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## **Ripples in a Rising Tide: Why Some EU Regions Receive More Structural Funds than Others**

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**Abstract:** We investigate the distribution of European Union (EU) Structural Funds across EU regions. We draw from literature on the political economy of national intergovernmental grants and on the two-tiered bargaining process in the EU. Bargaining on the distribution of Structural Funds takes place on the level between regions and their respective national governments, but is influenced by bargaining that occurs on the intergovernmental level. We test our claims with a data set containing the distribution of Objective-1 and Objective-2 funds across EU regions, as well as economic, institutional and electoral variables. Adjusting for selection bias, we find that the official allocation criteria are not sufficient determinants for explaining the distribution of regional transfers. For Objective-2 they even bear the opposite sign. As for the political variable ‘federalist regions’ we find that Objective-1 regions receive significantly more funds, whereas ‘stronger electoral competition’ significantly increases funding of Objective-2 regions.

**Keywords:** cohesion policy; structural funds; fiscal federalism; multilevel Governance; lobbying; political economy; methodological issues; political science.

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## 1. Introduction<sup>1</sup>

In 2004, the German Federal State of Bavaria inaugurated its new representation in Brussels, an impressive building worth some 30 million euros and workplace for more than 30 civil servants. Compared to this, the French region Midi-Pyrénées rents two rooms in an office building for the head of the office, the secretary and two trainees.<sup>2</sup> One may wonder why regions invest at all in their presence in Brussels. A quick answer could be that a German minister president wants to be well treated if he has to travel to Brussels. From a political

<sup>1</sup> Many thanks go to Peter Bursens, Timothy Hellwig, Simon Hug, Thomas König, Philipp Mohl, Tal Sadeh, Michael Tatham, Vera Tröger, Peter Katzenstein and Till Weber. We especially would like to thank Michaele Schreyer who made the data available to us. Finally, we would also like to thank two anonymous reviewers. An earlier version of the paper has been published as a Harvard University working paper. Following suggestions from the reviewers this version offers a more extensive debate of our theoretical argument and demarcates it from alternative claims in the literature. We also substantively extended our empirical models and added several tests of the robustness of our results (cf. appendix).

<sup>2</sup> Retrieved from <http://www.dradio.de/dlf/sendungen/hintergrundpolitik/552153/>. (6th of December, 2006).

economy perspective, however, one may think that politically powerful regions invest money in lobbying activities in Brussels only if these investments are profitable. And there is a lot to gain in Brussels for regions, in particular in the form of Structural Funds from the European Union (EU). Although there is anecdotal evidence for pork-barrel politics on EU regional policy, a quantitative assessment of this impact has, to the best of our knowledge, never been studied. This article is a first attempt to close this gap in the literature. In doing so it also speaks to a larger phenomenon: what political role do subnational actors have in times of economic and political integration?

Ever since its beginning in 1974, the official aim of Structural Funds has always been to narrow the economic gap between European regions and to foster economic cohesion (Anderson 1995). Among economists, there is a controversy whether this policy has really led to higher regional convergence (Cappelen et al. 2003), or a mechanism of redistribution (Boeri et al. 2002; Rodríguez-Pose and Fratesi 2003; Beugelsdijk and Eijffinger 2005). Political scientists have rather focussed on the question how Structural Funds policy is decided upon and governed. Advocates of a multi-level governance in the EU (Hooghe and Marks 2001, 2003) see actors of various political strata intervene in the complex decision-making procedure of regional policy whereas advocates of the intergovernmentalist (Pollack 1995) perspective ascribe the most important role in shaping EU regional policy to governments of member states. Only in recent years one finds an increasing number of contributions on the political determinants of Structural Funds (Kemmerling and Bodenstein 2006; Bouvet and Dall'Erba 2010; Dellmuth 2011) In this contribution we use both insights from economics and politics to further develop our understanding of the distribution of Structural Funds policy.

Both economists and political scientists usually take the official distribution criteria. Member states agree on these criteria, and the European Commission implements them in a technocratic manner (Olsson 2003). Our research shows, however, that the official criteria are not sufficient predictors of Structural Funds allocation and sketches a rationale for the fact that some European regions receive significantly more funds per capita than others even if they face comparable socio-economic conditions. We use a draw on insights the political-economic literature on national intergovernmental transfers and adjust it to the EU. We reduce the complex decision-making process to two stages: In the first stage member states bargain over a rough budgetary envelope and the eligibility of regions for Structural Funds —that is, the national shares of Structural Funds. Following this outcome, regions lobby their national governments to enhance their transfers. The outcome of this second stage is the actual distribution of Structural Funds per region. Since both stages are intertwined, we use a regression model adjusted for selection bias, and investigate the empirical determinants of regional shares of Structural Fund spending.

We find not only that the official criteria are insufficient for explaining regional shares, but also that the effects are sometimes contrary to the expectations created by those criteria. This is the case for transfers to Objective-2 regions that should be distributed according to labour market needs. A region gets less funds, the higher its unemployment rate, arguably because

unemployment undermines the fiscal capacity of regions to apply for these funds. Politics at the regional level plays a strong role in explaining the deviations from the technocratic criteria. Federalist regions receive substantively larger shares. There is also some evidence that electoral competition in pivotal districts leads to a higher share of regional transfers.

The article is structured as follows. We start by introducing the empirical puzzle, i.e. the variance of regional transfers. The next section surveys the political-economic literature on national intergovernmental transfers. Then we apply these approaches to EU Structural Funds policy and present a non-formal bargaining model. Next, we proceed to our set of research hypotheses. The following section describes the data set and explicates the empirical approach. Thereafter we present and interpret the empirical results and conclude with some broader implications for other multi-level bargaining systems.

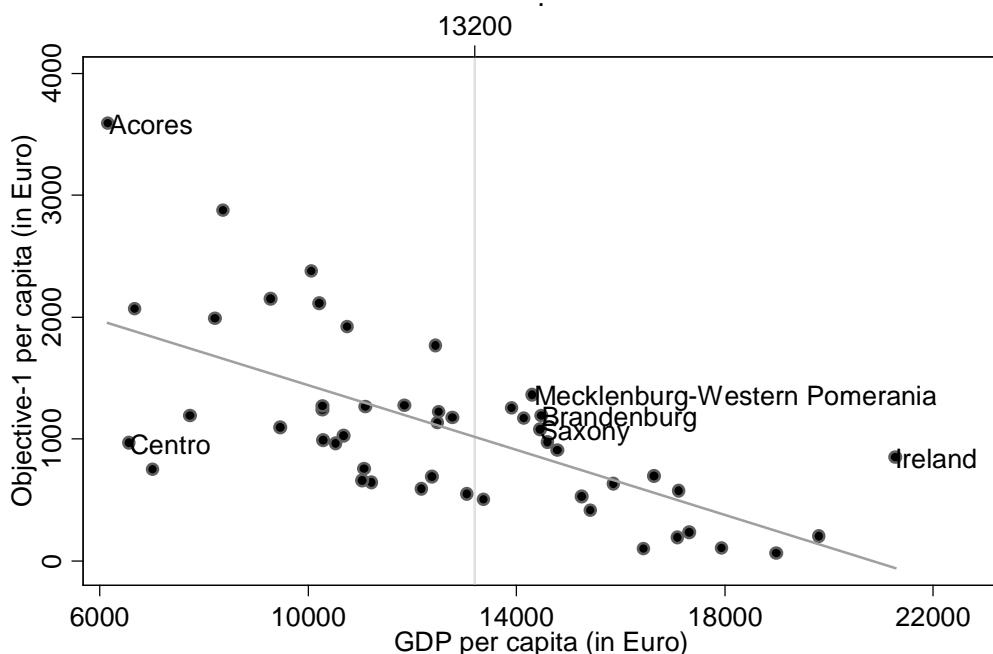
## 2. The Design and Allocation of Structural Funds in Europe

