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EU Cohesion Policy and Competing Models of European Capitalism*

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Abstract

EU cohesion policy as we have known it since 1988 is under threat. This contestation is best understood as part of a deepening struggle over EU governance, pitting neoliberals against proponents of regulated capitalism. Cohesion policy has been the flagship of European regulated capitalism. Political and policy pressures have unravelled the support base of this policy, but they have not undone the coalition in favour of regulated capitalism. The struggle between competing models of European capitalism has only just begun. This argument does not deny a role for functional imperatives, but it emphasizes that the link between them and policy outcomes is political.

I. Introduction

EU cohesion policy as we have known it since 1988 is under threat. With the policy up for review in 1999, budget cuts – after a prolonged period of rapid expansion to 35 per cent of total EU spending – are likely. Just as significantly, the rules of operation for EU cohesion policy may be rewritten in ways that dilute

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its key objectives. How can one explain the potential erosion of an extensively institutionalized EU policy, and what are the implications for EU governance?[1]

This article argues that contestation around EU cohesion policy is best understood as part of a deepening struggle between those favouring neoliberal capitalism in Europe and proponents of European regulated capitalism. In Section II, I describe the goals of EU cohesion policy against the background of these competing models of European society. I then examine alternative explanations for potential retrenchment. The fourth section analyses the politics of EU cohesion policy in the light of the tension between regulated capitalism and neoliberalism. While the support base for the 1988 cohesion policy has withered, a revamped anti-neoliberal coalition may form around a cohesion policy centred on employment. I assess the polity implications of such a shift.

II. European Regulated Capitalism and Cohesion Policy

The death of national Keynesianism and the liberalization of the common European market in the 1980s led to a reorganization of European political economy. This has forced political actors in Europe to stake out positions on two fundamental issues: the structure of political authority in Europe, and the role of the state – at whatever territorial level – in the economy. To what extent should market activity be regulated at the European level, and to what extent – if at all – should the European Union redistribute from rich to poor? In short, what form of capitalism do Europeans want?

Elsewhere, Gary Marks and I characterize two dominant contending models for organizing European society, which we label neoliberalism and regulated capitalism (Hooghe and Marks, 1998). Others typify the tension as one between a neo-American model and social democracy (Wilks, 1996), unfettered and institutional capitalism (Crouch and Streeck, 1997), unco-ordinated or co-ordinated regimes (Soskice, 1992, 1998), Anglo-Saxon versus the Rhine social market economy (Rhodes and Van Apeldoorn, 1997). For neoliberals, markets should be insulated from political interference by combining European-wide market integration with sovereign political regulation vested in national governments. This should generate competition among these governments in providing a national regulatory climate that mobile factors of production find attractive.

[1] Cohesion policy refers to the set of policies to 'achieve greater equality in economic and social disparities between Member States, regions and social groups' (as defined in the Commission's First Report on Economic and Social Cohesion 1996, p.15). This broad definition has no legal basis in the Treaties, which define cohesion policy more narrowly in terms of *particular* policies put in place in 1988 'aimed at reducing disparities between the levels of development of the various regions and the backwardness of the least-favoured regions, including rural areas' (TEU, Title XIV, Art. 130a, para 2). I shall refer to the narrow definition as 'current cohesion policy' to emphasize that it concerns one of several possible policies to pursue cohesion. The core instruments of current cohesion policy consist of the three structural funds and the cohesion fund.

Proponents of regulated capitalism want to create a European liberal democracy capable of regulating markets, redistributing resources, and shaping partnership among public and private actors. They contend that the single market works more efficiently if political actors provide collective goods such as European-wide transport and communications infrastructure, information networks, workforce skills, and research and development. So there is a role for positive as well as negative regulation at the European level. For similar pragmatic reasons, redistributive policies empower weaker actors so that they can compete in a liberalized market. And ongoing collaboration among public and private actors is likely to reduce costly social conflict and enhance mutual learning. So while one could justify positive regulation, solidarity, and partnership on ideological or ethical grounds, proponents of European regulated capitalism argue that they should be supported because they increase economic productivity.

