Proposal for a measure of regional power in EU15 in the 2007-2013 bargain

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The idea behind this index is that powerful regions will be able to protect their interests in the allocating process. Thus, we can "measure" the power of regions, indirectly, by mean of the loss bore by them in the re-negotiating process. At this purpose it is important to underline that enlargement had as concomitant result that the regional disparities have doubled, so that the challenge for each region (and each state) is becoming very strong. Thus, the power of region (where and if it exists) has to emerge with particular evidence in this context.

In this work I propose an analysis that may be thought as divided into two main parts. The first one with the aim to provide a synthesis of the main results achieved in literature about this issue and in particular the debate between Multilevel-Governance and State Centric literature. In a second part, as I said before, I investigate the empirical evidence concerning the EU model of governance with particular attention to the EU regional policy.

The empirical evidence here considered is consistent with some assertion provided by Multilevel Governance literature.

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1. Introduction

In this paper I analyse the European Model of governance with particular respect to the EU regional Policy1 and to the states that became Member before the last two enlargement on May 2004 and January 2007. According to Bache(1996) writing this paper I asked my self: Who has the power to do what in the EU regional Policy?. But not only, indeed, I tried to find a method to "measure" the power of regions in each state.

A Manichean approach to this issue is constituted by the consideration of only two feasible model of governance: Multilevel Governance or State Centric governance.

[1] This choice should not appear strange since the term Multilevel Governance was introduced by Marks (1993) in the field of studies of the European Community and of the EU just at the precise purpose to characterise the European Community regional and structural policy.

According to the Multilevel Governance model, as result of European integration, authority and policy-making in EU are shared across multiple levels of government such as sub national actors, national actors and supranational actors. This is equivalent to assert that EU institutions have an autonomous role in shaping the EU regional policy. Vice versa, according to the State Centric model, European integration does not challenge the autonomy of nation-state. This literature argues that supranational institutions exist only with the purpose to facilitate agreements but the power in the decision making process is ever in the hands of the Nation-state. European Institution are only instruments used by Member State, so we have to see the State as ultimate decision maker.

In what follow I refer principally to Hooghe and Marks (1996) work about Multi-level Governance and European integration to provide a political main stream theoretical framework. Regarding this point I suggest that the debate between Multi-level and State Centric model may be described in term of decision making costs using the framework introduced by Public Choice theory (Buchanan and Tullock, 1962). This different approach has the advantage to put the question in an intuitively manner without loss of generality.

Once provided the main framework, I continue the analysis considering the empirical evidence of the EU regional policy and in particular the allocation of EU Cohesion funds. Obviously, there many relevant factors that play a role in the allocation process (efficiency, lobbies, Gross Domestic Product level, etc.) but the idea here developed is that "older" Member State with powerful regions should be able to achieve a lower loss in the bargaining process. It is not casual that I refer to the loss concept; indeed, because of the recent enlargement processes the "first generation" Member State lost part of their previous financial aid from the EU, but the amount of this loss is different across them in a sensitive manner.

The novelty presented in the present paper is the introduction of a (way to) "measure" the power of regions using data concerning the result of the funds allocation process. It is evident that this is a very coarse method, but in my point of view it may be an useful start point for further analysis.

For example, the list obtained using this method is consistent to what Bomberg and Peterson (1998) argue about the "role of sub-national authorities in the European Union Decision Making (process)". In their paper they focus on the different power of regions in

United Kingdom and in Germany arguing that the former state has less powerful regions (also) because of a different constitutional framework[2].

The paper is organized as follows. In section 2 preliminary results achieved in literature about models of governance in EU are presented; in section 3 I point to the relevance of the Public Choice framework of "Decision Making" process as valid alternative approach. Section 4 briefly shows data concerning empirical evidence about Regional Policy and provide the construction of the regional "power-index". Some comments and concluding remarks are provided in section 5.

2. Literature review

Before starting with the analysis of the empirical evidence I would like, very briefly, provide a theoretical framework. At this purpose we can refer to a dualistic approach using two models: Multilevel-governance versus State Centric model.

According to State Centric model European Integration does not challenge the autonomy of nation-state because supranational institutions exist to facilitate agreements but we have to see the State as ultimate decision maker**.**

What state-centric theorists argue is that EU institution like, for example, Council of Ministers, camouflage state sovereignty without undermine it. Moreover, by mean of EU institution the state power is increased[3] or at least non reduced (see, for example, the veto power).