On the one hand, the Structural Funds policy of the EU is an example of a complex decision-making procedure. On the other hand, the distribution of regional transfers follows a set of fairly simple and transparent principles. In this vein, Structural Funds policy is clearly a type of technocratic decision-making that narrows the scope for autonomous and strategic politics (Bache and Olsson 1991; Olson 2003; Scott 1998). And yet, there is still some variation from these principles. To show this we use data on Structural Funds spending which comes directly from the European Union (DG Budget).<sup>3</sup> It represents the scheduled transfers in the period 2000 to 2006 according to the EU financial foresight.

The ‘Agenda 2000’ laid down the principles for this period. The reform reduced the hitherto six areas of funding, the so-called objectives, to three. The new objectives are Objective-1 for the development of regions that are lagging behind economically, Objective-2 for regions with declining industrial and rural sectors, and Objective-3 for regions in need of educational and employment restructuring. The Berlin summit of the European Council in 1999 set the financial perspectives for the period 2000–2006 and introduced further changes to the management of the Structural Funds. With respect to Objective-1, the (major) official eligibility criterion stipulates that regions should have a per-capita GDP below the 75% average of the EU in order to receive Structural Funds. Objective-2 regions are industrial regions with an unemployment rate above the EU average and with a declining employment rate in the manufacturing sector. There are no precise official criteria defining eligibility for Objective-2, other than that the percentage of the EU population covered by Objective-2 should not exceed 18%. To the contrary, the choice for Objective-1 is straightforward, as only those regions with less than 75% of the average EU GDP per capita qualify. A look at Figure 1, however, shows that there is huge variation.

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<sup>3</sup> Unfortunately, we do not dispose of spending data for other periods. This makes it impossible to evaluate arguments about the dynamics or stability of Structural Funds as well as unobservable ‘fixed’ regional effects.

**Figure 1: Eligibility of Objective-1 regions**

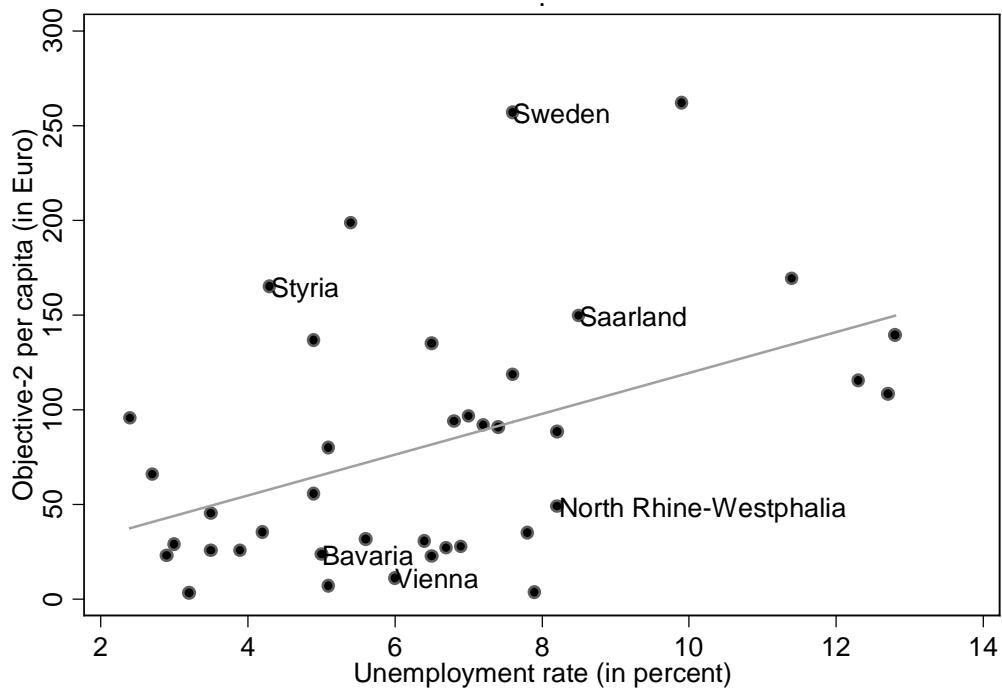
Note: The 75 percent criterion for Objective-1 eligibility is approximately 13200 Euro.

The figure plots the planned Structural Funds per capita for each Objective-1 region for the period 2000 to 2006 against regional GDP per capita. First of all, no points representing individual regions should lie beyond the orthogonal line indicating the 75-percentage point. Second, all points should be associated with the straight regression line, indicating a strong relationship between GDP per capita and Structural Funds per capita. Examination of the figure, however, shows that having a low GDP per capita is a necessary but not a sufficient condition for obtaining a relatively high amount of Structural Funds. Figure 1 reveals a high deviation from the simple regression line in cases with a low GDP, but a small deviation in cases with a high GDP. Most striking is the unequal Objective-1 funding for the Portuguese regions Açores and Centro, which have a similar per-capita income. Moreover, Ireland is an outlier among the richer Objective-1 regions. So the question remains: What other factors determine the distribution of Objective-1 funds, if the official criterion is insufficient?

A similar observation can be made for Objective-2 regions. Because Objective-2 consists of several hard-to-measure goals, it is much more difficult to think about a dominant criterion. For the ease of interpretation, we chose the regional unemployment rate as of 1999 as a proxy for the key criterion. Figure 2 shows that, although there is evidence that regions with higher unemployment receive more funds, the relationship is much weaker than in the previous figure. Higher unemployment is associated with higher Objective-2 funding per capita, but there are important deviations from the regression line. Many cases cannot be explained by the unemployment rate alone. The Austrian regions Styria and Vienna or the German regions Saarland and North Rhine-Westphalia, for instance, have similar unemployment rates, but receive quite different amounts of Objective-2 funding per capita. To be sure, Objective-2 is

distributed on a more disaggregate level. Hence, the pattern may also be due to intraregional heterogeneity. However, this effect is unlikely to be strong enough to explain the digressions (Overman and Puga 2002). Figures 1 and 2 shows that Structural Funds allocation is not completely determined by technocratic rules. We suspect that politics ‘creeps’ in.

**Figure 2: Eligibility of Objective-2 regions**



### 3. The Political Economy of Intergovernmental Grants

Most studies on EU-wide redistribution focus on the distribution of cross-country transfers as an outcome of intergovernmental bargaining (Rodden 2002; Kauppi and Widgrén 2004; Carrubba 1997) or on the role of normative criteria such as efficiency or redistribution in its distribution (Fuente and Vives 1995). Less, however, is known about the quantitative impact of regional politics in this process. For this reason we briefly need to survey the literature on the political economy of nation fiscal federalism before returning to European level. In this literature we find that regions are unlikely to receive equal shares of public transfers or shares in accordance with equity or efficiency considerations, if either regions with relatively more political clout can influence the allocation of funds or if national policymakers rely on some regions more than others to muster electoral support.