The 1988 cohesion policy reform has been the bedrock of the anti-neoliberal programme. Though the immediate goal is to reduce territorial inequalities in the European Union, its larger objective is to institutionalize key principles of regulated capitalism in Europe. Until 1988, there was only a minimal European policy on cohesion: few resources, few common priorities, and no uniform institutional design. Initiatives and funding were fragmented, some in the margins of agricultural and social policy, and the larger part concentrated on regional policy. The European Commission wrote cheques, and each national government largely decided whether to involve domestic actors in designing and implementing projects. There were three times 12 different models for setting priorities and spending EU money – three for each country. The 1988 reform overhauled this minimalist framework to reflect core principles of European regulated capitalism. First, the money was doubled in 1988 and further increased by 50 per cent in 1993, considerably racheting up Europe's redistributional effort. Just as importantly, the criteria and rules of operation changed. The purpose was not to replace imperfect market forces or to pay off losers, but to upgrade the potential for indigenous economic growth in lagging regions by inducing public and private actors to create and share collective goods. For a national government to receive money, it was required to design and implement multi-annual EU-funded programmes in partnership with the European Commission and regional and local authorities (and social partners). A radical innovation of this policy was that these rules also applied in countries where subnational involvement in regional policy had been weak or absent in the past. The policy designers set up an elaborate structure of co-decision committees, rules and monitoring mechanisms, with the European Commission as general manager (for historical overviews, see Armstrong 1989, 1995; Cheshire *et al.*, 1991; Hooghe and Keating, 1994; Marks, 1992; Staeck, 1996). Key principles of European regulated capitalism – market-enhancing authoritative activity, solidarity and partnership – have been put in practice in EU cohesion policy since 1988.

The institutional design of current cohesion policy has broad-ranging implications for EU governance. At the meso-level, it promotes a change in governance from public steering of social processes to self-governing networks of public and private actors. Public authorities provide the institutional framework that reduces transaction costs and encourages highly organized social subsystems to mobilize indigenous resources (Kohler-Koch 1996, 1998). The result is that authoritative actors at European, national or subnational level are compelled to collaborate with private actors. At the macro-level, current EU cohesion policy is designed to give shape to a multi-level polity. It opens up intergovernmental bargaining among national governments to other governmental actors, and it upgrades limited collaboration among all these actors to more intensive, and more binding, commitments. This challenges state-centric governance in three ways: European institutions set general rules and co-ordinate; subnational authorities participate in making decisions; and the three parties are in a relationship of mutual dependency rather than hierarchy (Marks, 1996).

From the vantage point of traditional social policy, the objectives of the 1988 reform are modest. For one thing, the reformed EU cohesion policy gives priority to one type of cohesion problem: spatial economic disparities among regions (and to a lesser extent, local areas). Almost no emphasis is put on disparities between social groups and individuals within states, regions or local areas (McAleavey and De Rynck, 1997). Furthermore, the 1988 cohesion policy may actually impede efforts to create EU citizenship, because it supports programmes only to the extent that it helps economic functionality or alleviates particular financial needs, and it does not justify cohesion efforts as a social entitlement (Anderson, 1995; McAleavey and De Rynck, 1997). One might therefore argue that current cohesion policy is merely the least bad solution in an opportunity structure inhospitable to European social policy.[2] However, the purpose of European regulated capitalism has not been to emulate traditional social policies at European level, but to formulate a viable alternative to European neoliberalism as well as to ineffective national welfare politics (Hooghe and Marks, 1998). From that perspective, current cohesion policy appears far more effective.

The most influential advocate of European regulated capitalism has been former Commission president Jacques Delors (Delors, 1992; Ross, 1995). Most centre-left and, selectively, Christian Democratic parties in Europe have come to support the project, but the coalition also includes trade unionists, environmentalists, local and regional governmental actors, and even certain business representatives at national and European level. The project has strong backing from majorities in the European Parliament and the European Commission

[2] I thank Claus Offe for this observation.

(Hooghe and Marks 1998). Jacques Delors forged the link between this project and current cohesion policy in the years 1986–88. When the Spanish and Portuguese governments extracted a doubling of the structural funds as a side-payment for their consent to the internal market programme, Delors and his collaborators exploited this opportunity to reform the funds to the model described above (Hooghe, 1996b). In subsequent years, Delors and his allies lost no opportunity to emphasize how cohesion policy fed into their ambitious agenda. By the early 1990s, European regulated capitalism had gained significant support among strategic stakeholders of EU cohesion policy: Commission services, the European Parliament (particularly the regional committee), regional development experts, regional and local authorities and the various associations for regional and local interests.

However, the campaign for regulated capitalism and, as part of that, for cohesion policy, has only been a partial success. It has mobilized opposition from the Right. Even in the Commission, which should be the strongest supporter, opinions are divided. My survey of 140 top Commission officials in 1995–97 shows that 42 per cent give unconditional support to key components of a model of European regulated capitalism (extensive welfare services, social dialogue between both sides of industry, redistributive regional policy, and industrial policy within a market economy), while 39 per cent express reservations and 14 per cent reject it outright. Forty-six per cent of top Commission officials give EU cohesion policy their full support, but 30 per cent give it only qualified support and one out of five are opposed (Hooghe, 1998, 1999). If Commission leadership is so manifestly divided on European regulated capitalism and on its flagship, EU cohesion policy, it should come as no surprise that such divisions run deeply through the European Parliament, between and inside party families and among national governments. Furthermore, the link between European regulated capitalism and current cohesion policy has become more tenuous. This shift is exemplified by the *First Commission Report on Economic and Social Cohesion* (1996), where support for European regulated capitalism is related to a cohesion policy that encompasses not only territorial disparities – as in current cohesion policy – but also disparities between social groups.