According to Multilevel Governance theorists, instead, as result of European integration authority and policy-making in EU are *shared* across multiple levels of government such as sub national actors, national actors and supranational actors. EU institutions have an autonomous role in shaping the EU regional policy. Nevertheless, it is important underline that the Multilevel Governance theory[4] the state remain the most important actor but not the unique. At this purpose are invoked many problem in maintain

[2] In their paper they consider many other factor like informal channels, general coalition building, national coalition building, etc.
[3] They use the difference between zero-sum power conception and positive-sum power conception referring to the latter.
[4] Jordan (2001) (cited in Bache (1998)) identifies seven key criticism of multi-level governance as applied to EU. One of these is that it provide a description but it is not a theory.

the whole control of policy in the EU arena: principal-agent problem, coalition building, imperfect information.

In this field it was argued that "*The European Commission has* […] *sought to exploit the implementation of structural fund spending in order to further cause of multilevel governance in the EU encouraging the participation of regional and local government…*"(Allen, 2005). How successful was this action?

General speaking, structural funds is giving a greater role to regional institutions in the administration of public policies: regionalism is view as the best means of achieving cohesion, growth, competitiveness, sustainable development and employment.

Nevertheless, the primary rule governing the ERDF required unanimity in the Council. So we observe a strong State centric begin.

The SEA(1986) for the first time linked the idea of cohesion to the reduction of regional disparities. The basic parameters of this agreement were established by high-level intergovernmental bargaining. So we had still an empirical evidence of the State Centric model, at this stage.

The TEU(1991) retained the cohesion objective and extended the structural funds to include a new Cohesion fund. Remarkably it was established a Committee of Region (CoR), but required only that it be *consulted* with regard fund allocation and implementation (as the previous Consultative Council of regional local Authorities had only a consultative role). This Committee has struggled to play a significant role in EU policy-making and it was noted that variation in political influence between different actors are greater *across* countries than *within* them.

Thus, we can argue that the current institutional framework enable regional and local interest to participate in the implementation stage, but this should not be confused with multilevel governance, what we can say exist is only a *multilevel participation*.

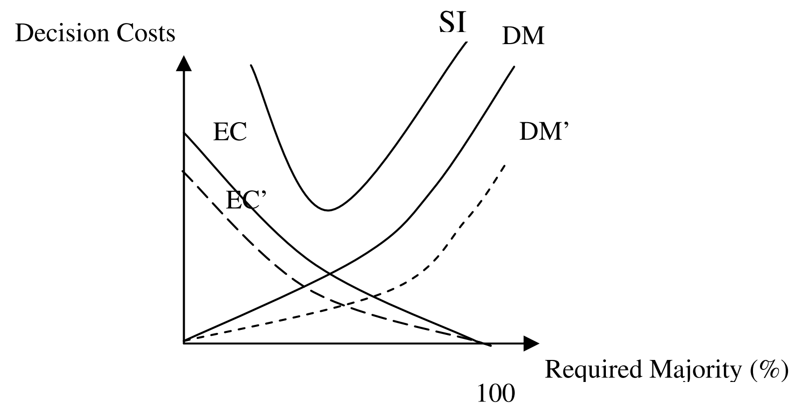
In what follows, after introduced in section 3 a possible synthesis of the two approach, I propose a measure of the regional power in each state of the EU15.

3. A Public Choice interpretation of the EU model of Governance issues

A significant shift in approaching this issue may be obtained using a Public Choice's framework.

In this section I propose to use an analysis of the EU model of governance based on decision making costs shown by Buchanan and Tullock(1962). At the end of this section I should demonstrated that this scheme, even if extremely concise with respect to the scheme developed above, is "equivalent" to it in the sense that give us the same power of analysis using a more intuitive approach.

The graph below represent costs related to a particular decision making process.



Graph 1

DM curve represents decision-making costs, that is total of all bargaining efforts necessary for reaching a decision. The EC represent external costs. that is the sum of all disadvantages of different kinds that hit the voter as a consequence of a decision that is not supported.

It is clear that decision-making costs (or transaction costs) increase as the majority required for a decision increases. When the decision rule approaches unanimity the costs increase rapidly. As for the external costs it is obvious that, if unanimity is required for a decision, there can be no such costs at all. The external cost curve therefore has the value 0 for the decision rule 100% and decrease with increasing majority required for the decision.

