \quad (3)$$

For technical reasons (outliers in the data) the arithmetical mean  $\bar{x}_t$  is replaced by the median  $\tilde{x}_t$ . For a better interpretation the square root is taken on the whole expression:

$$p = \sqrt{\frac{1}{n} \sum_{i=1}^n (x_i - \tilde{x}_t | x_i > \tilde{x}_t)^2} \quad (4)$$

The algorithm is applied to all three indicators and every member state. The index  $i = 1, \dots, n$  represents the number of regions per country. The

subscript  $t$  at the median indicates, that it is calculated over all  $j = 1, \dots, t$  regions in Europe. The resulting vector  $p$  contains national preference values for every member state.

Only the regions above the EU median are relevant for the calculation (conditional variance). The theoretical assumptions are met by the indicator, its value increases with the number of needy regions and their distance from the EU average. If there are no regions that fulfil the condition, a preference value of zero results. Moreover the preference indicator is a relative measure, subject to changes in the included regions. If the median is altered by the inclusion of the 10 new member states, the preference values for the old member states also change.

The descriptive statistics of the indicators at the regional level for the year 2003 are presented in table 2. Comparing the status quo of EU-15 with EU-25, the effects of Eastern enlargement on the national preferences are striking (see also figures 7 to 9 in the appendix). Looking at Objectives 1 and 2 the preferences for regional redistribution increase on average. For instance, based on the indicator GDP per capita, the average preference for structural policy even doubles. Furthermore the national heterogeneity rises sharply for both Objective 1 and 2. In contrast the preferences in dimension 3 hardly change, actually they decrease slightly on average. The problems of the new member states' regions are much more attributed to the areas economic development and employment and much less to the qualification level of their labour force.

The above mentioned problem of correlation between different preference dimensions arises to a certain extent for all indicators (see appendix, table 7). The only serious case is the correlation between Objectives 1 and 3 for the EU-15, though. To ensure comparability of the three indicators in the subsequent graphical and mathematical analysis, the preference indicators are z-standardised. Therefore they are measured in standard deviations from their respective means.

Tab. 2: Descriptive statistics, national preferences for structural policy

	Obs.	Mean	Std.Dev.	Min.	Max.
EU-15					
Objective 1	15	2295.00	1902.27	0.00	6092.69
Objective 2	15	2.48	2.81	0.00	7.92
Objective 3	15	0.04	0.05	0.00	0.14
EU-25					
Objective 1	25	4521.17	4115.02	0.00	12054.95
Objective 2	25	2.92	3.57	0.00	13.14
Objective 3	25	0.03	0.04	0.00	0.12

Sources: Eurostat, Regional statistics; own calculations.

### 3.3.3 Different decision-making scenarios

As mentioned above (see subsection 3.2), the outcomes of intergovernmental negotiations do not only depend on the distribution of preferences but also on the institutional setting. For the empirical analysis we thus assume three different bargaining scenarios:

- unanimity;
- qualified majority of 80% of the member states;
- the ‘triple majority’ or the ‘Nice rule’.

The decisions on the new Financial Perspective and the future of European structural policy are made by unanimity, that is every member state has veto power. Solely relying on this decision-making rule, one could come to hasty conclusions. In reality, even if there is a formal unanimity criterion, not every actor has to agree with the negotiated outcome. Different factors are at play that very often enable compromises. For some of the member states the costs of a non-accord could be higher than an imperfect solution. Other nations are compensated in other policy fields (‘package deals’, see

e.g. Pollack (2001)). To simulate such situations we alternatively repeat our analysis under a qualified majority vote (QMV) of 80%. The rationale behind is, that most but not all of the nations have to accept the proposal.