To start with the first claim, regions can differ in their lobbying power or in their institutionalised political clout. First and foremost, federalist regions should be better capable

of acquiring transfers from a central level. There is little direct evidence on this effect, but Castells and Solé-Ollé (2005) do find some differences of different types of regional competences. Kemmerling and Stephan (2008) compare the allocation of central-to-regional transfers between federalist and unitary countries and find stronger political effects for the former. Other studies highlight different regional determinants. Cadot, Röller and Stephan (2006), for instance, argue that asymmetrically distributed lobbying groups can attract higher transfers to their regions by making campaign contributions to local politicians who, in turn, press for increased grants on the national level. A concentration of political power in the hands of a few minority groups can increase the grants (c.f. Becker 1983; Winden 1999). Moreover, local politicians themselves differ in the extent to which they lobby the national government, as the cases of intergovernmental grants in Norway (Sørensen 2003) and the United States (Grossman 1994) show. Institutional factors that enhance the lobbying power of local politicians are the size of and the number of seats of an electoral district (Grossman 1994; Worthington and Dollery 1998) or the voting power of regions (Ansobehere, Gerber Snyder 2002).

The second claim focuses on the preferences of national politicians rather than the resources of local politicians. The idea is that national politicians equalise marginal costs—that is, transfers to a region—with marginal benefits, predominantly in the form of higher electoral success. Assuming that central governments depend on local electoral support or money, national politicians will allocate funds either towards political strongholds (Levitt and Snyder 1995, 1997) or those regions where the level of electoral competition is highest (Dixit and Londregan 1998). In Sweden, for instance, such electoral concerns govern the determination of regional funds (Johansson 2003). The simple swing-voter hypothesis is not very realistic in political systems with many parties competing on many issues. The argument, however, may be extended to other systems, for even in proportional systems higher electoral competition and more pliable voters should enhance the parties' campaigning efforts (McGillivray 2004). The swing-voter hypothesis has also been criticised by authors like Cox and McCubbins (1986), who argue that it is rather partisan strongholds that attract the attention of risk-averse politicians on the central level. Kemmerling and Stephan (2008) show that swing-voters and partisan strongholds are not mutually exclusive claims (also Arulampalam et al. 2009). In a similar vein, Crain and Oakley (1995) have found evidence that voter volatility and legislative stability are important predictors of the size of regional transfers.

A different approach is to assume that partisanship plays a role in the preferences for more spending. Kemmerling and Bodenstein (2006) find some evidence that both left and eurosceptic parties attract more EU funds to their regions (also Bouvet and Dall'Erba 2010). The empirical record for the idea that party ideology is somewhat mixed for other contexts. Grossman (1994), for instance, finds that U.S. regions in which the Democrats were the dominant party received more transfers than other regions. In Germany, however, it rather seems to be the partisan congruence between the national and the regional level: in those federal states where the same partisan composition of governments prevails, grant size is significantly higher than in other regions (Kemmerling and Stephan 2002; for Spain cf. Castells and Solé-Ollé 2005).

These findings are important in understanding the politics of EU Structural Funds, although some caveats apply. Certainly, the EU is not directly comparable to a national political system. As mentioned in the previous section, the European Commission has a good deal of discretionary leeway in allocating funds because member states do not act unanimously. We argue, however, that the assumption of a unitary actor is not relevant when addressing the pork-barrel politics of EU Structural Funds (Wallace 1997; De Rynck and McAleavy 2001). Even if the European Commission was the only decision-making body in allocating Structural Funds across regions, it would still be vulnerable to lobbyists from sub-national political entities. Hence, the same logic applies in a politically fragmented, supranational entity as long as the number of EU regions is high and competition among them prevails. In this case, regions do not completely internalise the fiscal burden of higher transfers and, therefore, might have an interest in lobbying.

If, however, regions overcome problems of collective action, our argument could break down. Indeed, the literature on intergovernmental grants has traditionally neglected strategic issues of block-building and coalitions. We do not have a definite answer to this problem, but it suffices to say that incentives for inter-regional cooperation are limited given the nature of the EU Structural Funds. The reason is that most efforts of national representatives in, say, the Council of Ministers would spill over to other, non-lobbying regions as well: ‘a rising tide lifts all boats.’<sup>4</sup> In line with the literature on national political systems, this contribution does not deal with the general trend of public spending, but rather with the distribution of the funds, once the budget envelop is sealed. Hence, we are not interested with the rising tide of EU structural policy, but rather with the ‘ripples’ between winning and losing regions in this process.

#### 4. Bargaining on Structural Funds Policy as a Two-Stage Process

Much effort in the study of EU cohesion policy has been put into the question who the relevant actors are and how much power they have to push through their interests. This prompts an investigation of the institutional process, which is highly complex in the case of EU structural policy. Actors at three levels are involved in both the formulation and the implementation processes for the Structural Funds (Pollack 1995, Hooghe and Marks 2001). Since the governance of Structural Funds changes from funding period to funding period (Bache 1998; Bailey and De Propis 2002) we deliberately focus on the time between 2000 and 2006.

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<sup>4</sup> The discussion on the so-called statistical effect on the verge of EU enlargement is a good example. There is arguably an incentive for East German Länder to cooperate against their own government in order to maintain their grants. However, the outcome would affect all regions with a similar GDP level. Hence, cooperation between regions is more likely if the total amount of EU structural policy is in question, but less so if the distribution of these funds is at stake.

In this period the distribution essentially follows a two-stage process.<sup>5</sup> After the European Council roughly establishes the total budget for each objective, the European Commission provides a breakdown of member states with respect to the ‘commitment appropriations’. The Commission uses ‘transparent procedures’ such as eligible population, regional prosperity, national prosperity and severity of structural unemployment for Objectives-1 and -2.<sup>6</sup> National governments continue to have their say at this stage, because they put forward a list of regions to be negotiated with the Commission (Hooghe and Marks 2001: 97; Gualini 2003). An example is the ‘phasing out’ of regions which lose their Objective-1 status, such as Ireland in Figure 1. A list of exemptions serves as ‘phasing-out’ criteria, which are nowhere clearly stated.

The second phase is the so-called structural programming phase, in which the member states develop a plan for Objectives-1 and -2 in close cooperation with regional authorities and social partners.<sup>7</sup> The regional development plans include a description of a region’s structural deficits, a description of the appropriate strategy and the priorities, and an indication of the planned use and form of the financial contribution. Member states must compile a selection of eligible Objective-1 and Objective-2 regions with corresponding financial allocations. Sub-national authorities have a say in both the selection of the regions and the elaboration of the plans, as they have the right to express their views within a certain period of time. Although national policy networks vary by country, this stage implies bargaining between national governments and sub-national authorities with less inference of the European Commission (Hooghe and Marks 2001: 100; Gualini 2003).

The two-stage procedure suggests a sequential logic for an analytic interpretation of the bargaining. In the first level of bargaining, member states, and possibly the European Commission, negotiate the total budgetary envelope of Structural Funds for each country. In particular, the 1999 bargaining process was embedded in negotiations on the general budgetary process for the period 2000–2006. The second level of bargaining takes place between the member states and their regions. Except for case studies such as those by Gualini (2003) and Blom-Hansen (2005), the literature has not dealt extensively with this level of bargaining.