As the 1999 date for the review of the structural funds regulations draws closer, criticism of EU cohesion policy in its current form is mounting. A major overhaul, ten years after the start of the experiment, seems possible. At stake is not just cohesion policy itself, but the grander vision of European governance that underlies it.

III. Cohesion Policy Under Pressure

Current EU cohesion policy has a sizeable budget and elaborate rules about where and how to spend it. Each element is under pressure.

Budget: consolidation or cuts. By 1999, the two instruments of cohesion policy, structural funds and cohesion fund, will distribute 30bn ECU per annum (at 1992 prices), amounting to 35.7 per cent of the European Community budget. This is 0.46 per cent of the Union's GDP in 1999 and around 0.8 per cent of total public expenditure. At issue is whether the budget should be cut or consolidated at current levels. Further growth is not on the agenda.

Rules for allocating funds: widespread distribution or concentration. More than 50 per cent of the EU population is covered by structural funds programmes having a regional focus, which distribute 85 per cent of the cohesion budget. The degree of concentration of spending has declined over the ten-year period of structural programming, and as a result the redistributive effect has weakened (CEC, 1996, pp. 97–8). The basic issue here is, who should be entitled to scarce funds. Should funds be concentrated on the neediest, or should they be distributed more evenly?

Rules for governing spending: territorial partnership or divided responsibilities. 'Partnership' among Commission, national and subnational authorities is the chief institutional innovation of the structural funds. Since the 1993 review, partnership encompasses social partners in the relevant regions. The rules prescribe close collaboration among multiple territorial authorities and private actors in designing and implementing investment programmes in a particular region. The relevant actors form policy networks in which each places resources at the disposal of the network and shares responsibility for most decisions (Ansell *et al.*, 1997). Critics of partnership argue that responsibilities should be divided so that each territorial actor is accountable for what it can do best. A clearer division of labour would imply some renationalization of cohesion policy for it would make it more difficult for the Commission to interfere in national–subnational relations.

Pressures for Retrenchment

EU decision rules on cohesion policy stack the deck against predictable outcomes. The review of structural funds regulations requires unanimity in the Council of Ministers and the assent of the European Parliament. Prevailing wisdom is that the most likely outcome under unanimity rule is a lowest common denominator, because the actor with the least integrationist preferences occupies the pivot. There are several reasons why pivotal actors may favour linear retrenchment of cohesion policy: neoliberal preferences, national assertiveness, demands for greater policy effectiveness. However, the lowest common denominator argument rests on the assumption that potential outcomes in cohesion policy can be arranged on a continuum from low to high integration. Yet contention concerning current cohesion policy may not be a matter of more or less integration, but may concern competition between qualitatively different policy models. When the choice is one of type rather than degree, decisions have a zero-sum character. This makes it much more difficult to predict *ex ante* the direction of the outcome under unanimity rule. In the next section I present an argument of how contention concerning cohesion policy may be conceived as part of a wider struggle about European governance.

Neoliberalism. Some authors argue that market liberalization, the institutional asymmetry in European institutions in favour of market-liberal policies, and the spread of neoliberal ideology have increased regime competition among Member States to provide favourable circumstances for mobile capital (Scharpf, 1996; Streeck, 1996). The space for mobile capital has widened considerably. Social policy objectives are increasingly considered infeasible (Streeck and Schmitter, 1991; Streeck, 1996). Neoliberals have been on the offensive since the mid-1980s, though they were unable to block EU cohesion expansion in 1988 and 1993. By the late 1990s, they had successfully put in practice elements of their project in most Member States as well as at the European level, including privatization, business-friendly taxation and labour market flexibility (Hooghe and Marks, 1998).

To the extent that unfettered market competition has become embedded in EU institutional rules and guides the agendas of key political actors – shifting the median preference among decision-makers on EU cohesion policy significantly to the right – one would expect downward pressure on the cohesion budget. For neoliberals, cohesion policy distorts market competition. The impact of neoliberalism on partnership is subtler. It induces cohesion policy-makers to frame policy in terms of competitiveness rather than social goals such as equality or solidarity and to restrict access to partnerships to economically productive actors.