The sum of the decision-making costs and the expected external costs is called social interdependence costs (SI curve in the graph) and it has point of absolute minimum when DM curve match the EC curve.

Let assume that the government is able to represent the real DM curve, valid for any different actor (this assumption may be removed to complicate the analysis).

Following this figure we can say that, according to the State Centric point of view, the EU institutions change only the position of the DM curve without changing decision maker; while, according to Multilevel Governance approach, EU institutions may change not only the position of the DM curve, but also its form because of the change in actors involved.

Even if we reject part of Buchanan and Tullock's formalism some of the essentials remain however. Structural funds may be view in this framework. In particular, structural funds may be used to lower the EC curve, or may be used to change both DM (if we remove the previous assumption on DM curve) and EC curve.

Indeed, considering that EU structural funds budget is too small to have significant macroeconomic effect, it was argued that regional fund policy "…is essentially a justification for expenditure that is best thought of as compensation for the impact on a country or region of being part of a wider and integrated European economy"(Allen ,2005). But this not enough; changing our point of view, i.e. changing our approach, we can start with many different analysis.

One can be interested, for example, in "drawing" the exact DM curve using data on number of meeting, research and information required to achieve agreement in such particular issue. This is, obviously only a little suggestion for future researches.

4. The empirical evidence: proposal for a measure of regional power

In this section I propose an empirical analysis concerning the issue treated above. It is important to point out that while theoretical models introduced distinguish four phases[5] to investigate (potentially) each phase separately, in this analysis, only the final outcome of allocating process is observed. Thus, I will try to "photograph" the result trying also to reconstruct some information on the underlying dynamics.

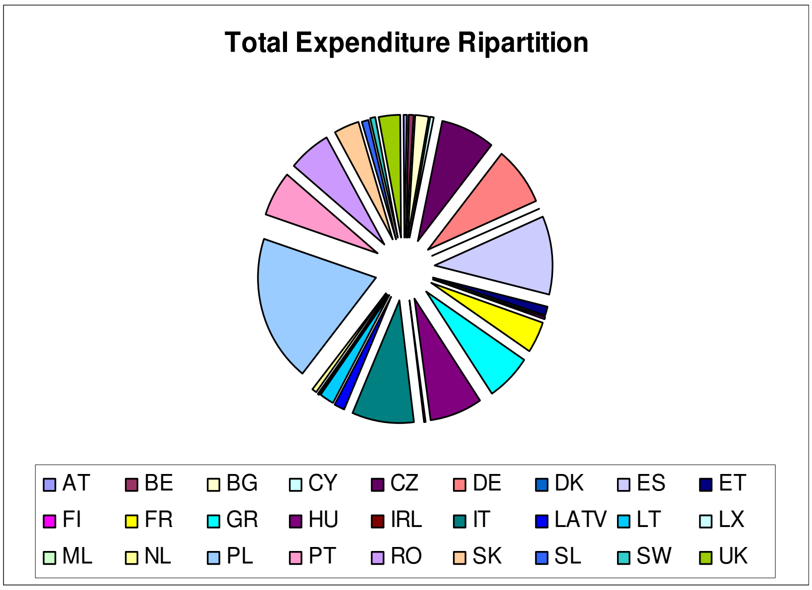
First of all let me introduce some data. The table 1 (page 8) shows the total indicative allocation of regional funds for the 2007-2013 period. In this table I put together data available separately (for each State) on the InfoRegio website. Data reports all type of regional funds allocated for the period 2007-2013 as "indicative allocation".