Having delineated our theoretical understanding of the bargaining process for Structural Funds, we are now ready to develop our hypotheses on the determinants. We start with the first level of analysis, namely, the selection of regions. The official criteria should have a clear impact on whether or not a region qualifies for Structural Funds. Regions with lower GDP per capita should be entitled to higher amounts of Objective-1 funding, whereas regions with higher unemployment rates should receive relatively more Objective-2 funding. As Figures 1 and 2 show, however, this correlation is only partial. We make the additional

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<sup>5</sup> The two-stage decision-making procedure is set out in Council Regulation 1260/1999 of 21 June 1999.

<sup>6</sup> Article 7 (3) of Council Regulation 1260/1999.

<sup>7</sup> The structural programming phase is set out in Articles 13, 15 and 16 of Council Regulation 1260/1999.

assumption that the bargaining in the first stage is dependent on other budgetary positions, namely, in the area of Common Agricultural Policy (CAP): countries receiving high amounts of CAP transfers will obtain a smaller amount of Structural Funds than others do. Hence, bargaining processes on the intergovernmental level lead to well-documented cases of package and compensation deals (Moravcsik, 1998: 258). Other approaches have focused on related but different issues, such as the net payment position or public opinion (see, for example, Carrubba 1997), but in our framework we suspect that these variables are the most important ones.<sup>8</sup>

For the second stage, we keep the main criterion for each funding type—GDP per capita for Objective-1 and the unemployment rate for Objective-2—as these still can have an impact on the distribution of Structural Funds. In addition, we ‘plug in’ the findings of the literature on intergovernmental grants into this two-level process. The central governments’ responses to regional lobbying activities should depend on a number of political factors. First, the influence of regions seems to be dependent on the constitutional competencies that they have (Jeffrey 1996; Jeffrey 2007; Ansell, Parsons and Darden 1997). Thus, regions in federal states are more influential in the bargaining process than are regions in unitary states. Constitutional competencies on the regional level give rise to a regional political infrastructure that is conducive to lobbying and political pressure (Tatham 2010). The Ministers Presidents of the German Länder, for instance, managed to block reduction in SF spending at the 1999 Berlin Summit, inspite of the central government’s resolution to do so.

A second major hypothesis from the previous section is the idea of swing voters, or the intensity of electoral competition (e.g. Bouvet and Dall’Erba 2010). The closer the two main parties in the run-up towards the election, the higher the stakes become for central governments to win this constituency. This means that governments have an incentive to channel more transfers into a region in which electoral competition is greater. Proportional voting rules can lead to higher fragmentation of the party system, which is likely to reduce the political clout of a region. If partisan ties between different representatives of a region and the national level are strong, this could serve as a reinforcement of the role of local politics for national decision-makers.

Table 1 gives an overview of our hypotheses with the expected signs of the coefficients. Given the two-stage process of Structural Funds allocation, one caveat is necessary. The first (interstate) level naturally shapes the ultimate outcome of the second (regional) level. Central governments and their regional counterparts can only distribute the Structural Funds budget which previously has been granted to member states on the first bargaining level. Any attempt to empirically estimate the regional Structural Funds allocations must take into consideration

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<sup>8</sup> The level is also likely to depend on other package deals, most notably as a means of exchange for poorer regions consenting to deepening economic or monetary integration. Given our data set, we were unable to find any significant relationships in that respect.

the results of the first bargaining level in order to avoid biased results. In the next section, therefore, we present an empirical operationalisation to deal with this problem.

**Table 1: Hypotheses**

Theory	Hypothesis	Expected Sign for Obj. 1/Obj. 2
<b>Eligibility of Regions (First Stage)</b>		
Income	<i>H1:</i> The higher the income per capita in a region, the less likely it is for the region to receive Structural Funds.	-/?
Unemployment	<i>H2:</i> The higher the unemployment rate in a region, the more likely it is for the region to receive Structural Funds.	?/+
Agricultural funds	<i>H3:</i> The higher the agricultural funds per capita in a region, the less likely it is for the region to receive Structural Funds.	-/-
<b>Allocation of Structural Funds per Region (Second Stage)</b>		
Federalism	<i>H4:</i> The more political competencies a region has, the more Structural Funds transfers per capita the region receives.	+/+
Electoral competition	<i>H5:</i> The closer the two major parties in a region, the more Structural Funds transfers per capita the region receives.	+/+

## 5. Operationalisation and Specification

It is obvious that the selection process of regions (the first level of bargaining) has an impact on the political influence process of regions (the second level of bargaining). Hence, information about a region's participation matters when determining the size of prospective transfers. This is a clear example of sample selection bias in political science. Hug (2003: 263) discusses the set of different model alternatives to use in such cases. He pleads for a truncated regression if 'important omitted variables influence simultaneously the selection into the incomplete data set and the dependent variable of the outcome equation'. As argued above, however, it is more reasonable to assume that both negotiation processes differ. The political-economy approach for intergovernmental grants states that regions bargain not over

the total amount of transfers, but rather over the allocation of these transfers. We therefore assume that the first level of bargaining has an influence on the second level, but not vice versa. In such cases a Heckman selection model is the most appropriate tool for exploring both processes simultaneously (Heckman 1979).

The general problem of selection bias exists if some observations are missing or if they have zero values. This is the case for our dependent variable, as most regions do not receive any transfers at all. Under these circumstances, the classic assumptions of linear regression models fail and the estimates are biased. If the process of selection for regions that do receive transfers differs from the process that determines the size of these transfers, this bias can be estimated in a first stage, the so-called selection process. The model generally used to generate an estimate of the bias is a probit model on a dummy variable, whether a region has received funds or not. In the second stage, the size of the funds is estimated on the basis of the exogenous determinants and the estimated bias.<sup>9</sup> Although this model has become increasingly popular in comparative politics (see, for example Hug 2003; Plümper, Schneider and Troeger 2006), it is not without caveats, because the results are sensitive to the set of exogenous variables included. Since alternatives do not really perform better we use a Heckman model, but use a standard (LR) test to decide whether there is truly a selection bias in the data or not.

For our dependent variable we use data on Structural Funds which originate from the European Commission (cf. above), and which represent the financial perspective of the distribution of Structural Funds for the years between 2000 and 2006. We extracted information on funding for Objectives-1 and -2, which are the only fiscal transfers that can be attributed to individual regions, but which account for more than two-thirds of all regional transfers. The data, however, do not report the Structural Funds on the same level of aggregation for all countries; in some instances they use NUTS 1, NUTS 2 or even the national level.<sup>10</sup> This poses some problems for finding the appropriate level of disaggregation. Depending on the country either NUTS 1 or NUTS 2 correspond to ‘politically’ meaningful entities. Unfortunately, four countries did not give disaggregate information of the transfers. In these cases (Denmark, Greece, Ireland, Luxembourg, and Sweden) we treat the countries as one region (see Appendix 0 for the list of regions). Altogether we gathered information for a total of 137 regions in the EU. Only 49 (39) of 137 Objective-1(2) regions were eligible for Structural Funds between the years 2000 and 2006.

<sup>9</sup> Technically, the bias depends on the size of correlation  $\rho$  between the residuals of the first and second stages.