Intergovernmental backlash. Some scholars argue that the future of EU cohesion policy is ultimately decided by the Member States (Moravcsik, 1991; Pollack, 1995). That is particularly so for decisions concerning financial redistribution, which are taken at the highest level in the European Union according to an intergovernmental logic of package deals and side-payments. Cohesion policy is exceptionally conflict-ridden, because it produces clear winners and losers (Marks, 1992). There are several grounds for national governments to undo the 1988 bargain. First of all, power relations among contributors and beneficiaries have shifted. Southern members seem in a weaker position to demand side-payments than in 1988 or 1993. Now that the internal market and EMU have been decided, it is difficult to see what other market-liberalizing projects may necessitate future financial side-payments. Furthermore, national governments in the 1990s are under intense pressure to cut public expenditure. This pressure is particularly constraining for those preparing for EMU as participants are required to limit annual budget deficits to 3 per cent of GDP by 1998 and thereafter. For net contributors, the 0.46 per cent of EU GDP devoted to cohesion policy makes it that much more difficult to meet this EMU criterion. National and regional governments that receive payments are required to part-finance EU-funded programmes, which puts an additional burden on government spending.

In addition, some national governments have become increasingly reluctant to delegate control to the European Commission. With increasing public doubt about the European Union since the Maastricht Accord, national government leaders are inclined to defend 'national interests' more assertively (Hooghe and Marks, 1998). National governments have had ample opportunities to realize that partnership rules undermine their gatekeeper role (Heinelt and Smith, 1996; Hooghe, 1996a). Several national governments pressed hard for simpler partnership rules in the run-up to the 1993 review, but with limited success (Wishlade, 1996; Marks 1996). However, they successfully resisted partnership for the cohesion fund (Pollack, 1995).

To some extent, territorial assertiveness is part and parcel of politics in multilevel polities. The difference in the European Union is that national governments are unusually central to decision-making (Sbragia, 1993). To the extent that EU cohesion policy is a vector outcome of national governments' preferences and their respective power to impose their wishes, one would expect significant budget cuts and rule changes that claw back national control.

Policy dysfunctionality. In the absence of a common identity, the basis of EU legitimacy appears utilitarian rather than affective, which places EU legitimacy on an insecure footing. Policy-makers have traditionally justified European policies in terms of their capacity to solve problems more effectively than national approaches. After nearly ten years of operation, the effectiveness and efficiency of EU cohesion policy have come under severe scrutiny. One set of criticisms focuses on the fact that regional disparities have not appreciably narrowed since 1988; EU cohesion policy may even have exacerbated inequality within some regions (McAleavey and De Rynck, 1997; Tondl, 1997). Critics disagree on why that is so. Some argue that EU cohesion policy uses inappropriate criteria to measure disparity (GDP per capita). Others complain that the funds are too limited or too dispersed. Yet others contest the policy rationale. One group questions the 'trickle-down' logic according to which benefits allocated to productive forces in a poor region will in the end increase the standard of living for all in the region (McAleavey and De Rynck, 1997). Others are sceptical about the capacity to micro-manage growth potential through regional policy (Grahl, 1996; Davezies, 1997).

A second target for criticism is partnership. It has proved laborious to administer and vulnerable to clientelism and corruption. The merits of partnership for economic development are contested. The theory of institutional endowments, which underpins the partnership philosophy, argues that regions with flexible co-ordination among public and private actors develop a 'thinking capacity' enabling actors to pursue common interests more efficiently (Benko and Dunford, 1991; Soskice, 1992). Some scholars have begun to question this view. First of all, most celebrated cases of indigenous growth (Emilia-Romagna, Baden-Württemberg, Rhône-Alpes) have been in areas which have received little cohesion funding, and it has proved difficult to replicate these successes in less well-endowed regions. Furthermore, the relationship between indigenous growth and partnership may be spurious; of far greater importance is the presence of a dominant employer, usually a multinational (like Daimler-Benz in Baden-Württemberg), which stimulates, steers and exploits co-ordination networks among public and small private actors. Rather than constituting a reservoir for flexible indigenous growth, networks depend on one giant firm. Finally, to address problems of economic divergence, the macroeconomic context may well be more important than regional institution-building (Grahl, 1996; Tondl, 1997).

Current cohesion policy appears a small instrument for reducing disparities. To the extent that wider EU legitimacy depends on effective policy-making, policy actors may be expected to press for radical changes in EU cohesion policy, particularly partnership, to avoid a legitimacy crisis.