The third scenario that is simulated here corresponds to the current rules for majority votes in the Council. It represents a so-called ‘triple majority’ of the Nice Intergovernmental Conference. The ‘Nice rule’ includes a qualified majority of weighted votes of the member states, the number of states and the total population of the EU (see Wessels (2001)). This decision-making rule quite accurately represents differences in the actual bargaining power of respective member states. For instance Italy and Portugal, albeit having similar interests in regional redistribution, possess very different bargaining weight in the negotiations. This third scenario could shed more light on possible outcomes with regard to the future of structural policy, as it approximates the empirical distribution of power between the nations.

## 4 Empirical analysis

This section presents the empirical results of the three dimensional spatial models.<sup>4</sup> The main research questions formulated at the beginning of the paper will be addressed. Firstly, how likely is a change in the current structural policy of the EU? Secondly, assuming there are changes, in which direction will they go? Thirdly, how will national preferences on structural policy shift in an enlarged European Union?

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<sup>4</sup>The following results are calculated with the software *Limed* by Bräuninger (2003). With the help of *Limed* and the software *Gauss* it is possible to calculate median hyperplanes in two or three dimensional policy spaces on the basis of (un)weighted votes. Median hyperplanes are multi-dimensional equivalents to median points (in one) or median lines (in two dimensions). In order to calculate the core the software *Qhull* is needed. The graphical illustration was made with *Mathematica*.

## 4.1 Stability vs. change in structural policy

The first question concerns the probability that the current state of structural funding is to be changed as a consequence of Eastern enlargement. An interpretation of differences in the size of the cores allows some general statements and quantitative elaborations. Figures 1–6 display majority cores under various scenarios. The axes are labelled according to the indicators presented in subsection 3.3. The distribution of the country positions on the axes follows the histograms of individual preference indicators (see appendix, figures 7–9).

First of all, the *scenario of unanimity* is analysed. With the help of figures 1 and 2 one can compare the situation in ‘Old Europe’ of 15 member states with an enlarged union. The size of the unanimity core demonstrates the preference heterogeneity in the EU-15. The size increases significantly (by the factor 1.7) due to the enlargement process. The volume of the core grows from 7.2 to 12.0 (see table 3 below). Consequently, Eastern enlargement will raise the heterogeneity in the EU regarding preferences on structural policy. This makes a policy change less likely, as every member state is a veto player and national interests are further apart.

How will this outcome change if the assumption of a strict unanimity rule is relaxed? Looking at the results of the *second scenario* (see figures 3 and 4), assuming a qualified majority of 80% of the member states, reveals that the cores are significantly smaller under QMV. In an EU of 15 member states the QMV core (0.146) is only two percent the size of the unanimity core (7.241). Policy change is therefore much more likely, if some of the countries could be compensated or do not insist on their position. Nevertheless, the general result holds: the size of the core under QMV increases considerably in an enlarged EU. The volume doubles from 0.146 to 0.340 (see table 3 below). Thus the probability of a structural funds reform diminishes by half.

The *third scenario* is thought to approximate actual bargaining power of the member states assuming the Nice voting rules (see figures 5 and 6). The cores are smaller than in the two other scenarios. This is of less interest here,