<sup>10</sup> The NUTS classification (Nomenclature des Unités Territoriales Statistiques) distinguishes between three hierarchical regional levels, which do not necessarily coincide with real administrative units. NUTS 1 represents the highest administrative level: the Länder in Germany, the Zones d’Etudes et d’Aménagements du Territoire in France and the Government Office Regions in England. They comprise a population of between 3 and 7 million people. NUTS 2 entails a regional level with 0.8 to 3.0 million inhabitants. It corresponds to Regierungsbezirke in Germany, Régions in France and counties in England. The lowest level is NUTS 3, with 0.15 to 0.80 million inhabitants. These are German Kreise, French Départements, and upper-tier authorities or groups of lower-tier authorities in England.

In accordance with the Structural Funds data, we compiled a data set on potential determinants of Structural Funds for the regional level. First-stage variables determine the eligibility of a region for Objective-1 or Objective-2 funds. The major selection criterion for Objective-1 regions is GDP per capita (Eurostat 2001). There are, of course, huge differences between regional wealth levels in Europe and it is obvious that Alentejo and Galicia with a per-capita income of 6700 € and 11000 € respectively are more likely to receive SF than Flanders, Alsace, or Emilia-Romagna, which are all above 20000 € per-capita. For Objective-2 areas, the corresponding official determinant is the unemployment rate (Eurostat 2001). Some European regions fare well in terms of low unemployment rate, such as Styria or Veneto with unemployment rates below 5 percent. Many regions, however, have persistent unemployment rate higher than 10 percent, which makes them potential candidates for Objective-2 funding. We also used other proxies for unemployment or the decline of a region, but the results were much weaker.

A third independent variable is European agricultural transfers per capita. For this purpose we used officially available data on CAP funds per capita. Because these funds are available only on a national level, we weighted the transfers with the regional proportion of people employed in the agricultural sector relative to total employment (Eurostat 2001). As mentioned above, the rationale behind this variable is that either Objective-1 or Objective-2 funds might serve as a political substitute for agricultural subsidies. A case in point are many French low per-capita income regions such as Auvergne or Bretagne or Aquitaine which receive no SF but have high shares employees in agriculture and therefore higher CAP transfers. Ideally, one would also want to model a compensation deal between Objective-1 and Objective-2 funds, but for econometric reasons this was not possible.<sup>11</sup> We also experimented with a dummy for countries that receive Cohesion Funds, but we have suppressed the results, because none of the regressions were affected by this dummy.

Our second-stage variables predict the fund allocations for those regions which qualified for eligibility in the first stage. These include the official criteria for both Objective-1 and Objective-2 regions, that is, GDP per capita and the unemployment rate, respectively. To test our assumption about whether regions in federal states receive more Structural Funds, we used Lijphart's (1999) index of federalism. The index varies between 1 and 5, with 1 depicting unitary and centralised states and 5 indicating federal and decentralised states: Belgium, Germany and Austria being the most federal, and Portugal and the United Kingdom the most centralised states.

To model the influence of electoral competition we use elections results. We gathered regional information on the 1999 elections to the European Parliament elections, the last before the budgetary period. We were able to retrieve regional election results for a total of

<sup>11</sup> The reason is that very few regions receive both transfers. Most regions are given either Objective-1 or Objective-2 funding. Only Scotland, Wales, South West, North West and Merseyside, and Yorkshire receive both Objective-1 and Objective-2 funding. The correlation between Objective-1 and Objective-2 regions in the full sample is -0.302.

117 out of the 137 regions.<sup>12</sup> We constructed eight categories, one for each of the eight factions represented in the European Parliament in order to facilitate comparison across regions. There is an additional category for parties that are not aligned with any faction. For each region we then summed up all the shares of parties belonging to the same faction. We also used information on the share of the largest party. In order to measure the dispersion of the party system, we calculated the ‘effective number of parties’ using the Herfindahl index for the nine categories.<sup>13</sup> To measure the strength or regional party competition we created a swing-voter variable using the size of the difference between the two largest parties in a region. The rationale behind this variable is that political competition should be strong where the difference between the first two parties is small.<sup>14</sup>

The use of data for European Parliament elections is clearly not beyond criticism. Ideally, one should use data for national elections on the regional level as well, since European Parliament elections are haunted by low political salience and often act as the playground for exerting political protest against incumbent governments (Van der Eijk, Franklin and Oppenhuis 1996). For that reason we compared regional electoral results for the European Parliament elections in 1999 with regional results for elections of national parliaments that immediately preceded the European Parliament election. The national data come from Caramani (2000) and were updated where possible, electoral data for the European Parliament comes from Statistisches Bundesamt (1999) and various national sources. A comparison between both sets of electoral data shows that the election results for European Parliament and national elections are highly correlated (see Appendix 4).<sup>15</sup> Consequently, the cross-regional variation of vote shares for party families is much stronger than the temporal variation between national and European Parliament elections. Since it is easier to match electoral districts for elections to the European Parliament with structural transfers, and are held at the same point in time, we stick to this indicator. The literature has also shown that agricultural and regional transfers are an important topic for European Parliament elections (Mattila 2001). European distributional concerns matter for voters’ decisions.

## 6. Empirical Analysis

Table 2 presents the results. We run each model specification for both Objective-1 and Objective-2 regions separately, for we conjecture that each type of funding may be driven by different independent variables. The top half of the table shows the regression results for the

<sup>12</sup> We were not able to find compatible information for the Netherlands, Finland or Portugal.

<sup>13</sup> The effective number of parties is defined as the number of effective parties. The corresponding formula is  $1/\sum i^2$ , where  $i$  depicts the percentage share of each party.

<sup>14</sup> Appendix 1 shows the summary statistics of our variables, Appendix 2 the correlations between independent variables.

<sup>15</sup> Appendix 4 shows that all across Europe left parties were under- and Eurosceptic parties overrepresented compared to national elections. As is well known, turnout also is much lower for European elections. The difference between the two largest parties is very similar in both types of data.

first stage of the Heckman model (the selection stage); the lower half gives the results for the second stage.

**Table 2: Results for Objective-1 and Objective-2 Regions (Heckman Selection Model)**

	1	2	3	4	5	6
Dependent variable	Obj. 1 (log)	Obj. 2 (log)	Obj. 1 (log)	Obj. 2 (log)	Obj. 1 (log)	Obj. 2 (log)
<i>First Stage: Selection of Eligible Regions</i>						
GDP per capita (log)	-5.548*** (-3.68)	1.728 (1.55)	-6.447*** (-4.27)	1.331 (1.09)	-6.367*** (-4.14)	1.541 (1.27)
Unemployment rate (log)	0.231 (0.44)	-1.144** (-2.77)	-0.053 (-0.1)	-1.25* (-2.52)	-0.016 (-0.03)	-1.157* (-2.28)
CAP transfers per employee in agriculture (log)	-0.08 (-0.25)	0.325 (1.07)	0.217 (0.77)	0.449 (1.35)	0.178 (0.64)	0.409 (1.31)
Constant	53.164*** (3.63)	10.39 (-1.57)	61.516*** (4.18)	-12.656 (-1.12)	60.789*** (4.04)	-14.783 (-1.29)
<i>Second Stage: Structural Funds Allocation to Eligible Regions</i>						
GDP per capita (log)	-1.635** (-3.25)		-2.124** (2.74)		-1.865 (-1.71)	
Unemployment rate (log)		0.195 (0.34)		0.335 (0.42)		-0.017 (-0.03)
Federalism			0.1471* (1.97)	-0.076 (-0.97)		
Effective number of parties			-0.102 (-0.7)	0.141 (1.11)	-0.185 (-1.34)	0.018 (0.13)
Difference between two largest parties					-0.377 (-0.77)	-3.4** (-2.82)
Constant	22.173** (4.79)	2.8** (3.13)	26.691*** (3.91)	-12.656 (-1.12)	25.133* (2.55)	3.491* (2.39)
N (uncensored N)	126 (43)	126 (39)	120 (37)	122 (35)	120 (37)	122 (35)
Wald $\chi^2$ (whole model)	10.57**	0.12	25.62***	2.26	22.24***	11.02*
$\rho$	-0.337	0.87	-0.014	0.854	-0.121	0.835
Atanh $\rho$	-0.351	1.331**	-0.014	1.272***	-0.121	1.204**
LR test of indep [p > $\chi^2$ ]	0.79	11.40***	0	27.43***	0.12	11.72***

