

THE DOMESTIC USE OF EUROPEAN POLICIES –EUROPEAN REGIONAL POLICIES IN EASTERN GERMANY AND SOUTHERN ITALY

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Abstract

Although network governance and multi-level governance approaches have had to revise some of their claims, comparative empirical research and revised conceptualisations of the impact of European regional policies are rare. This paper conceives of European regional policy as a process of policy diffusion in which the supply side of (European) policies and the demand side of the domestic arena can be linked in different ways. The paper will present, firstly, an analysis of the opportunity structures European regional policies provide for domestic actors; and, secondly, a typology of different domestic constellations which lead to a different use of European policies. The empirical cases of eastern Germany and southern Italy, two of the most important underdeveloped areas in western Europe, demonstrate that the use of European policies for the empowerment of the regions and for a transformation of policies and polity are two of the possible results of the impact of European regional policy, but they are bound to very specific domestic preconditions.

INTRODUCTION

European regional policies have been among the first policy areas in which attention shifted from analysing the building of European institutions to analysing the impact of these institutions on policies and polity of the member states - long before the debate on “Europeanisation” emerged. Network governance and multi-level governance approaches have deduced their analysis of the impact of European regional policies from their claim of a specific emergent European polity. Although, on the one hand, both approaches had to revise their core claims and, on the other hand, a broad literature on case studies had emerged, comparative studies on the differential impacts of European regional policies can hardly be found.¹

This paper conceives European policies as an opportunity structure for domestic actors. European policies can be used for the empowerment of one domestic actor or

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¹ For exceptions, see Conzelmann 2002 and Lang 2003.

to promote a transformation of policies and polity. However, in this process, the supply side, i.e. European policies, and the demand side, i.e. the respective domestic arena, are much less directly linked. Furthermore, the opportunity structures of European regional policies are less uni-directional than multi-level governance and network governance approaches have claimed. The paper aims to provide a more comprehensive framework for the comparison of reactions to European policies by the domestic arena. Empirically, it will consider the case studies of eastern Germany and southern Italy,² two of the most important underdeveloped areas in Western Europe. Both member states are founding members of the European Union and are known for a positive attitude towards European integration. Eastern Germany and southern Italy reach only about 60% of the GDP per capita of the national average and less than 70% of the European average. Therefore they are targets of national regional policies as well as beneficiaries of objective one programmes of the structural funds targeted at the least developed regions in Western Europe. Both areas receive about 20 billion Euro support by the structural funds in the period 2000 to 2006.

The paper is structured as follows. Firstly, it will summarise the criticism brought forward against multi-level governance and network governance approaches. Secondly, it will analyse the opportunity structures European policies provide for domestic actors in vertical and horizontal governance. Thirdly, it will identify the character of domestic institutions and the position of the gate-keeper as the determining factors for the use of European policies. Fourthly, it will demonstrate how different institutional settings and the struggle for the position of the gate-keeper shaped the impact of European policies on regional policies in southern Italy and eastern Germany.

THE SHORTCOMINGS OF MULTI-LEVEL GOVERNANCE AND NETWORK-GOVERNANCE APPROACHES

Both multi-level governance and network governance approaches have linked their analysis of the impact of European regional policy to their claims of the character of the emergent European polity. Multi-level governance approaches have claimed that the emergence of a “third level in Europe” (Jeffery 1997) would empower the regions in Western Europe in relation to national governments. According to its proponents, European regional policies establish direct links between the Commission and the regions. These links produce an “upward stream” in policy

² This paper is based on the author’s own research and interviews in Germany and Italy as well as on a synthetic overview of secondary literature to which the author has also contributed (Bull and Baudner 2004, Baudner and Bull forthcoming).

formulation, in particular with the organisation of regions in the Committee of the regions, and a “downward stream” in policy implementation given the strong role for the regions in the implementation of the structural fund programmes. The coherency and validity of these arguments had been called into doubt by three arguments. First, the role of the nation state has been underestimated. After initial mobilisation at the European level, regions returned to promote their interests through their national governments. Furthermore, regions that benefit from structural fund programmes mostly lack the institutional capacity to make full use of them and the political clout to be empowered by them (Bailey and de Propis 2002). Second, regional policy is a “mixed blessing” (Thielemann 2002). Structural funds came into existence as a compensation for the effects of increased market competition brought about by the market liberalisation in the process of European integration. This process of “negative integration” included not only abolishing barriers to EU-wide trade but also cutting back on state aid for lagging regions. Some authors have even claimed that state aid control had been for a long time the most important European regional policy (Yuill et al 1997). Third, multi-level governance approaches have (somehow paradoxically) dealt with the interaction of governments in vertical governance and neglected the attempt of the Commission to bring non-state actors in. This latter process takes place at the sub-national level and poses requirements also for sub-national authorities.