Fig. 1: EU-15 – Unanimity

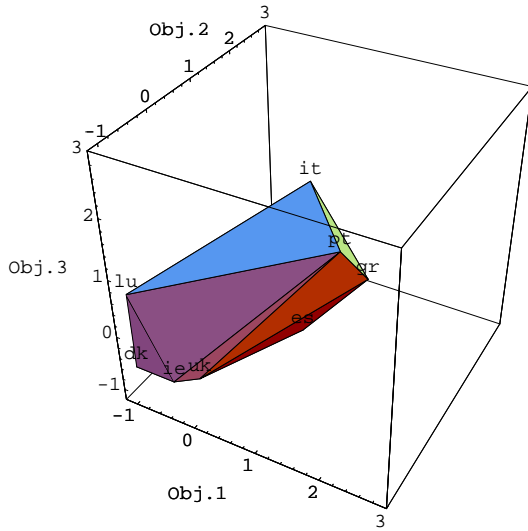
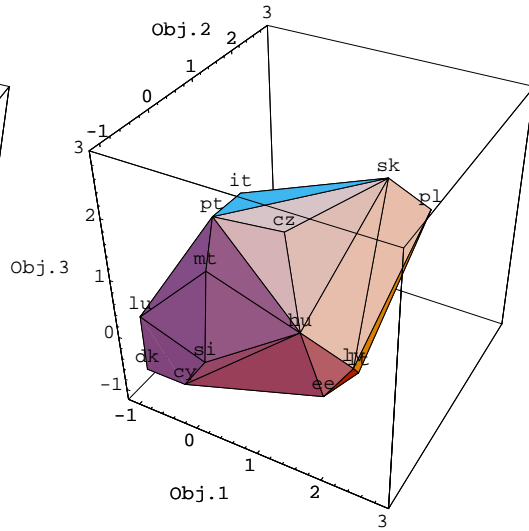


Fig. 2: EU-25 – Unanimity



Sources: Eurostat, Regional statistics; own calculations.

Fig. 3: EU-15 – Qualified majority

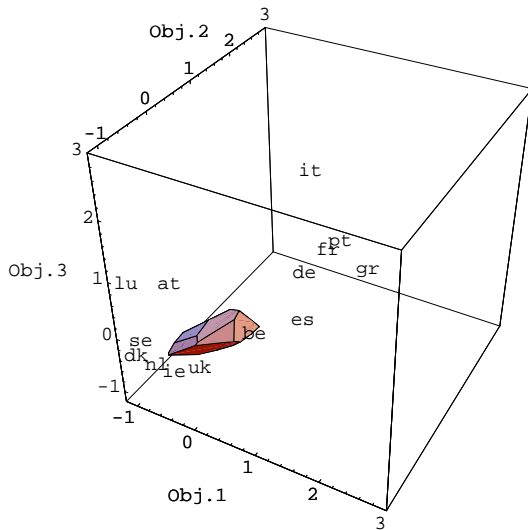
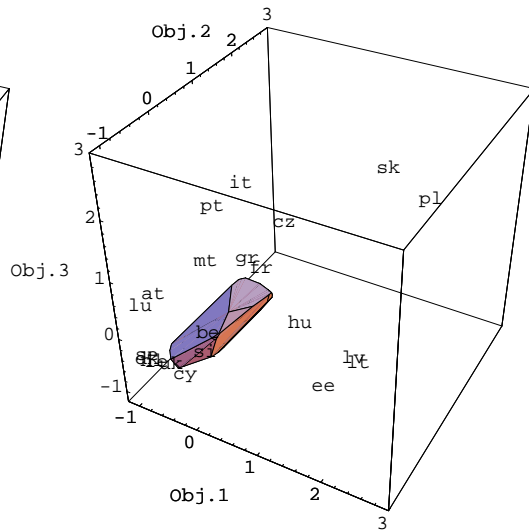


Fig. 4: EU-25 – Qualified majority



Sources: Eurostat, Regional statistics; own calculations.