Table 1 summarizes how neoliberalism, budget pressures, national assertiveness and policy dysfunctionality impinge on different components of current cohesion policy. If EU cohesion policy survives the 1999 review, it will be faced

Table 1: Pressures on Current Cohesion Policy

Pressures	*Budget: Consolidation or Cuts*	*Allocation: Widespread Distribution or Concentration*	*Governance: Territorial Partnership or Divided Responsibilities*
Budgetary pressures in Member States	X		
Policy dysfunctionality		X	X
National assertiveness		X	X
Neoliberalism	X		

with pressures deriving from enlargement to the east and the full economic and social impact of EMU, but these will not affect the European Union until after the lifespan of the multi-annual framework under review. Key actors in the current cohesion debate have therefore kept enlargement and EMU off the agenda (interview with senior official, DG XVI, July 1996; interview with official in charge of preparation of review, DG XVI, July 1996). Council ministers and European Parliamentarians – as most elected politicians – appear eager to leave potential future problems to their political successors.

Contention over EU Governance

The above perspectives anticipate a linear erosion of EU cohesion policy. However, when one considers decision-making about EU cohesion as part of a wider struggle concerning EU governance, the future is open-ended. Neoliberalism and European regulated capitalism provide political actors with yardsticks against which to assess specific policy options.

To the extent that policies are evaluated in terms of how they advance neoliberalism or European regulated capitalism, their staying power depends on their capacity to mobilize proponents of a political design and to facilitate strategic spillovers across policy areas. Clearly, the 1988 structural funds reform seemed to meet this double test for proponents of regulated capitalism (Hooghe, 1996b; Ross, 1995). EU cohesion policy has propelled regional and local mobilization in previously poorly self-organized areas – from Greek, Irish and Portuguese regions and municipalities to the North of England (Jeffrey, 1996; Hooghe, 1996a). It has also provided a focal point for transnational regional collaboration. Furthermore, proponents of regulated capitalism have exploited cohesion policy for strategic spillovers. The structural funds administrations have sheltered new policies in environment, vocational training, employment-creating infrastructure investment, co-operation in new technologies, R&D, and social partnership (Hooghe, 1996b; Lenschow, 1997). Over time, however, policy inefficiencies and divergent interests among coalition partners have begun to dissolve the glue holding the coalition together. At the same time, nationalists and neoliberals have become more vocal in their criticism. Current cohesion policy seems much less able to mobilize proponents of regulated capitalism. We would expect therefore downward pressure on the budget and on governance arrangements. However, even though the support base for this specific policy may unravel, there is broad support for a non-neoliberal Europe. I will argue that the various initiatives on employment can be seen as attempts to design a politically more viable successor to the 1988 cohesion reform, be it with more modest governance ambitions. If proponents of regulated capitalism succeed in determining the employment agenda, current cohesion policy may find shelter under a new flagship of European regulated capitalism. The following section seeks to substantiate these claims.

IV. The Politics of EU Cohesion Policy

The protagonists in the struggle over EU cohesion policy include national and subnational governments, supranational institutions, political parties, interest groups and, indirectly, public opinion. The battle is about how Europe should be governed.

Budget

Should market-liberalizing policies be balanced by solidarity at the EU level, especially if the latter absorbs money that otherwise could reduce national public deficits? Budgetary penury is the oft-heard justification from actors that do not meet commitments, but this clouds deeper issues having to do with the model of EU governance current cohesion policy promotes. The cohesion budget is highly contested, and the battle lines are not only drawn along predictable north–south territorial lines, but they also run through functional, ideological, and territorial terrain. Cohesion policy pits two policy networks against one another. Those in charge of public finance at European or national level want to cut back, but those connected with regional affairs, most regional and local authorities, and other sectoral networks want more money. This has led to conflict between the Councils of Ministers for finance/ budget and those of regional affairs, but the division is also present in the European Parliament. In ideological terms, the priority for budget deficit reduction has strengthened the hands of those favouring market principles to promote growth. A territorial division is superimposed upon this functional–ideological conflict, with net recipients and net donors arguing opposite cases. Economic gain here moderates ideological predispositions. When the centre-right French and German governments proposed to reduce the 20bn ECU 1997 budget for regional aid by 1bn ECU, the centre-left governments of Sweden, Finland and Austria supported the planned reduction (*Financial Times,* 24, 26 July 1996).

Yet, this territorial division is less one between north and south than between 'haves' and 'have nots'. While hard core support for the cohesion budget lies in the south of the European Union, many regional and local actors in the north join them in resisting cohesion budget cuts and oppose their national governments. As a representative of the regional office for Sachsen-Anhalt, one of the new Länder in Germany, put it: 'Northern regions that want EU funding have to fend for themselves as they cannot rely on support from their national governments' (Interview, 8 March 1997).

Even if the budget were reduced, it could still be spent under the 1988 rules. Direct challenges to the model of EU governance exemplified by EU cohesion policy come from those contesting the allocation of funding and territorial partnership.