The proponents of the network governance approach claim that European policies are aimed less at differential empowerment than at a different quality of relations between different tiers of state authorities and non-state actors. They have predicted a more comprehensive and strongly “ideational” impact of European policies. The argument, in brief, is that the Commission is aware of the democratic deficit at the European level and the necessity of a sympathetic treatment of target groups. Consequently it promotes the inclusion of social and economic actors into a new mode of governance to increase legitimacy and efficiency of European policies. In particular, structural fund programmes constitute a policy field, which becomes an area of “socialisation” into new principles and procedures.

In the EC context, involvement may be considered to be the most effective way of bringing about change in governance. ... Being involved in the formulation and implementation of European policies and in the concertation of transnational interests, [the actors] become socialised to new practices. Being involved implies being part of an institutionalised learning process. Experience will teach the deficiencies and/or attractiveness of a particular mode of governance (Kohler-Koch 1999:28-29).

The concept of network governance refers to a “specific system of interest mediation” that is based on the pursuit of partial interests by its actors (which distinguishes it from statism and corporatism which are based on the notion of a common interest) and the principle of concertation (which distinguishes it from pluralism that is based on majority decision) (Kohler-Koch 1999:20-23).

However, evaluating the results of several German research projects, Kohler-Koch (2002) came subsequently to sober conclusions. Firstly, approval of the policy principles that are the base of European policy programmes, such as inclusion of social and economic actors and territorial competitiveness policy, does not necessarily coincide with the actual observable behaviour. On the contrary, policy adaptation and compliance with structural fund regulations takes the form of “symbolic change” and “isolated implementation” in “Europeanised” policies (Lang 2003). Secondly, even in the case of policy change it cannot even be taken for granted that policy principles are transferred from the European level. Policy change might as well be the result of a transnational process of policy diffusion or developments at a domestic level (Kohler-Koch 2002). Finally, the network governance approach has been criticised for not being suited to grasp the relations between different levels of policy areas (Benz and Eberlein 1999). The definition of “concertation of interests” relates to the interaction of state and non-state actors in horizontal governance, in which state actors have a mediating rather than steering role. However, this definition can hardly describe forms of vertical governance.

To sum up, the impact of European policy is less clear-cut and one-directional and much more mediated by the domestic arena than established analytical approaches have suggested. From a different starting point, the debate on the “Europeanisation” of domestic policies came to similar conclusions. The debate started with emphasising the differential impact on member states but led to a widely shared sceptical view on conceiving the European impact as a causal mechanism for domestic change. On the one hand, adaptation pressure as a result of institutional or policy “misfit,” although mediated by filters such as the flexibility of domestic institutions (Boerzel and Risse 2001), is only in very exceptional cases the driving force of domestic change. On the other hand, domestic actors can exploit European policies for their own reform-oriented purposes, even if EU and domestic arrangements are compatible.

The discussion of the process of policy diffusion will therefore proceed with a detailed analysis of the supply side of (European) policies, that is the opportunity structures European regional policy offer, before it will turn to the demand side, the constellations of the domestic arena which determine the way domestic actors use European policies.

OPPORTUNITY STRUCTURES OF EUROPEAN REGIONAL POLICY

An analysis of European regional policy highlights the importance of distinguishing between vertical governance, that is the relation between the Commission, national and subnational authorities, and horizontal governance, that is the relation between state authorities and private and public interest groups at the regional and subregional level. Whilst in vertical governance the institutional relations the Commission promotes are closely related to economic development policies, in horizontal governance the institutional relations and administrative practices, which are promoted by the Commission, are interrelated.

VERTICAL GOVERNANCE

Network governance approaches have analysed how economic policies and a concept of participatory institutional relations converged in the conception of structural funds. The Commission attempted to spearhead a process of policy change in economic development policies that had already started in several member states (Ansell 2000). Economic development policies in Western Europe demonstrated a paradigm shift from an inward investment orientation towards an endogenous (or indigenous) development approach. The goal of the inward investment approach is to reduce regional disparities by attracting capital from outside the region in order to increase economic growth and employment. In contrast, the endogenous development approach aims to strengthen the endogenous economic potential and build the institutional capacity to make full use of it. The Commission portrayed its economic development policies as reflecting the general tendency that

...policy makers are moving away from their former reliance on subsidies for investment and employment and measures are being oriented more towards improving competitiveness and the regional business environment through business-related infrastructure development (notably in the Netherlands), technology transfer and consultancy services, especially for marketing and exports. The nature of business related infrastructure provision is also changing: the traditional provision of industrial estates, factories and local services is being supplemented by the creation of enterprise and incubator units, technology and science parks and telematic centres (CEC 1994: 136-7).