Fig. 5: EU-15 – Nice rules

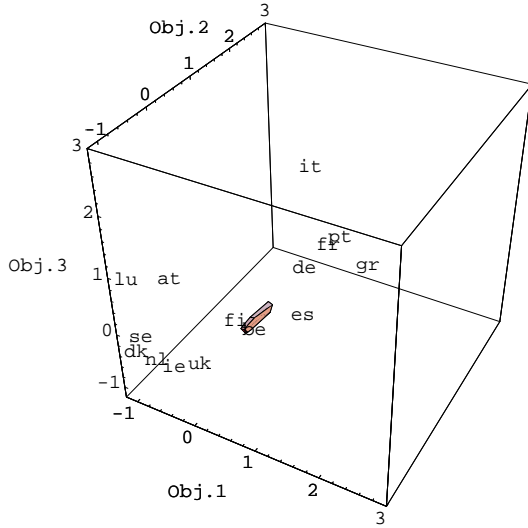
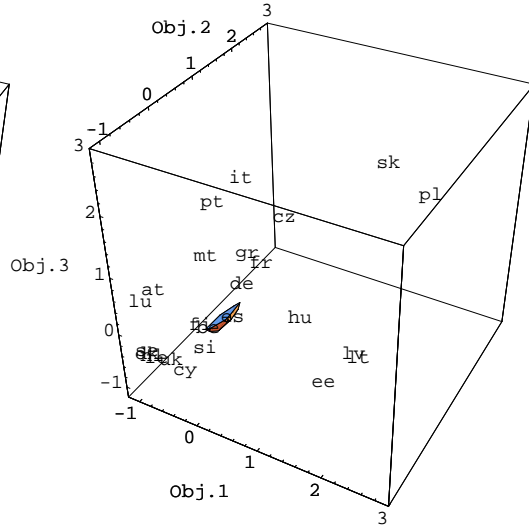


Fig. 6: EU-25 – Nice rules



Sources: Eurostat, Regional statistics; own calculations.

because the ‘triple majority’ is no formal criterion within the bargaining on the future of structural policy. The primary concern here is the change of the core in an enlarged union calculated on the basis of relative bargaining power. The finding again is that a reform of structural policy is less likely in an EU of 25 member states, as the size of the core more than doubles from 0.004 in the EU-15 to 0.011 in the EU-25 (see table 3).

The result seems to be quite robust. Decision-making in the field of structural policy will be more complicated in an enlarged union. This conclusion alone may seem trivial. However, the interpretation of the cores allows to quantify the general statement on the basis of an altered preference distribution in the EU-25. How much more difficult will future accords be? The different scenarios suggest that the probability of future reforms will diminish by about 50 per cent. Considering the challenges after the Eastern enlargement most of the literature calls for fundamental changes in structural policy of the EU (see e.g. Richter (2005); Lefebvre (2005)). However, the politico-

economic perspective of this paper shows that accords on such reforms will be twice as hard to achieve.

## 4.2 Structural policy reform in the EU-25

In which direction will reforms of structural policy likely go? Apart from the size of the core, the analysis of the location of the core centre indicates the trend of future reforms in the field of structural policy. In the case of unanimity Eastern enlargement will probably lead to more regional redistribution in all three observed dimensions (see table 3) as the centre of gravity increases for all indicators.

Compared to this result regional redistribution will be lower under the second scenario of a qualified majority. If not all member states have to agree on the future structural policy, a lower priority will likely be attributed to this policy field, as the centre of the core is characterised by lower preference scores in all dimensions. Moreover, the enlargement from EU-15 to EU-25 does not lead to more regional redistribution in every dimension. In EU-25 less structural policy will be preferred for Objective 2. The regional unemployment problems of some countries will decrease in relation to the steep unemployment in most of the new member states. Many of them will thus no longer profit from structural policy aid. The *third scenario* that takes into account the differences in national bargaining power also yields some interesting results. Firstly, there is more regional redistribution for Objectives 1 and 2 than under the simple QMV of scenario 2. Secondly, the preference for regional redistribution decreases in all observed dimensions.

In contrast to the first clear result, that structural policy reforms will be harder to achieve in an enlarged EU-25, the analysis thus provides no clear cut trend of future developments in structural policy. The outcome critically depends on the decision-making rule. There is going to be more regional heterogeneity in the EU-25. But that will not automatically lead to an intensified regional policy.

Tab. 3: Centres of gravity and volumina

Unanimity		
	EU-15	EU-25
Centre of gravity	( 0.189; 0.110; 0.069 )	(0.375; 0.163; 0.267)
Volume	7.241	12.036
QMV		
	EU-15	EU-25
Centre of gravity	(-0.242; -0.132; -0.311 )	(-0.193; -0.148; -0.117)
Volume	0.146	0.340
Nice		
	EU-15	EU-25
Centre of gravity	( 0.098; 0.297; -0.358 )	(-0.392; 0.210; -0.468 )
Volume	0.004	0.011

Sources: Eurostat, Regional statistics; own calculations.