		Convergence			Regional Competitiveness and Employment		European Territorial Cooperation	Total
		Cohesion Fund	Convergence	Statistical phasing-out	Phasing-in	Competitiveness		
		CF	CONV	Ph-O	Ph-I	COMP	TC	
Austria	AT			177		1.027	257	1.461
Belgium	BE			638		1.425	194	2.257
Bulgaria	BG	2.283	4.391				179	6.853
Cyprus	CY	213			399		28	640
Czech Republic	CZ	8.819	17.064			419	389	26.691
Germany	DE		11.864	4.215		9.409	851	26.339
Denmark	DK					510	103	613
Spain	ES	3.543	21.054	1.583	4.955	3.522	559	35.216
Estonia	ET	1.152	2.252				52	3.456
Finland	FI				545	1.051	120	1.716
France	FR		3.191			10.257	872	14.320
Greece	GR	3.697	9.420	6.458	635		210	20.420
Hungary	HU	8.642	14.248		2.031		386	25.307
Ireland	IRL				458	293	151	902
Italy	IT		21.211	430	972	5.353	846	28.812
Latvia	LATV	1.540	2.991				90	4.621
Lituania	LT	2.305	4.470				109	6.884
Luxembourg	LX					50	15	65
Malta	ML	284	556				15	855
The Netherlands	NL					1.660	247	1.907
Poland	PL	22.176	44.377				731	67.284
Portugal	PT	3.060	17.133	280	448	490	99	21.510
Romania	RO	6.552	12.661				455	19.668
Slovakia	SK	3.899	7.013			449	227	11.588
Slovenia	SL	1.412	2.689				104	4.205
Sweden	SW					1.626	265	1.891
United Kingdom	UK		2.738	174	965	6.014	722	10.613
overall EU 27		69.577	199.323	13.955	11.408	43.555	8.276	346.094

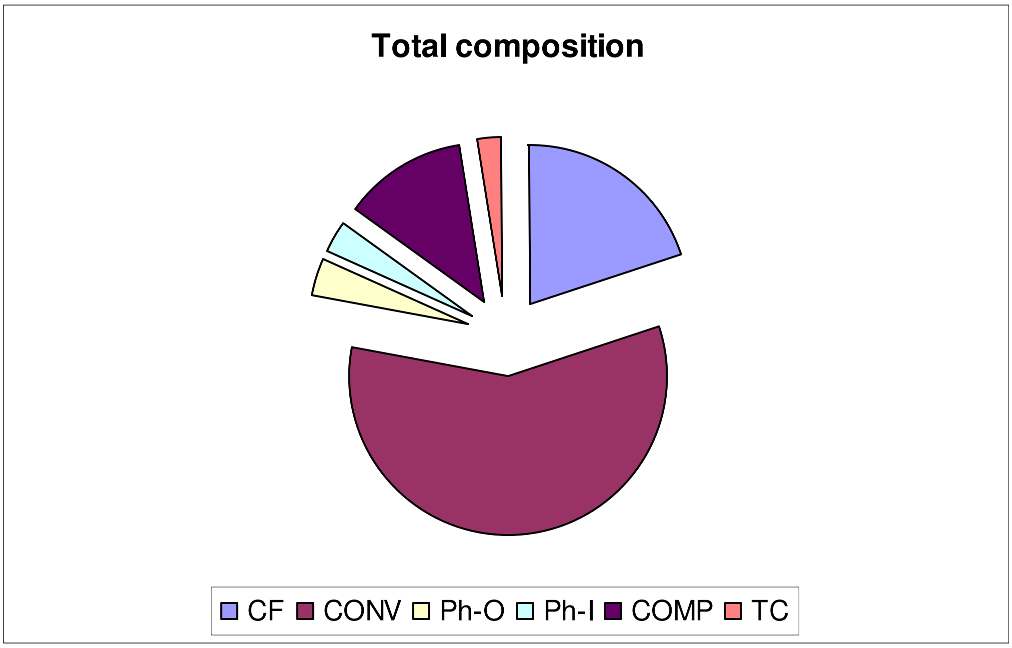
notes
Million EUR, current prices.
Source: my elaboration of InfoRegio data

[5] Formulation, allocating, negotiation, implementation.

Graph 2 show the repartition of total funds among states(a) and program (b)



Graph.2a



Graph 2b

Tab.1- total indicative allocation of regional funds for the 2007-2013 period.

For the purpose of this article it is most important to refer to a diverse re-elaboration of data available on InfoRegio. Table2 shows the total regional funds allocated in the 2000-2006 and the indicative allocation for the 2007-2013 period at 2004 prices to the end of comparison[6].