Referring to the need for knowledge and involvement in local and regional economic development, the Commission emphasised the necessity to involve regional and local authorities to increase the efficiency as well as the legitimacy of policy-making. The “partnership principle,” as the Commission called it (as aptly as

vaguely), was given an institutional frame with the participation of regional authorities in the elaboration of Community Support Frameworks (outlining the policies for the entire territory of southern Italy and western Germany respectively) and in the associated national monitoring committee. The Commission encouraged, furthermore, the elaboration of regional operational programmes (along national operational programmes for policy areas such as transport) and the delegation of responsibility to the relevant regional authorities, which are in many European member states regional governments.

However, the “mode of governance” the Commission promotes can best be characterised as “contractualisation.” Negotiations with the Commission itself take place within a strong “shadow of hierarchy.” Policy formulation does not occur in egalitarian co-operation between the higher and the lower echelons of governance (as in German co-operative federalism). Firstly, the Commission sets the framework conditions for policy formulation by drafting the Community Support Framework (CSF), although on the basis of regional development plans submitted by the member state (in cooperation with regional authorities). Secondly, within the framework of the CSF the national or regional authorities elaborate national and regional operational programmes, but the Commission exerts a significant influence by the threat to withhold its approval. The control function of the Commission is most obvious with regard to the use of the classic instruments of the inward investment approach, investment and wage subsidies. Investment subsidies still remain part of the structural funds but they are subject to the limitations set by the Commission. Moreover, the Commission announced a stop to any permanent wage subsidies. In a similar vein, national governments can use the negotiations for the state aid control agreements as well as for Community Support Frameworks to set framework conditions for the regional operational programmes. Opportunity structures, therefore, encompass the empowerment of regional authorities as well as the “hollowing out but hardening” (della Sala 1997) of the central state by using the external bounds to stop permanent, unconditional support for lagging regions. The delegation of responsibility to the regional authorities as promoted by the Commission is based on an endogenous development approach, but goes along with an emphasis on “territorial competitiveness policies”.

HORIZONTAL GOVERNANCE

In horizontal governance, the institutional relations and administrative practices are interlinked in the conceptions of the Commission. The emphasis put on the integration of the different European structural funds for social policy, agricultural policy and regional policy, its link to developmental strategies, and a continuous

evaluation open up space for the inclusion of non-state actors in a process of deliberation.³ The Commission claims that

...programming and evaluation [...]together have created a policy making process with continuous improvement in the measures implemented (again the 'learning organisation') and which are often described as the main innovation to arise from the Funds (CEC 1999:11).

In terms of administrative practices, “programming” means the integration of policy programmes of different ministries and their link to explicit developmental strategies. This approach aims at overcoming the divisions between departmental responsibilities, and between political decision-making and administrative policy programmes. In addition, the use of a comprehensive system of evaluations aims to introduce result-oriented administrative practices.

Both approaches open up the possibility to include non-state actors in the deliberation of policy programmes and its surveillance and examination. Since the Commission retreated to some extent from participating in decision-making in the Monitoring Committees, it provided further technical assistance for private and public-interest groups in order to obtain the necessary expertise to evaluate the administrative documents. Opportunity structures in this process encompass the empowerment of private actors as well as the strengthening of the regional executive (and to some extent) the national executive by a tighter control of the success of policy measures.

PRECONDITIONS FOR DOMESTIC RESPONSIVENESS: STRENGTH OF INSTITUTIONS AND POSITION OF THE GATE-KEEPER

In the analysis of the use of European policies in eastern Germany and southern Italy, the paper will use a framework that avoids a methodological premise of whether the impact of European policies will be empowerment or policy transformation. It will use the “actor-centred institutionalist approach” developed by Mayntz and Scharpf (1995). This approach uses a narrow definition of institutions as formal rules. This definition avoids regarding institutions as determining behaviour. Mayntz and Scharpf emphasise that institutions guide the behaviour of actors but actors have at the same time the option to change the institutions (Mayntz and Scharpf 1995:44). However, institutions are supported by informal rules or an institutional culture, which determines the propensity of actors