### 4.3 National interests in a reformed structural policy

The enlargement of the EU influences national preferences regarding structural policy. On the whole the pattern of preferences of the old member states remains stable in an enlarged EU-25, as one can easily verify in figures 5 and 6). For instance, Italy and Portugal still have the strongest preferences for structural policy amongst the old member states. However, there is an obvious gap between a group of new member states (consisting of Poland, Slovakia, Latvia, Estonia, Lithuania and Hungary) preferring more regional redistribution and the rest of the EU.

Theory suggests that the distance of member states to the core reflect the bargaining power of a member state. Consequently, neglecting strict unanimity rule, the empirical results illustrate the power of the member states in the ongoing negotiations. The numbers are presented in table 4. Looking at the results for the EU-25 it is quite obvious that, with the exception of Cyprus and Slovenia, the new member states have the largest distances to the

Tab. 4: Distances to the gravity centres of the core

	EU-15		EU-25	
	QMV	Nice	QMV	Nice
at	1.28	1.67	1.07	1.42
be	0.76	0.46	0.90	0.49
de	1.58	1.07	1.08	0.63
dk	1.32	1.82	1.36	1.31
es	1.30	0.77	0.87	0.35
fi	0.73	0.61	0.98	0.57
fr	2.20	1.67	1.53	1.13
gr	2.57	2.27	1.02	1.40
ie	0.95	1.41	1.25	1.23
it	2.55	2.28	1.88	2.00
lu	1.49	1.97	1.15	1.38
nl	1.08	1.57	1.30	1.27
pt	3.44	3.36	2.41	2.87
se	1.14	1.67	1.32	1.29
uk	0.74	1.14	1.10	1.10
cy			1.04	1.11
cz			2.08	2.49
ee			1.80	1.90
hu			1.78	2.22
lt			2.12	2.12
lv			2.04	2.24
mt			1.59	2.09
pl			3.64	3.57
si			0.71	1.11
sk			3.18	3.24

Source: Own calculations.

gravity centre of the core. The strong preference for regional redistribution thus limits their bargaining leverage.

Among the old member states countries with high preferences for structural policy like Portugal or Italy have the largest distances to the core centre, which again limits their power in negotiations. For most of the old member states their distances to the centre of the core decrease in the EU-25. That can be explained by the extreme preferences of the new member states and indicates that future structural policy will be more influenced by the interests of the old members.

## 5 Conclusion

This paper discussed the future of structural policy in an enlarged EU of 25 member states. It focussed on the stage of intergovernmental bargain processes within the negotiations for the new Financial Perspective 2007-2013. A spatial rational choice model was employed and national preferences for regional policy were derived based on quantitative empirical data at the regional level. The following questions were addressed:

(1) How likely is a reform of the current structural policy of the EU? Whereas regional heterogeneity and the need for assistance in structurally and economically weak regions clearly increases in an enlarged EU, the results of the spatial model analysis show, that future accords on the extent and direction of structural policy are twice as hard to achieve compared to the status quo ante of 15 member states. This is to be seen as a significant aggravation of future reforms in EU structural policy.

(2) If there are changes, in which direction will they go? Will there be more or less structural policy in an enlarged European Union? Regarding this questions, the results are more ambivalent. Depending on the decision-making rule the equilibrium outcome is more or less structural funds within the following financial framework.

(3) How will national preferences regarding structural policy shift in the

EU-25? The relative distribution of the old member states (EU-15) remain stable within an enlarged union. Most of the new member countries show the highest preferences for regional redistribution. This bears consequences for the relative bargaining power in the ongoing negotiations. Because of their moderate preferences most of the older member states will thus have more bargaining power.