Total

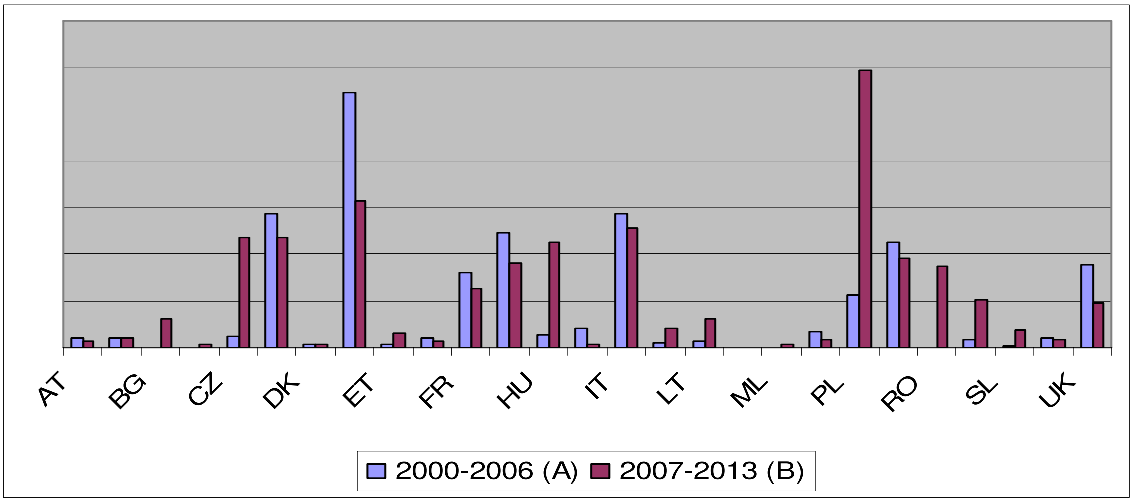
		2000-2006 (A)	2007-2013 (B)	variation C=B-A	variation D=(C/A)%
Austria	AT	1.930	1.297	-633	-32,80%
Belgium	BE	2.158	2.014	-144	-6,67%
Bulgaria	BG		6.032		
Cyprus	CY	108	579	471	436,11%
Czech Republic	CZ	2.404	23.638	21.234	883,28%
Germany	DE	28.833	23.391	-5.442	-18,87%
Denmark	DK	688	544	-144	-20,93%
Spain	ES	54.671	31.457	-23.214	-42,46%
Estonia	ET	615	3.050	2.435	395,93%
Finland	FI	2.018	1.528	-490	-24,28%
France	FR	16.145	12.704	-3.441	-21,31%
Greece	GR	24.703	18.172	-6.531	-26,44%
Hungary	HU	2.837	22.395	19.558	689,39%
Ireland	IRL	4.113	813	-3.300	-80,23%
Italy	IT	28.801	25.583	-3.218	-11,17%
Latvia	LATV	1.031	4.080	3.049	295,73%
Lituania	LT	1.379	6.081	4.702	340,97%
Luxembourg	LX	99	58	-41	-41,41%
Malta	ML	81	759	678	837,04%
The Netherlands	NL	3.538	1.692	-1.846	-52,18%
Poland	PL	11.202	59.549	48.347	431,59%
Portugal	PT	22.496	19.099	-3.397	-15,10%
Romania	RO		17.273		
Slovakia	SK	1.544	10.239	8.695	563,15%
Slovenia	SL	423	3.729	3.306	781,56%
Sweden	SW	2.194	1.678	-516	-23,52%
United Kingdom	UK	17.622	9.444	-8.178	-46,41%
overall EU 27		231.633	306.878	51.940	

notes
Million EUR, 2004prices.
Source: my elaboration of Inforegio data

Tab. 2- total regional funds allocated in the 2000-2006 and the indicative allocation for the 2007-2013

[6] Even if the same table regarding each state says that c*omparisons need to be made with great caution given the change in regional eligibility, and the number and nature of the objectives in the two programming periods*, I think that the type of comparison that I am going to do has a sense because use the previous (2000-2006) amount t achieve a relative measure and do not to compare directly the values.

A graph may be useful to approach data shown in Tab.2 The Graph 3 below shows the total amount of founds allocated in each state in the two periods considered.