Allocation of Funding

While the cohesion budget is attacked mainly from outside the coalition for regulated capitalism, challenges to the rules of operation come largely from within. Ten years of structural funds programming have not appreciably reduced regional and social disparities. Sharp disappointment in these limited results has made salient a latent conflict between the *policy* rationale and the *political* rationale of cohesion policy. For those who perceive the structural funds as the vehicle for reducing disparities, diffusion of resources dilutes the redistributive purpose of cohesion policy. They want to concentrate efforts on those who need it most. But if one supports a broader understanding of cohesion, as a counterpart to the internal market and a stepping-stone to a social and participatory European society, it is desirable to maximize the reach of the policy.

The policy rationale is strong among two sets of actors. They want to alter, not abolish cohesion policy, but their criticisms question key principles of the current arrangements. On the one hand, regional development specialists argue that cohesion policy should ignore most of Europe's population and concentrate on Europe's lagging regions. They find support in the cohesion countries[3] and in less-developed regions. On the other hand, some actors want to target smaller local areas in distress or deprived social categories. These views have gained ground in Commission cohesion services outside the regional policy directorate general. They also strike a chord with local actors and, more generally, with those who see unemployment as the main source of deprivation. In the margins of the large structural funds programmes, Commission services are experimenting with small-scale initiatives that bring those ideas into practice (McAleavey and De Rynck, 1997). So regions would give way to local actors and non-territorial groups as foci for cohesion policy.

Concentrating resources on these constituencies would make it more difficult for cohesion policy to sustain partnership, which is key to European regulated capitalism. Cohesion policy would then target weakly organized actors (poor regions, local authorities, local communities, socially excluded groups) within particular regions, and these are less likely to be full 'third partners' to powerful national governments and the Commission. Calls to tone down the political ambitions of cohesion policy come from the strongest advocates of radical redistribution. These tensions have split the cohesion coalition. On one side

[3] Greece, Ireland, Portugal and Spain.

stands a divided policy-oriented grouping with southern resource-dependent actors and regional development specialists, as well as advocates of local development concerned with social inequality (mainly in the northern countries). On the other side stands a shrinking political group that mainly consists of northern, resource-richer actors and generalists.

Governance

In the initial 1988 reform, partnership was viewed as essential to reduce disparities, give structure to self-governance, diffuse principles of solidarity, participation and positive regulation, and practise multi-level decision-making. A reform of partnership would therefore have direct implications for EU governance. The main pressures on partnership have to do with policy inefficiencies and, closely linked, concerns about national (and to some extent subnational) control over policy.

There are four kinds of justification for partnership (Hooghe, 1997). The first has to do with efficiency. Partnership provides a channel for affected interests to identify common problems and pool resources to supply collective goods. The second is that partnership allows actors to govern themselves by pooling indigenous resources on a voluntary basis and co-ordinating their activities in non-hierarchical fashion (Heinelt, 1996; Kohler-Koch, 1996, 1998). The third justification is that partnership gives weaker subnational actors a stronger voice to demand solidarity. Finally, partnership may be a vehicle for democratization; it is the European supranationalists' response to subsidiarity. Though the 1988 reform was strongly inspired by concerns about democracy and solidarity, over the years those who emphasize enhancing market efficiency and innovative governance have taken the lead.

Partnership has fallen short of expectations in each of these respects. An internal Commission document on partnership (June 1996) admits that 'while partnership is now viewed as an established fact, it has been implemented very patch[il]y and its objectives vary significantly from one Member State to another'. Such pessimism also permeates reports from the Court of Auditors, Member States, parties (such as the German Social Democrats) and even intrinsically sympathetic institutions like the European Parliament and the Committee of the Regions (Interview, official DG XVI, October 1996; interview, official DG XVI, April 1997).

For those giving priority to economic convergence, it is particularly galling that partnership seems to work least effectively in the poorer southern regions. Confronted with incompetent or under-resourced local administrations, clientelism, or time-consuming negotiations, actors dealing with these regions find it difficult to get excited about the democratizing or solidarity-building effects of partnership or the merits of new governance.

The track record on altering governance practices is mixed (Heinelt, 1996; Kohler-Koch, 1998). This implementation deficit is particularly apparent in non-federal countries, as the Committee of the Regions pointed out in a 1996 opinion, where it put the blame on the absence of a clear division of competencies between intergovernmental actors and between public and private partners. These complaints are echoed by the Commission in its *Report on Economic and Social Cohesion* and, more sharply, in an internal document on partnership. In the latter document, the Commission concludes that, instead of promoting self-governing networks of public and social actors, partnership often slides back into 'more conventional administrative and financial activities'. It recommends clearer and simpler rules, clearer roles and responsibilities for the various partners, and sharper distinctions between decision-making and consultative partnership (Internal Document, 1996).[4] The pressure to streamline partnership is strongest from the northern countries. These problems constitute a setback for proponents of new governance, for co-operative governance is presumed to be especially useful in settings where competences, tasks and resources do not coincide – most apparent in non-federal systems – and where each partner can be characterized as a highly organized social subsystem – as is most often the case in richer countries (Kohler-Koch, 1996; Mayntz and Scharpf, 1995).