³ Some authors have even claimed that the main function of non-state actors in the monitoring committees is to provide information and serve as an “alarm bell” for the Commission (Bauer 2001).

to seek for institutional change. Informal rules have been defined by Boerzel as “informal understandings about appropriate behaviour within a given formal rule structure” (Boerzel 1999:579). Boerzel analysed informal rules as determining actor’s behaviour in reaction to changes induced by Europeanisation. However, informal rules are not only relevant in cases of external shocks, but the relation between the informal rules and the formal rules is one of the moving forces for institutional change. This relation determines the propensity of domestic actors to use European policies to promote domestic change. It will therefore determine in policy areas such as regional policy whether change will occur at all, which leaves considerable leeway for domestic actors. The propensity of actors to change institutions will differ in various institutional settings according to how strongly formal rules are based on entrenched informal rules. This distinction allows us to incorporate the phenomenon that “imported” institutional settings determine formal rules, but day-to-day-interaction occurs according to well-entrenched informal rules.

The paper will distinguish, according to the different relation between formal and informal rules, between uncontested institutions, parallel institutional settings, contested institutions and institutional voids. It will argue that domestic actors use European policies according to the “robustness” of domestic institutions.

UNCONTESTED INSTITUTIONS

In uncontested institutions, informal rules are congruent to formal institutions and accepted by all domestic actors. In uncontested institutions, the “logic of appropriateness” determines the behaviour of actors. If domestic institutions are characterised by strong informal rules, divergent formal rules of European structural fund regulations will be implemented in a formal and symbolic way but actors’ interaction will be guided by the well-entrenched informal rules. The impact of European policies will be limited, as dependent on the domestic institutional capacity, to adaptation or inertia.

PARALLEL INSTITUTIONAL SETTINGS

Uncontested institutions can, however, encompass different institutional frames. In this case actors have to decide on the “coupling” of structural funds with domestic institutional frames. Actors can be empowered if they “couple” European policies with one of the different institutional frames in the domestic context. The impact of European policies, though, will be characterised by empowerment of one domestic actor whilst policy transfer will be limited.

CONTESTED INSTITUTIONS

In contested institutions, not all domestic actors accept informal norms. Contested domestic institutions leave more leeway for interest-oriented strategies of actors. Actors, therefore, make selective use of European policies to push for change in domestic informal rules. The impact will be a mix of empowerment and policy transfer.

INSTITUTIONAL VOID

In a process of institutional change that leads to a temporary institutional void, European policies are used to foster the entrenchment of new informal rules. Comprehensive reforms of domestic policies will rather foster new relations between actors than the empowerment of one actor. The willingness to use European procedures to establish new institutional relations is the highest in this case.

Whilst the strength of domestic institutions determines the propensity of domestic actors to use European policies to promote domestic reforms, the actor who occupies the broker position to the European Commission will determine the exact thrust of domestic reforms. This actor has been described as the gate-keeper but his function might as well be that of a gate-way for European policies. Therefore, two further preconditions and factors determine the impact of European policies: the institutional capacity of the gate-keeper and the policy convergence between the policy preferences of the gate-keeper and European regional policies. In addition, institutional capacity and policy convergence will be the decisive factors to obtain the position of gate-keeper to the Commission in the first place. Lastly, as the following case studies will show, European regional policies offer opportunity structures for different domestic reform projects and different combinations of policy transfer and empowerment of domestic actors.

EUROPEAN REGIONAL POLICIES IN EASTERN GERMANY

VERTICAL GOVERNANCE: COMPETING INSTITUTIONAL FRAMES

German regional policies reflect the characteristics of policy-making in Germany's co-operative or interlocking federalism (Benz 1999, Sturm 2000). German regional policies are characterised by the co-existence of (i) co-operative policy making in the "joint task development of regional economic structures" and (ii) exclusively regional competences in the other areas of regional policies. Regional policies are therefore related to two sets of institutions that, moreover, incorporate different economic development strategies.

Although the constitutional assignment of responsibilities in Germany distinguishes between national, concurring and regional responsibilities, interlocking competencies are the prevalent form of co-operation between the territorial levels. German interlocking federalism is based on the assignment of most of the administrative tasks to the regional level on the one hand, and the far-reaching co-operation of the chamber of the regions in policy-making on the other hand. Regional policy, though, goes one step further as it is based on the interaction of the national and regional executives in the “joint task development of regional economic structures”.