*Coefficients of Heckman procedure; z-values parentheses; \* p<0.05 \*\* p<0.01 \*\*\* p<0.005*

In Models 1 and 2 we are mainly interested with what drives the selection of regions for Objective-1 and Objective-2 funding. We include GDP per capita and the unemployment rate in the second stage for Objective-1 and Objective-2, respectively, in order to run the Heckman model. In Models 3 and 4 we test for our institutional variables of federalism and effective number of parties. As mentioned before, the effective number of parties is on the one hand an institutional proxy because electoral institutions determine to some degree the number of parties; on the other hand it is also a variable of the party system. Models 5 and 6, finally, are a model specification for the degree of electoral competition, including the effective number of parties and the difference in votes between the two largest parties.

We start with the discussion of the model fits to justify the choice of the Heckman model and to assess the quality of our results. The incidence of selection bias can be tested by examining whether the error terms of regressions in the first and second stage are statistically correlated. A measurement how strong the bias of the second stage variables depend on the first stage is  $\rho$ . If it is significantly different from zero selection bias is present and the use of the Heckman model yields better estimations than OLS-based techniques. Although  $\rho$  is in all models between -1 and 1, it is significant only in the estimations for Objective-2 regions. This is primarily due to the strong influence that GDP per capita has for both the eligibility and the final allotment for Objective-1 regions. If we drop GDP per capita from the second stage variables for Objective-1 regions,  $\rho$  also becomes significant. The LR test shown in the table corroborates the idea that—at least for Objective-2 regions—our selection model is necessary, as simple estimates would be biased and inefficient. The test statistic for the overall model (Wald  $\chi^2$ ) is highly significant in all cases except for Models 2 and 4, which are misspecifications for Objective-2 regions. We also calculated the variance inflation factor of the independent variables and found no remaining problems of multi-collinearity.

The first two models show that the selection of regions for Objective-1 funding is basically driven by regional per capita income, whereas the selection of Objective-2 regions is determined by the regional unemployment rate. GDP per capita keeps its negative sign and the significance level in the respective Models 1, 3 and 5. Likewise, the sign and significance of the unemployment rate remain robust throughout Models 2, 4 and 6.

The sign of the coefficients of the unemployment rate in the first stage in Models 2, 4 and 6 reveals a perverse effect, however: The higher the unemployment rate in a region, the less likely it is to receive Objective-2 funding. We do not have a straight interpretation for this. It might be attributed to the fact that Objective-2 funds are so-called matching grants, which require regional co-financing. Those regions with high unemployment are less able to provide the necessary resources for co-financing funds (Alegre 2012). Even if unemployment rates are no perfect proxy for the underlying criteria, it is safe to argue that structural problems play an ambivalent role: it increases the need of Structural Funds, but also decreases the capacity of regions in actually acquiring them. This coincides with the observation made by Olsson

(2003) that Structural Funds as matching grants favour more developed regions.<sup>16</sup> Also, there are tradeoffs in reaching the right regions and incentivising their effort (Castells and Solé-Ollé 2005). As regards agricultural transfers per employee in agriculture, we find no corroboration for agricultural funds as a package deal for Structural Funds. The coefficient is far from being significant, and the positive sign shows that Structural Funds tend to be a complement to agricultural funds rather than a trade-off, if at all.

In Models 3 and 4 we test for the influence of the institutional variables federalism and the effective number of parties on the final financial allotment for eligible regions. The number of observations slightly differs between Objective-1 and Objective-2 regions because of lack of data for some regions. Moreover, in Model 3 federalism is a second determinant for the amount of Objective-1 funds for eligible regions, whereas the effective number of parties has no influence. As for federalism the results corroborate our suspicion that the lobbying capacities of federalist regions are higher. This result explains the pattern in Figure 1. The eligibility of German regions for Objective-1 funding is pretty much linked to the strong federal autonomy they have. Our finding thus corresponds to the results of other studies on regional lobbying (Jeffrey 1996; Tatham 2010).

As regards Objective-2 regions in Model 4, neither of both institutional variables exerts an influence on fund allocation, nor does the unemployment rate. One reason for the lack of influence of federalism lies in the fact that Objective-2 regions do not coincide with administrative units, but are rather (industrial) sub-units of regions. Lobbying for Objective-2 funds for industrial regions in decline might not only be in the interest of the respective regions, but of the whole nation-state which would reduce the impact of federalism. We also controlled for the fact that some countries such as Ireland cannot be disaggregated into regions. Our dummy for countries with no regions is significant in both estimation stages for Objective-1 regions but does not change the results substantially (not shown in table 2, but in Appendix 3). The effect of federalism becomes even stronger, whereas the results for Objective-2 regions remain stable including the dummy. Thus, we dropped the dummy from the estimations. We also experimented with dummy variable for cohesion countries which did not turn out to be significant.

In Models 5 and 6 we include the differences in European election votes between the two largest parties as an indicator for electoral competition along with the effective number of parties. As for Objective-1 regions, the difference between the two largest parties has no explanatory power for the final Structural Funds allocations. For Objective-2 regions, however, party difference is negative and highly significant. As expected, the smaller the difference between the two largest parties of a region, the higher the amount of Structural Funds that region receives. In Figure 2, Sweden (for which we have data only on the

<sup>16</sup> As a further test of robustness we also tested in model 2 the effect of the ‘percentage of employment in manufacturing of total employment’ (see Appendix 3, model 11). The result remains stable in comparison to the original results in model 2. The new variable adds little in addition to unemployment. Unless we have a good suspicion what exactly leads to omitted-variable bias, the model is sound as it stands.

aggregate level), Saarland and Styria, for instance, are all above their expected Objective-2 share if the unemployment rate was the decisive selection criterion. But these three regions faced stiff partisan competition with crucial portions of swing voter. In Bavaria, by contrast, the ruling Christian Social Party (CSU) has since long a large and stable majority and does not face serious challenges by other parties. Fighting for Objective-2 does not necessarily pay for the Bavarian ruling party. This is a corroboration of the role for pivotal or swing-voters on a European level (cf. also Bouvet and Dall'Erba 2010).