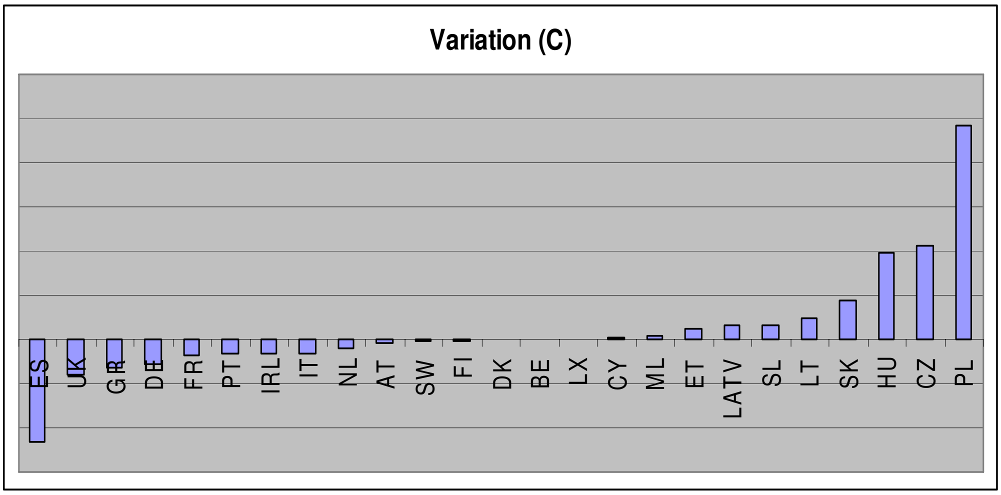


Graph.3

The fifth column of Tab.2 shows the gain (achieved) or the loss (bore) by each state in that bargain process regarding the regional funds. It is evident that many factors and actors are involved in this process and it is really difficult to separate one from the other.

It is also evident that the enlargement on 1 May 2004 increased the population of the European Union by 20%, but the GDP by only 5% with a concomitant result that the regional disparities have doubled; thus, no one of New Member States contribute to increase the EU GDP. This means that the EU15 Member States has to bear a loss in the 2007-2013 period, but it is proper this facts that may stress the power of regions to manifest it self in order to do not loss "too much".

All this empirical evidence may be put in an intuitive way looking at Graph.4 where negative and positive value separate also EU15 Member States and New Member States.



Graph.4

Numbers shown in "C" column are a very coarse measure of this loss, "D" column, instead represents the "relative loss" and can be seen as a primitive "index" in the sense that it is "net" from the structural variables (like efficiency in administrating regional funds) because of the relatively short period considered. I would say that only six years are not enough to radically change the ability (based on efficiency consideration) of such state to deal with the EU regional funds. Put differently, according to "D" column we compare each state with its previous performance, and even if there will be great differences in efficiency across states, with respect to the same state it is difficult to argue a radical change in efficiency considering a sample of only six years. Thus, I suggest to interpret the difference as a primitive measure of the regional power. The higher the power of regions in each state the lower (will be) the loss bore by them.

The "game" I propose in order to measure the ability of regions in protect their interest is very simple. I ranked, increasingly, data available in Tab.2 according to the sixth column. Result are reported in Table3.

	Variation %
Ireland	**-80,23%**
The Netherlands	**-52,18%**
United Kingdom	**-46,41%**
Spain	**-42,46%**
Luxembourg	**-41,41%**
Austria	**-32,80%**
Greece	**-26,44%**
Finland	**-24,28%**
Sweden	**-23,52%**
France	**-21,31%**
Denmark	**-20,93%**
Germany	**-18,87%**
Portugal	**-15,10%**
Italy	**-11,17%**
Belgium	**-6,67%**
Latvia	**295,73%**
Lituania	**340,97%**
Estonia	**395,93%**
Poland	**431,59%**
Cyprus	**436,11%**
Slovakia	**563,15%**
Hungary	**689,39%**
Slovenia	**781,56%**
Malta	**837,04%**
Czech R.	**883,28%**

Tab.3-Variation in funds allocation

How to interpret data shown in tab3.? First of all, we have to separate the positive value form the negative according to the reasoning developed above. Within the negative values an higher absolute value means a “weakness” of regions and vice versa. The idea is that central state is less “efficient” in protect regional financial interests than the region itself. So that, state are ordered in an increasingly way according to regional power within itself: where regional power is least –recall that our measure has lower absolute numbers for higher levels of regional power –regional performance is best.

To provide a more intuitive measure in what follows I provide a table (Tab.4) where data about EU15 are normalised to 1 and ordered in increasingly order. Thus, in this table –differently to the former- states appear in direct correlation with regional power. In this sense I use “R” like an index of Regional power. It gives the same quality of information but in a different (and more intuitive) way.