Partnership has become a source of political contention. Regional and local actors have used EU partnership to challenge their national government (Hooghe, 1996a; interview with senior Commission official, July 1996). British subnational actors utilized it to resist the Conservative government's policy of weakening local government. The Commission too has occasionally exploited partnership for objectives external to cohesion policy. The former British Commissioner for Regional Policy, Bruce Millan, a lukewarm supporter of partnership, used it to challenge British Conservative policies. Millan had strong partisan connections with Labour-run local authorities in Scotland and Northern England. Central governments have often employed the policy efficiency argument to minimize regional input. The Spanish central government, for example, has argued that most regions lack the administrative and technical know-how to be useful partners. Partnership in EU cohesion policy is one issue among several in the ongoing domestic tug of war between centre and regions in Spain.

In all, rather than having abated competition among territorial actors, partnership has incited competition between national and subnational levels, with the Commission often caught in the middle. For those hoping that partnership would solve problems more efficiently, build solidarity, or consolidate co-operative

[4] The Commissioner for the Social Fund, Padraig Flynn, and the Commissioner for the Regional Fund, Monika Wulf-Mathies, have argued publicly for simpler procedures and clearer divisions of labour and accountability in partnership (Flynn, 1997; Wulf-Mathies, 1997).

governance, this result is discouraging. Yet, those who perceive partnership as a vehicle to democratize European societies are delighted with increased activity among a variety of subnational actors and contention between conceptions of policy and polity-making.

Divisions on partnership further undermine the coalition in favour of current cohesion policy. Broader definitions of partnership – those underlying a multi-level polity – find greatest support among two constituencies. For local and regional actors in Germany, Scandinavia and Austria, EU partnership ties in with a domestic shift to co-operative governance. But their enthusiasm for European-stimulated partnership is at best lukewarm, as the European Commission can bring neither significant funds nor innovative practices to richer self-governing societies.

The strongest advocacy of European territorial partnership is among those who perceive it as a vehicle for democratization. Regional and local authorities, except those with strong domestic positions, have taken quickly to these rules, because they enhance their visibility with respect to national government and public (interview senior official, DG XVI, July 1996). The most ardent supporters are subnational actors at loggerheads with their national authorities, either for party-political or constitutional-nationalist reasons.[5] The hard core consists of UK local and regional authorities, particularly in Labour dominated areas. Until the coming into power of the Labour government in May 1997, European partnership provided a crucial arena in which they could oppose the neoliberal policies of the national government.

The initial coalition that pushed through current cohesion policy as the core policy for European regulated capitalism is fragmented. Budgetary strains under the shadow of EMU and rising neoliberalism put downward pressure on the budget. But the fundamental challenge to cohesion policy lies in shifts in governance: from a European-wide policy involving regions as equal partners to a policy with limited territorial scope; and from uniform territorial partnership among three partners to a looser collaboration involving a variety of actors and tailored to national circumstances. Policy inefficiencies as well as intensified national sensitivities push cohesion policy in the above direction. The main actors challenging the 1988 bargain are not opponents of cohesion policy, but come from within the coalition for regulated capitalism. If current cohesion policy depends on how well it can mobilize proponents of regulated capitalism and create spillovers to other policy areas, it is not here to stay.

[5] Gary Marks and his collaborators arrive at similar conclusions in their study of regional offices. They find that two types of regional distinctiveness are powerfully associated with the presence of a regional office in Brussels: political distinctiveness resulting from a different political constellation at regional and national level, and cultural distinctiveness dependent on the strength of regional identity (Marks *et al.*, 1996).

The Future of Cohesion Policy

The end of a privileged status for current cohesion policy reliant on regional policy and empowered regions does not mean the elimination of cohesion policy in a broad sense. A new constellation of political forces is bracing itself against the prospect of a neoliberal European Union. The rallying theme of this coalition appears to be the fight against unemployment. Their point of departure has been to insert a chapter on employment policy in the Treaty, which gives a legal base to future European initiatives. There are signs that parts of current cohesion policy may be put to use to pursue the employment agenda.

Employment is more likely to mobilize a winning coalition than regional disparities. With 18 million out of work, unemployment has become the public concern number one, as repeated *Eurobarometer* surveys have shown, and it is second to maintaining peace on the list of priorities among elites in Europe (*Eurobarometer*, 1996). Unemployment also cuts across the north–south divide, as it is equally prevalent in northern and southern areas, and in poorer and wealthier regions. The hard core of this multi-level coalition consists of the Social Democratic parties in Europe, which were by June 1997 in government in 13 of 15 Member States. They are supported by trade unions and, more equivocally, by Christian Democrats in several Member States and the European Parliament. Among the institutional players, the European Commission is part of the coalition (although there is internal opposition), and so is a majority in the European Parliament and the Council of Ministers.