Regional policies were first introduced at the national level during the grand coalition of the Christian democrats and Social democrats (1966 to 1969) which together held a two thirds majority to make constitutional amendments. Several path-breaking reforms in this period were inspired by Keynesian demand policies and aimed at co-ordinating the expenditures of national and regional policies. In addition, the competency of the federal government for regional policies (as well as for the reform of the university system) was at least debatable. Therefore, programmes were conceptualised as “joint tasks” between the regions and the federal government in which both contribute 50% of the relevant resources. In addition, policy programmes were formulated together but implemented by the regions at their discretion. In terms of economic development policies, policy programmes followed the inward investment approach and were strictly limited to investment subsidies and business-related infrastructure. In the German context it was the “export-base” theory, which stated that economic growth is dependent on an increase in exports and, therefore, subsidies were limited to companies in the relevant economic branches. This institutional arrangement was due to the interlocking competencies and was so resistant to substantial change that it was described in Scharpf’s seminal work as a “joint-decision-making trap” (Scharpf 1985). Scharpf pointed out that informal rules went even further than formal rules for majority decisions, and demanded unanimity in the negotiations between the federal and the Länder governments. As a result, he concluded that responsibilities became blurred and, due to the required unanimity among the regional governments, changes to the redistributive rules were only possible by increasing the resource transfers from the federal level.

However, during the 1980s Länder governments developed their own regional policies that implemented the new instruments of the endogenous development approach. At the Länder level the theory of “endogenous development” took hold encompassing support for research and technology initiatives, qualification of workers, regional infrastructure, environment and housing supply, creating an innovative and stimulating climate for economic activity (Benz 1999:18).

Regional policies were a part of the policies of the Länder and aimed to raise their profile. They have been made possible by the allocation of resources from taxes, which are levied by the federal level, to the Länder according to rules established in the same period 1966 to 1969. The allocation of resources to the Länder within a comprehensive fiscal equalisation mechanism entailed a strongly egalitarian aspect. After unification the economically lagging Eastern German Länder were incorporated in the equalisation system. As a compensation for their much lower tax income, they were granted within the framework of “national solidarity pacts” transfers from the western Länder as well as significant additional resources from the federal government. On their part, the Länder have been eager to defend their own competencies by raising the hurdles for intervention by the federal government in the revision of the constitutional law in 1994.

In the aftermath of German unification, the regional policy of the “joint tasks development of regional economic structures” became the core instrument of the economic development policies for eastern Germany. The joint tasks were substantially increased and became heavily bent towards the east⁴ (Anderson 1999). Investment subsidies were regarded as the main instrument to compensate the loss of industrial substance as a result of the economic unification of eastern Germany, even more so when it became obvious that unification and the subsequent exposition of eastern German companies to the more advanced western competition led to a dramatic scaling down of eastern German companies and the loss of millions of jobs.

The German government briefly considered renouncing structural fund support in exchange for more leeway for national regional policies. Subsequently, the Commission and the German government agreed on a simplified programme structure to include eastern Germany in the structural funds for 1991 to 1994. In this transition period, the federal ministry of economics occupied the position of gate-keeper in the relation to the Commission. It channelled the structural funds completely into the joint tasks. The ministry pointed to the economic rationale as well the lack of administrative capacity of the new regional governments. Despite initial dissenting voices in the eastern regions, the Commission agreed with the position of the federal government.

The negotiations for the period of 1994 to 1999, however, brought about hard struggles between the Commission, some eastern Länder governments and the federal ministry of economics. The Commission regarded the inward investment

⁴ Between 1991 and 2003 the new Länder received 47.215 million Euros and the old Länder received 5.181 million Euros out of the joint tasks development of regional economic structures (<http://www.bafa.de/1/de/aufgaben/wirtschaft/gemeinschaftsaufgabe.htm> [accessed 21.03.2005]).

policy of the joint tasks as outdated. It refused to finance any more greenfield estates in business-related infrastructure and insisted on a stronger emphasis on SMEs. In addition, Saxony in particular and its minister-president Kurt Biedenkopf, a long-time adversary of chancellor Helmut Kohl in German politics, addressed the Commission directly and pushed for the opportunity to use structural funds outside the joint tasks. The eastern German Länder wanted to use European funds for their own regional policies targeting “indigenous” small and medium enterprises, as well as for environmental policies and basic infrastructure such as trunk roads. As a result, the joint tasks were to some extent modified to encompass some of the endogenous development policies, in particular to include investment subsidies for SMEs. In addition, a flexibility clause allowed the eastern German Länder to use the funds for other purposes, which complied with the very wide definition of development policies by the Commission. One salient example of environmental policies is the restoration of areas that have been damaged by the Russian military, in particular in the region of Brandenburg.