	R
Belgium	**0,01**
Italy	**0,02**
Portugal	**0,03**
Germany	**0,04**
Denmark	**0,05**
France	**0,05**
Sweden	**0,05**
Finland	**0,05**
Greece	**0,06**
Austria	**0,07**
Luxembourg	**0,09**
Spain	**0,09**
United Kingdom	**0,10**
The Netherlands	**0,11**
Ireland	**0,17**

	1,00

Tab.5- R index

Note that the list is consistent, for example, with Bomberg and Peterson (1998) asserts that “*British SNAs* [Sub National Authority] *have* […] *been virtually powerless…*” and that “*in contrast to the UK* [Germany] *features strong regional governments…”*. Moreover, Italy that performed a constitutional reform in 2001 to increase the power of regions (so called *federalist reform*) seems have achieved some result according to this index.

Once more, it is important to underline that this index (R) is still a very coarse measure. It does not consider many relevant factor that play a crucial role in the allocation process. My purpose is only to suggest a different way to think about this argument. The relevant point here is the simplicity of the approach used: point of strength and of weakness. Future researchs may "refine" this index using for example information regarding GDP or something else.

Note that even when the index is inconsistent with results achieved in political literature on regional power, it is important too. In that case a question arise: why "powerful" regions lost financial resources in the bargaining process?

5. Conclusions and remarks

In this paper I have analysed the European model of governance with particular respect to the model that governs the regional policy.

From the vast available literature it is well known the importance of two strictly alternative models: the Multilevel Governance model and the State-Centric model. Both model use "political" consideration to shape the power of region (Sub-national actors) and Supra national actor. I introduced a diverse approach based on Public Choice framework as *synthesis* of the two different model.

This paper, instead, pointed to a numeric measure of the regional power considering the final result of the allocation process in term of total amount received by each state in the 2000-2006 period and in the 2007-2013 period (prevision). Indeed, many structural change occurred in the EU regional policy as consequence of the enlargement in 2004, first, and in 2007 then. In this context EU15 Member State lost an important part of their previous financial aid from the EU. Nevertheless, the loss is very different across states. Starting from this empirical evidence I tried to use this different degree in loss to create as index of regional power in each state (R). The very simple index proposed is consistent with some political assertion (see for example Bomberg and Peterson (1998) about UK and Germany SNAs power).

It was underlined that this represent a very coarse measure, but the evidence of its coherence with some political -*strictu sensu* – analysis may be an useful start point for further interdisciplinary analysis. When it is inconsistent with literature or political consideration, in general, it is useful to rise the question: why "powerful" regions lost financial resources in the bargaining process?

Obviously, this index is unable to answer the question. Some particular result may need a separate explanation and other relevant factor may be considered in the future in order to refine this measure.

The analysis has moved by the purpose to analyze in an "original" way the existing relationship between Nation state and SNAs and this purpose may be considered achieved, the many points of weakness of this method is not, in my view, a problem at this stage.

Finally, note that the interpretation of the achieved results is based, not only on models of governance in the political sense, but also on the economic point of view related to the efficiency.

In fact, according to the second generation of (fiscal) federalism we can argue as follows. Regional policy often has its final result in supply public goods. In a multi-level government setting, each level of government should seek to maximize the social welfare of its respective constituency[7]. Even if outputs of some local public goods (such as roads) can produce interjurisdictional spillover benefits, there might still be welfare gains from allowing decentralized provision relative to a centrally determined output. Moreover, competition among decentralized governments, much like competition in the private sector, can limit the capacities of a monopolist central government to increase its control over the economy's resources offering significant gain of efficiency. Put differently, a higher degree of regional power can led to a higher degree of efficiency in dealing regional funds and, in turn, to an higher amount of financial resources allocated.

Both political and economic reasons are invoked to assert that the multilevel governance is preferable to state centric model of governance.

[7] At this purpose *The Decentralization Theorem* is clear: For a public good–the consumption of which is defined over geographical subsets of the total population, and for which the costs of providing each level of output of the good in each jurisdiction are the same for the central or for the respective local government–it will always be more efficient (or at least as efficient) for local governments to provide the Pareto-efficient levels of output for their respective jurisdictions than for the central government to provide *any* specified and uniform level of output across all jurisdictions (Oates, 2005)

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