In contrast to Objective-1 regions, Objective-2 regions are less precisely defined which makes those funds more vulnerable to targeted use in order to buy votes, for more technocratic allocation criteria apply even less. The struggle of Italian regions about Objective-2 allocation is a case in point. Gualini (2003: 628) reports that regional governments “agreed to autonomously redefine regional aid maps according to partisan redistributive principles” and that this “was the first overt initiative taken by the coalition of northern right-wing regional governments which had been announced during the electoral campaign as a crusade against the centre-left national government (...).” Similarly, in the 1980s the British conservative government reduced urban development funds for the city of London when it fell under Labour administration (Tofarides 2003: 81). Apparently, once a region qualifies for Objective-2 status, it can maximise funds if it harbours crucial swing-voters.

In addition, we tested whether the vote differences between national elections and European Parliament elections affect regional Structural Funds allocations. We used an indicator of electoral congruence for each region which is the sum of absolute differences in vote shares for the European Parliament election and for the national election for each party group.<sup>17</sup> The result turned out significant and negative for Objective-1 regions (see Appendix 3). Hence, the stronger the coincidence between electoral results in national and European Parliament elections, the more likely a region is to receive Structural Funds.<sup>18</sup>

We subjected our results to a number of tests of robustness (see Appendix 3). For instance, we ran a hierarchical multi-level model (Rabe-Hesketh et al. 2004) to control for the nested data structure of regions within countries. Controlling for the hierarchical structure leaves our major findings unaffected. We also ran larger models with additional controls and with the political variables included in both stages of the Heckman models. It turns out that, as expected, the political variables have a much more visible and stronger impact in the second stage. Finally, we also experimented with some other control variables such as voter turnout,

<sup>17</sup> More technically, congruence ( $C$ ) is defined as:  $C_i = \sum |x_j^{EP} - x_j^{national}|$ , with  $x_j^{EP}$  being results of European Parliament elections for party group  $j$  in region  $i$  and  $x_j^{national}$  the regional results of national elections.

<sup>18</sup> One may criticise the use of election data for the European Parliament. Politically, however, it does not make sense to use ‘regional’ election data for unitary countries, since regional elections by definition have no important political function. Hence, the closest correspondence to the national literature (e.g. Kemmerling and Stephan 2002) is the comparison between elections to the European and the national parliament. For a discussion of data sources and systematic differences between these types of elections see Appendix 4.

net migration as a proxy variable for regional spill-over effects, population density, and indicators for the strength of the industrial sector (results available on request). None of these variables turned out significant or robust.

## 7. Broader Implications

In March 2006 the minister president of Bavaria, Edmund Stoiber, took his entire cabinet for a meeting to Brussels. ‘We will come here more often’ he said when asked about the need for his visit. He deemed it an adequate investment.<sup>19</sup> Our main findings give some evidence that prove Mr. Stoiber right: lobbying seems to pay off. In more general terms, we corroborate the idea of a two-level bargaining process with an intergovernmental and an interregional component. First of all, official criteria such as the 75% threshold are not sufficient to explain the final distribution of Structural Funds. In the case of unemployment, we could not even reject the idea that the criterion is ambivalent in its effect, for it may also decrease a region’s ability in acquiring regional transfers. Second, on the interregional level, pork-barrel politics plays a strong role in determining the amount of Structural Funds. Political factors indeed influenced the distribution. Federalism, for example, has frequently been assumed to play a role when voicing the interest of specific European regions. We find some evidence that federalist countries have stronger regions that receive shares of Objective-1 transfers. Finally, high levels of party competition in elections do explain some of the variation in Objective-2 transfers.

Our findings should stimulate a debate on the political economy of multi-level systems. Processes of economic and political integration have distributive characteristics: some regions win, and some loose. It seems likely that central governments need to compensate those regions that did not benefit from the process of European integration (e.g. Boeri et al. 2002), and that more powerful regions will get higher compensation than others. However, there is still much to learn about this type of regional bargaining. Do regions increasingly bypass the national legislator or leverage their governments for a voice in Brussels (Tatham 2010, Hooghe and Marks 2001)? Does the European Commission enhance regional competition by favouring those with a certain degree of local autonomy (Dellmuth 2011)? Finally, with the enlargement of the EU in 2004, the inequality of regions has increased. This has arguably enhance pork-barrel politics between regions rather than reduce it. It comes as no surprise that even countries with a long history in centralisation such as the United Kingdom have started to strengthen the political leverage of subnational tiers (e.g. Bache et al. 2011; Hooghe and Marks 2001; Verdier and Breen 2001). These questions are important starting points for future investigation.

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<sup>19</sup> Retrieved from [http://blogs.salzburg.com/perterer/2006/03/stoiber\\_in\\_brss.html](http://blogs.salzburg.com/perterer/2006/03/stoiber_in_brss.html) (17th of March 2007).

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## Appendix

**Table 3: List of Regions**

Country	Regions
Austria	Karnten, Salzburg, Vorarlberg, Burgenland, Tirol, Oberosterreich, Wien, Niederosterreich, Steiermark
Belgium	West-Vlaanderen, Hainaut, Region Wallonne, Antwerpen, Liege, Brabant Wallon, Namur-Luxembourg, Luxembourg (B), Limburg, Vlaams Gewest, Region Bruxelles-capitale, Oost-Vlaanderen, Vlaams Brabant
Denmark	No regions
Finland	Vali-Suomi, Pohjois-Suomi, Aland, Uusimaa (suuralue), Etela-Suomi, Ita-Suomi
France	Guyane, Franche-Comte, Picardie, Corse, Lorraine, Languedoc-Roussillon, Guadeloupe, Champagne-Ardenne, Limousin, Nord-Pas-de-Calais, Basse-Normandie, Haute-Normandie, Rhone-Alpes Poitou-Charentes, Centre, Reunion, Martinique, Bourgogne, Alsace, Bretagne, Ile de France, Auvergne, Provence-Alpes-Côte d'Azur, Midi-Pyrenees, Aquitaine, Pays de la Loire
Germany	Brandenburg, Sachsen-Anhalt, Hamburg, Berlin, Sachsen, Hessen, Niedersachsen, Baden-Wurttemberg, Thuringen, Bayern, Nordrhein-Westfalen, Mecklenburg-Vorpommern, Saarland, Schleswig-Holstein, Bremen, Rheinland-Pfalz
Greece	No regions
Ireland	No regions
Italy	Molise, Lazio, Lombardia, Campania, Liguria, Marche, Abruzzo, Emilia-Romagna, Trentino-Alto Adige, Toscana, Friuli-Venezia, Giulia, Calabria, Sardegna, Valle d'Aosta, Basilicata, Piemonte, Sicilia, Umbria, Veneto, Puglia
Luxembourg	No regions
Netherlands	West-Nederland, Noord-Nederland, Flevoland, Oost-Nederland, Zuid-Nederland
Portugal	Algarve, Madeira, Centro, Norte, Acores, Lisboa e Vale do Tejo, Alentejo
Spain	Cantabria, Castillia-La Mancha, Canarias, Valencia, Galicia, Ceuta y Melilla, Extremadura, Castillia y Leon, Comunidad de Madrid, La Rioja, Comunidad Foral de Navarra, Pais Vasco, Murcia, Cataluna Andalucia, Asturias, Baleares, Aragon
Sweden	No regions
UK	Scotland, North West and Merseyside, Yorkshire-Humbar, North Ireland, Wales, North East, South West, South East, East Midlands, West Midlands, London, East