Subsequently, the role of the federal government in the negotiations for the period 2000 to 2006 was very limited. The German proposal for the Community Support Framework was a compilation of the regional development plans, which the ministry of economics had even outsourced to a consultancy agency. All eastern German regions used European funds outside of the joint tasks to a much higher degree as in the preceding period 1994 to 1999. Subsequently, the German government openly favoured, in the negotiations of the future of structural funds, a re-nationalisation of regional policies. In contrast, the eastern German Länder rejected its offers to be compensated by national regional policies. They wanted to maintain their discretion of policy formulation as well as the security of the European 7 year programmes which are not subject to domestic insecurity.

Vertical governance in Germany demonstrated the logic that multi-level governance approaches are evoking: i.e. the pressure from below (the regional level) and from above (the European level) led to an empowerment of the regions. The regions could replace the federal ministry of economics as the gate-keeper to the Commission as they were to decide on the use of European funds in one of the competing institutional frameworks. In contrast, the federal ministries developed an animosity against European regional policies. A top civil-servant of the federal ministry of economics portrayed the relation between the two sets of regional policies as a zero-sum game and the Commission’s strategy as “double attack”:

(S)ince the mid 1970s the Commission pursues the strategic aim to push member states to the sideline in the area of regional policies. It does so by following a double strategy. By tightening up state-aid control it

constrains the options for German regional policy step by step. At the same time it extends its own competencies in the area of EU structural policy. By doing so it fills the policy gap it has created by its state aid control policy in the first place (Tetsch 1999:373).

However, eastern German regions were not willing to accept European state aid control, as investment subsidies still play a prominent role next to policies for “endogenous development”. The often cited controversy about investment subsidies for the VW plants in the region of Saxony demonstrated a serious clash between the Commission on the one hand and the German federal and regional government on the other hand. Eastern German Länder had been empowered in their relation to the federal government but the policy change was limited.⁵

Informal rules did not allow the national government to adopt a proactive stance in negotiations with the Commission in the context of the contractualisation-approach and to “invade” the areas of Länder regional policies.⁶ Moreover, no informal rule existed that would have demanded a similar compensation of the national government for the empowerment of the regional governments as was the case in the opposite effect of European integration (Boerzel 2000).

HORIZONTAL GOVERNANCE: UNCONTESTED INSTITUTIONS

The co-operation of the Länder governments with the Commission, in opposition to the national level in the negotiation of the CSF, did not lead them to regard the policies of the Commission on the regional level with similar approval. On the contrary, at the regional level European policies met uncontested and well-entrenched institutions. As a heritage of the late state-building process in Germany, most administrative functions are historically delegated to regional and local authorities. In addition, the German administrative tradition is based on a strict division between public and private actors. Civil servants demonstrate a co-operative attitude towards private actors, however, they are held responsible to the state and not the public. Therefore civil servants have a formalistic and legalistic approach to policy implementation, which is clearly separated from the political decision-making process. In addition, policy-making is strongly sectoralised by the responsibilities of different ministries which interact mainly in “negative co-ordination”, that is, in case of tension between policies (Knill 2002:68-70). This

⁵ Conzelmann (2002) himself revised an earlier opposite assessment of the controversy as a process of “policy learning” (in Conzelmann 1998).

⁶ Only very recently the federal government attempted to achieve a say in the spending of resources within the framework of the domestic solidarity pact until 2019, which was negotiated in 2003 and encompassed resource transfers of 160 billion Euros. The Länder rejected the demands of the federal government point-blank.

character of German administration has rather been enforced in eastern Germany by the state-socialist legacy.

In addition, even western Länder governments themselves have been analysed as lacking institutionalised co-operation with non-state actors. The German policy-making style has often been described as corporatist (Schmidt 1997). However, corporatist arrangements exist at the federal level, in particular in social policies, but are hard to find at a regional level. If there is a consultation of trade unions and employer organisations in the process of policy-making, it is rather based on personal contacts. Organised social and economic interest actors are at the margins of communication “networks” (Knodt 1998).

Accordingly, the Commission’s suggestions and demands to include public and private actors into the monitoring committees and to provide them with technical assistance to obtain additional expertise were only reluctantly accepted and put into practice. Whereas regional and federal government could prevent the obligatory participation of non-state actors in the monitoring committees in the CSF for the period 1994 to 1999, it took several pointed letters from the commissioner for regional policies, Monika Wulf-Mathies, to the minister-presidents of regional governments to urge the Länder governments to include non-state actors in the monitoring committees at the Länder level. Despite a higher degree of compliance in the preparation of the operational programmes for 2000 to 2006, an examination of the “programming” process in Saxony, for instance, concludes that “the interaction has to be characterised as one-way-street” (Eckstein 2001:323).