Obviously, the paper has its limits and weaknesses. The selection of indicators does not mirror the complexity of the Objectives in full. The results may be sensitive with regard to the indicators and data. Their robustness could be tested with alternative or a higher number of indicators. Related to this is the problem that the scenario analysis on the future of structural funds was based on the status quo Objectives. As the Objectives and eligibility criteria are part of the negotiations this results in an endogeneity problem. Finally the scope of our predictions is limited. The analysis is limited to structural policy neglecting other policies (e.g. common agricultural policy). Although the possibility of package deals is included the explicit consequences on the outcomes for structural policy are ignored.

Nevertheless, the paper combines a simple formal model with quantitative empirical data at the regional level. This analytical framework promises to be fruitful for other policy fields. It seems to be possible to further elaborate it both theoretically and empirically. On the basis of explicit assumptions and transparent methods it created testable predictions. Only the outcomes of the negotiations will show if the predictions withstand the empirical test.

## Appendix

Tab. 5: Multi-annual Financial Perspectives (1988-2013) (in Mio. €)

	DELORS 1	DELORS 2	AGENDA	FP
	1988-92	1993-99	2000-06	2007-13
1. Agriculture	28,440	36,503	42,534	
<i>CAP</i>	<i>28,440</i>		<i>38,196</i>	<i>43,011</i>
<i>Rural development</i>			<i>4,339</i>	<i>14,797</i>
2. Structural operations	10,628	25,200	30,430	
<i>Cohesion fund</i>		<i>2,164</i>	<i>12,104</i>	<i>49,273</i>
<i>Structural fund</i>		<i>23,035</i>	<i>27,859</i>	
3. Internal policies	1,862	4,512	6,261	21,609
<i>Competitiveness</i>				<i>18,965</i>
<i>Citizenship, security</i>				<i>2,644</i>
4. External actions	2,498	5,200	8,100	13,656
<i>External actions</i>	<i>2,498</i>	<i>4,629</i>	<i>4,580</i>	
<i>Emergency aid</i>		<i>271</i>	<i>200</i>	
<i>Loan guarantees</i>		<i>300</i>	<i>200</i>	
<i>Pre-accession aid</i>			<i>3,120</i>	
5. Administration	4,540	3,640	4,809	4,089
6. Monetary reserves	1,000	643	179	
<b>TOTAL</b>	<b>48,968</b>	<b>75,698</b>	<b>92,313</b>	<b>146,434</b>
Own resource ceiling (% of GNP)	1.18	1.23	1.27	1.24

Sources: European Commission, own calculations.

Tab. 6: Descriptive statistics, Regional Data (NUTS 2), 2003

	Obs.	Mean	Std.Dev.	Min.	Max.
EU-15					
Objective 1	213	21931.72	6508.76	12136.20	66760.90
Objective 2	210	8.19	4.99	2.00	31.80
Objective 3	194	0.23	0.08	0.07	0.46
EU-25					
Objective 1	254	20222.13	7402.51	6764.20	66760.90
Objective 2	251	9.02	5.68	2.00	31.80
Objective 3	235	0.22	0.08	0.07	0.47

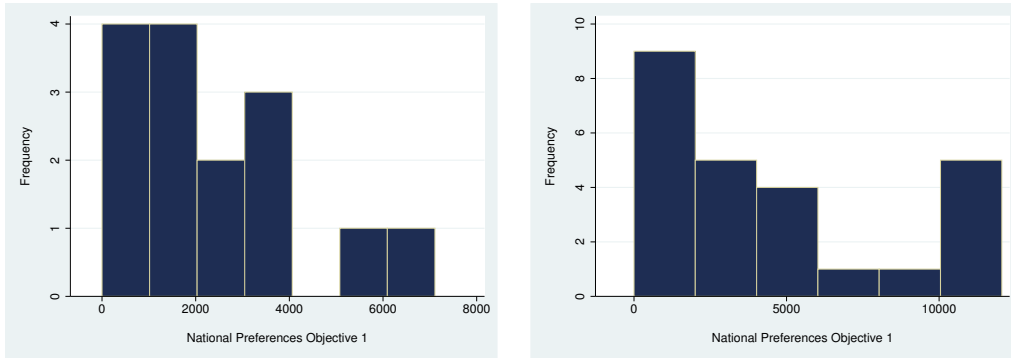
Sources: Eurostat, Regional statistics; own calculations.