Table 4: Summary Statistics for Independent Variables

Variable name	Number of obs	Mean	Standard deviation	Minimum	Maximum
Objective-1 per capita	49	1088.69	722.08	60.26	3591.59
Objective-2 per capita	39	81.37	66.96	3.31	262.37
GDP per capita	137	17663.56	6124.57	6161.83	42116.73
Unemployment rate	135	10.61	6.56	2.4	36.5
Agricultural funds per employee in agriculture	128	41.41	68.91	3.6	653.25
Federalism	137	2.553	1.597	1	5
Effective number of parties	117	4.355	1.409	2.172	7.864
Vote difference between two largest parties	117	0.103	0.091	0.001	0.438

Table 5: Correlation Matrix between Independent Variables

Variable name	GDP per capita	Unemployment rate	Agricultural funds per employee in agriculture	Federalism	Effective number of parties
Unemployment rate	-0.6375				
Agricultural funds per employee in agriculture	0.4604	-0.0806			
Federalism	0.0886	-0.082	0.001		
Effective number of parties	0.1334	-0.0796	0.1306	-0.3945	
Vote difference between two largest parties	-0.0937	0.1887	-0.1652	0.0064	-0.4984

**Table 6: Additional Specifications**

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
Dependent variable	Obj. 1	Obj. 2	Obj. 1	Obj. 2	Obj. 1	Obj. 2
Model specification	GLLAMM	GLLAMM	Heckman	Heckman	Heckman	Heckman
<i>First Stage: Selection of Eligible Regions</i>						
GDP per capita (log)			-5.228** (2.009)	2.858** (.883)	-7.059*** (1.552)	1.880 (1.410)
Unemployment rate (log)			.910 (.847)	-.613 (.364)	.228 (.566)	-1.170 (.736)
CAP transfers per empl. in agric. (log)			.043 (.468)	.0192 (.189)	-.027 (.312)	.752 (.383)
Federalism					-.114 (.175)	.099 (.202)
Effective number of parties					-.273 (.229)	-.760** (.290)
Difference between two largest parties					-.621 (3.757)	-4.438* (1.726)
No regions (dummy)					2.625*** (.749)	.445 (.925)
Constant			47.698* (19.647)	-27.771*** (7.909)	69.187*** (15.343)	-15.847 (14.305)
<i>Second Stage: Structural Funds Allocation to Eligible Regions</i>						
GDP per capita (log)	-2.877*** (.486)		-1.361 (.814)		-1.697*** (.358)	-2.138** (.631)
Unemployment rate (log)		.726 (.430)		-.580 (.573)	.076 (.134)	.100 (.495)
Congruence			-1.276** (.406)	1.391 (2.245)		
Federalism	.149† (.083)				.200** (.060)	.049 (.087)
Effective number of parties	-.035 (.184)	-.098 (.236)			-.037 (.140)	-.393*** (.107)
Difference between two largest parties		-4.058 (2.119)			-.217 (.330)	-4.881*** (1.206)
No regions (dummy)	1.198** (.418)	.852 (.615)			1.233*** (.248)	1.875*** (.437)
Constant	33.599*** (4.264)	3.368* (1.398)	19.964** (7.495)	4.251*** (1.217)	22.168*** (3.067)	26.545*** (6.008)
<i>N (uncensored N)</i>			109 (26)	111 (24)	112 (37)	112 (35)
<i>N (level 1 units)</i>	41	35				
<i>N (level 2 units)</i>	10	7				
Log-likelihood	-31.308	-47.030				
Wald $\chi^2$ (whole model)				1.54		
$\rho$			.091	0.932	-.616	.526
Atanh $\rho$			.091	1.676***	-.719	.585
LR test of indep. [ $p > \chi^2$ ]			.03	26.98***	1.16	2.45

*t/z-values parentheses; † p<0.1 \* p<0.05 \*\* p<0.01 \*\*\* p<0.005*

**Table 6 (continued): Additional Specifications**

	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>
Dependent variable	Obj. 1	Obj. 2	Obj. 1	Obj. 2	Obj. 2
Model specification	OLS	OLS	Heckman, no cluster	Heckman, no cluster	Heckman, with manufacturing
<i>First Stage: Selection of Eligible Regions</i>					
GDP per capita (log)			-7.059*** (1.804)	1.880 (1.144)	2.549*** (0.847)
Manufacturing Employment (log)					0.005 (0.420)
Unemployment rate (log)			0.228 (0.468)	-1.170* (0.492)	-1.056* (0.436)
CAP transfers per empl. in agric. (log)			-0.027 (0.333)	0.752* (0.296)	0.141 (0.260)
Federalism			-0.114 (0.121)	0.099 (0.107)	
Effective number of parties			-0.273 (0.180)	-0.760*** (0.235)	
Difference between two largest parties			-0.620 (2.950)	-4.438 <sup>x</sup> (2.531)	
No regions (dummy)			2.624** (0.973)	0.445 (0.736)	
Constant			69.187*** (17.374)	-15.847 (11.070)	-24.127** (9.248)
<i>Second Stage: Structural Funds Allocation to Eligible Regions</i>					
GDP per capita (log)	-2.391 (.642)	-2.713*** (0.573)	-1.697** (0.639)	-2.138* (0.878)	
Manufacturing Employment (log)					0.587 (0.473)
Unemployment rate (log)	0.273 (0.199)	0.210 (.585)	0.076 (0.218)	0.100 (0.405)	-0.242 (0.398)
Federalism	0.161† (0.078)	0.047 (0.062)	0.200** (0.059)	0.049 (0.084)	
Effective number of parties	0.001 (0.119)	-0.272* (0.102)	-0.037 (0.111)	-0.392† (0.230)	
Difference between two largest parties	-0.782 (.761)	-4.250* (1.380)	-0.217 (0.952)	-4.881* (1.891)	
No regions (dummy)	1.292** (0.480)	1.933* (0.540)	1.232** (0.381)	1.875*** (0.614)	
Constant	28.189**  *(6.021)	31.810**  *(5.977)	22.168*** (6.171)	26.545*** (8.849)	0.445 (2.370)
<i>N (uncensored N)</i>	<i>41</i>	<i>35</i>	<i>112 (37)</i>	<i>112 (35)</i>	<i>117 (31)</i>
Log-likelihood			-56.296	-74.594	81.56
Wald $\chi^2$ (whole model)			32.26***	22.57***	2.26
$\rho$			-0.616	0.526	0.940
Atanh $\rho$			-0.719 <sup>x</sup>	0.585	1.74***

LR test of indep. [ $p > \chi^2$ ]			2.73 <sup>x</sup>	0.48	20.53***
<i>t/z-values parentheses; † p&lt;0.1 * p&lt;0.05 ** p&lt;0.01 *** p&lt;0.005</i>					

**Table 7: Comparison of European and National Elections**

Variable	Observations	Difference of Means	T-Value
Largest Party Share	92	-0.009	-1.27
Left Party Share	91	-0.028	-2.56**
Eurosceptic Party Share	91	0.054	6.9***
Difference between two Largest Parties	92	0.012	1.11
Effective Number of Parties	91	-1.667	-1.52
Turnout	81	-0.214	-13.42***

*Note: paired T-tests, assuming unequal variances. National elections on regional level for various years, election to European Parliament in 1999.*