Social and economic partners on their part do only rarely participate actively in the deliberation of regional policies. As one representative in the region of Mecklenburg West Pomerania, which still stands out in the quality of the negotiations in the Monitoring Committees, put it: “Speaking alone to the ministries is more efficient.” Social and economic partners are in general more interested in information about access to funding in areas such as vocational (re-)training where both trade unions and employer organisations have interests at stake. Emblematic was the negative attitude of social and economic partners in several regions towards the Commission’s suggestion to get a vote in the Monitoring Committees as they rejected “to be held responsible” for the implementation of European funds.

In addition, the administration regards the integration of programmes as well as their evaluation as neither necessary nor compatible with the German administrative system. German regions are given in the reports of the Commission as laggards in the elaboration of regional development strategies and plans. Evaluation is regarded with utmost suspicion by all levels of government in Germany. Even the failure of

numerous large investment projects did not change the conviction held by all levels of German administration that evaluations are not capable of measuring and comparing the effectiveness of policy implementation. In addition, the dependence of evaluators on the commissions from the administration is emphasised.⁷ As a result, structural funds are integrated in the ordinary administrative programmes with hardly any link between different programmes.

To conclude, eastern German Länder had to comply with structural funds arrangements, but informal rules dominate the policy-making process. The integration of funds can only be found in the official reports and possibly as side-effects of the different departmental policies; evaluations are not accepted as an instrument to increase the quality of policy implementation. Monitoring committees rather serve as communication channels and testing ground for regional governments and administrations. Although regional administrations had to adapt to the formal rules of structural fund regulations and had the institutional capacity to do so, policy making follows informal rules based on the well entrenched policy-making style and administrative tradition.

REGIONAL POLICIES IN SOUTHERN ITALY

In contrast to the stable institutional environment of German regional policies, at the inception of European regional policies, institutional relations as well as economic development policies were increasingly contested in southern Italy. Regions were established in Italy in the first half of the 1970s, albeit with very limited competencies, and Italy had become a “decentralised unitary state.” However, the territorial structure of state organisation in Italy had been subject to controversy and political struggle since the end of the Second World War. In fact, the constitution had already prescribed the establishment of regions, but the governing Christian democrats feared (at that time) the domination of central Italian regions by the communist opposition. Therefore, the implementation of regional structures was limited to the granting of special statutes to Sicily, Sardegna, Trentino Alto-Adige and Venetia-Giulia. With the establishment of the regions, a slow process of decentralisation started. The transfer of resources was very limited and often connected to circumscribed purposes, in particular for (local) health services.

In addition, these changes hardly effected the organisation of regional development policies in the south. The policies for the south were based since the 1950s on the “special intervention” by the Cassa per il mezzogiorno and a strong role of the state-owned holdings in economic development policies. In the post-war years the

⁷ Officials of the ministry for economics caution against the emergence of an “evaluation mafia”.

Cassa per il mezzogiorno was explicitly designed to circumvent the inefficient administration in the south. The Cassa as well as state holdings were founded as independent agencies and companies led by independent top personnel with a high degree of professionalism. This seemed to be a successful formula for economic development in the 1950s and 1960s (Locke 1995). In fact, the gap between northern and southern Italy decreased and the living conditions in Italy improved considerably. The economic strategy of the Cassa had followed an inward-investment strategy that neglected any embeddedness in local and regional economies. State holdings were obliged to allocate up to 60% of their investment in the south (Locke 1995). As a result, numerous infamous examples of “cathedrals in the desert” emerged. In the 1980s the gap was visibly widening again and the negative effect on the endogenous potential of the south became obvious. Industrial districts, the landmark of the late development in central and northeast Italy, had virtually disappeared. In addition, the Cassa and the state holdings had become subject to political influence and interference and degenerated into resources for clientelist competition.

Widespread dissatisfaction concerned the institutional model and the economic development strategies. Despite a growing transfer of resources (although from a very low level), subnational authorities did not have to bear any responsibility to account for its use. Some attempts, in particular in 1976 and 1986, were made to give regional governments more of a say in regional policies and to remedy the strong investment orientation of the policies for the south by introducing measures for small and medium enterprises.