The proponents of a European employment policy explicitly link the initiatives to building a 'European social model', in the same vein as structural funds proponents did in 1988. The Commission *Report on Economic and Social Cohesion* identifies 'the existence of high levels of unemployment and the growing incidence of poverty' as forces that 'more than anything else ... act to undermine the European model of society. Increasing unemployment has become a top priority in the Union' (p.116). Yet, concrete initiatives have thus far been few and far between (for overviews, see McAleavey and De Rynck, 1997; Falkner, 1997).

Actors in support of current cohesion policy have begun to attach the structural funds to the unemployment plank, arguing that, in addition to sectoral and macroeconomic policy instruments, one should fight unemployment with territorial instruments. Employment has become key priority for the structural funds. This was given concrete form in the 1996 communication, 'Community Structural Assistance and Employment', where funds to target job creation were announced, using available margins of flexibility within the structural programmes for the period up to 1999. Employment also moved up on the priority list for the second round of objective 2 programmes (1997–99), which were approved in late April 1997.

Moreover, employment may give shelter to core governance principles of current cohesion policy. The 'Territorial Employment Pacts', one of the few concrete initiatives on the employment front, make use of the partnership formula, identify local levels (not national or regional level) as the desirable level of activity, and entrust the implementation to the structural funds. They are experiments in partnership among key economic, social and political actors to commit themselves to a concerted employment effort. The European Council in Florence of June 1996 gave the go-ahead to the Commission, which proceeded to select more than 60 cities and local areas for pilot projects (McAleavey and De Rynck, 1997).

Safeguarding cohesion policy by riding on the employment coalition is at this point a gamble. The employment plank is contested. There is powerful opposition from certain national governments, significant sections of business and global capital, market-liberal parties and interests, and these have allies in the European institutions, including the European Commission. Moreover, the proponents of an employment agenda are divided about degree and character of state intervention in the market. This became clear at the Amsterdam summit of June 1997, where a rift occurred between the British Labour government's position on the role of the state in addressing unemployment and the French socialist government's stance. The former argued to make labour markets more flexible by rooting out disincentives to job creation in national tax and benefit systems, and through investment in education and training. The French government pleaded to free money to launch European-wide employment initiatives, among others in major infrastructure works (*Financial Times*, 17 June 1997, pp.1–3).

The polity implications of a shift from current cohesion policy to employment are significant. The distribution of authority is more state-centred than in the radically multi-level design underpinning the 1988 cohesion policy. Even the staunchest defenders of a European employment agenda emphasize that the main competence for employment should remain national. They also refrain from guidance and binding commitment: the role of the European Union, and its agent the Commission, should predominantly be one of 'animation, technical support, and promotion of co-operation'. The social model underpinning the employment agenda departs from the initial ambition of cohesion proponents, who hoped to lay the basis for a Union where the supranational level would set priorities and where public authority (at whatever level) would be the gatekeeper between society and markets. The polity ambitions of those espousing an employment agenda are to fit in and provide added value, not to challenge and instruct national policy or give guidance to public–private partnerships. Paraphrasing March and Olsen (1983), in 1988, the Commission wanted to be a gardener in a French-

Italian garden. After 1999, the Commission would be content to attend to English grounds.

V. Conclusion

The challenge to EU cohesion policy as we know it since 1988 is best understood as part of a deepening struggle about which type of society Europe should build – a neoliberal Europe or regulated capitalism. Current cohesion policy has been the flagship of proponents of regulated capitalism. The policy was expected to strengthen the hands of those favouring a multi-level polity that balances competitiveness and growth with equality, solidarity and quality of life. Political and policy pressures have unravelled the support base for this specific policy, but they have not undone the coalition for regulated capitalism. A revamped anti-neoliberal coalition is trying to capture the European agenda with a new flagship: the employment initiative. The goals of the employment agenda are less ambitious than those espoused by former Commission president Jacques Delors for structural policy. The options for proponents of a European social-democratic society have narrowed since 1988, yet the struggle between competing models of European capitalism has only just begun.

This argument brings politics back to centre stage. It does not deny a role for functional imperatives – the weight of neoliberal ideas and institutions, an economic logic having to do with reaping joint gains and reducing transaction costs, or a policy logic of efficiency and effectiveness. However, it emphasizes that the link between them and policy outcomes is political. Outcomes are shaped by contention among political actors. They use the European Union as one among several arenas to pursue competing designs about how to organize political and social life in Europe.

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