Tab. 7: Correlations of national preferences

EU-15			
	Objective 1	Objective 2	Objective 3
Objective 1	1.0000		
Objective 2	0.4794	1.0000	
Objective 3	0.6061	0.1180	1.0000
EU-25			
	Objective 1	Objective 2	Objective 3
Objective 1	1.0000		
Objective 2	0.4946	1.0000	
Objective 3	0.3263	0.2383	1.0000

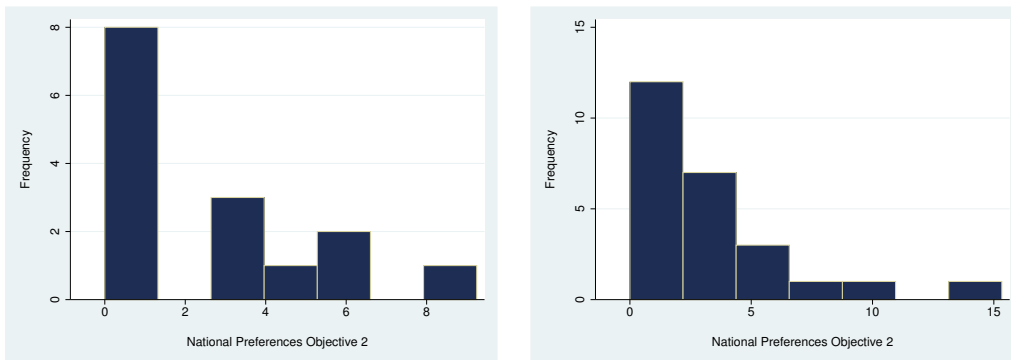
Sources: Eurostat, Regional statistics; own calculations.

Fig. 7: Preferences (Obj. 1), EU-15 and EU-25



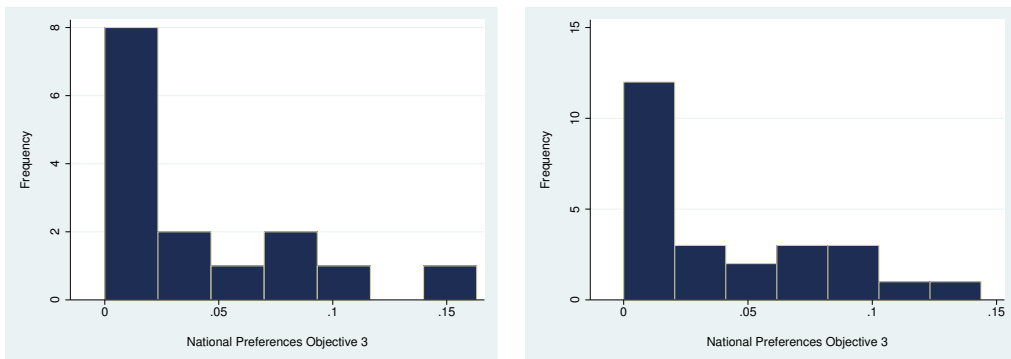
Sources: Eurostat, Regional statistics; own calculations.

Fig. 8: Preferences (Obj. 2), EU-15 and EU-25



Sources: Eurostat, Regional statistics; own calculations.

Fig. 9: Preferences (Obj. 3), EU-15 and EU-25



Sources: Eurostat, Regional statistics; own calculations.

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