In the first period of structural funds from 1988 to 1993, the Commission tried to establish links to the regional governments and deal with them as policy brokers. Half of the resources of the structural funds were assigned to the regional governments and provided them with the first significant role in economic development policies. On its part, the central government for the first time feared being bypassed. The minister responsible for co-ordination of Community policies criticised that

...the Commission [...] insists on an unacceptable tendency to take initiatives directly involving regions, a procedure, which while it might appear faster, unbalances the contractual relationships and so in practice gives the Commission more freedom of manoeuvre and choice (cited in Desideri 1995:79).

However, regional governments (with the exception of Basilicata) had neither the institutional capacity nor the same policy preferences as the Commission. Regional

governments were still focused on providing visible benefits to the largest number of voters by using traditional policy instruments, in particular the building of basic infrastructure. Structural fund implementation added another chapter in administrative failure and in Italy's notoriously bad implementation record of European policies. The second period from 1994 to 1999 had to spend the considerable leftovers of resources from the first period, 1988 to 1993, which regional governments had simply not been able to spend according to the more demanding European regulations. Some reorganisation of the bureaucratic coordination of structural fund implementation took place. In particular, the establishment of the *cabina di regia* improved the bad implementation record but at the expense of relying again on traditional programmes such as infrastructure and investment subsidies (LaSpina 2003). In addition, regional governments tended to spend money on national programmes or the resources were reallocated to national programmes to prevent them from being forfeited. Empowerment and policy transfer to regional government was limited by their lack of institutional capacity and the lack of policy convergence.

The economic and political crisis in Italian policies culminated in 1992 when Italy was forced to leave the European Monetary system due to its exorbitant inflation and budget deficit. At the same time, the *tangentopoli* scandal in Milano and the assassination of high profile judges in southern Italy by the mafia discredited the parties which had governed Italy since the end of the Second World War. This crisis led to the breakdown of the established party system and the disappearance of all five governing parties. In the course of the Italian transition, both the national ministry for state participation and the *Cassa per il mezzogiorno*, as symbols for clientelism and the waste of public resources, were abolished under the pressure of public referenda which threatened to do exactly that. As a result, this form of "parallel administration" (Baldi 2000) was abolished. In the aftermath of the 1992 crisis, European policies were used by transitory governments to dismantle the remnants of the old policy for the south. The pressure of the Commission to limit the debts of the largest state holding IRI fostered the privatisation of the state-holdings. This influenced the Ciampi government to complete the removal of juridical obstacles to privatisation (OECD 1995:68). Another salient case of the use of the European leverage was the swift ending of wage subsidies (by the tax deductibility of social contributions) in the south, which had lowered the wage costs by up to 20%. Although the Commission put pressure on Italy in this question, Pagliarini, the minister of the Northern League in the first Berlusconi government, used the negotiation in 1994 to end this support for the south much swifter than the Commission would have insisted on (and the phasing out was subsequently renegotiated by the following government) (Viesti 2003; Barca 2001). During this period European state aid control, the "stick" in European regional policies,

empowered the national government to limit and terminate “unconditional support” for the south by wage subsidies and public enterprises.

Only with the election of a centre-left government after several transitory governments, mainly of technocrats, a reorganisation of regional policies in Italy took place. In this situation with the Department for development and cohesion policies (DPS, Dipartimento per le politiche di sviluppo e coesione), a new actor emerged as policy broker and gate-keeper to the Commission. The DPS was designed as an administrative unit with a high degree of independence. It was assigned the function to lead the process of negotiation between the central state and the regions over planning agreements, and to negotiate them with the Commission. The DPS subsequently played a pivotal role in the reform of Italian regional policies at a time when the dismantling of the old policies for the south had left a considerable institutional void. Public investment had plummeted and the ordinary administration had to take over the responsibilities of the Cassa per il Mezzogiorno.

The DPS used structural funds to promote a new mode of governance that combined the delegation of responsibility with increased control of the principles of policy formulation and a tight control of policy implementation by the central state. Institutional arrangements elaborated by the DPS have been characterised as “neo-centralisation” (Gualini 2001) or as a U-turn from “excessive decentralisation” (Piattoni 2003). The DPS had a similar conception of a contractualisation of the relations between the central and the regional governments as the Commission. The regions did not universally welcome the increased control this approach brought about; in particular Sicily and Sardinia with its special status resented the interference of the national government.

In the relation between the central government and the regional governments, the latter were allocated more than 70% of the resources in the period 2000 to 2006.⁸ However, the Community Support Framework provided a much stricter framework than in the previous periods. The developmental strategy of the DPS was explicitly based on the growth theories by Krugmann (1991), which focus on the external effects of agglomerations as the main factor for regional competitiveness. The CSF, therefore, limited investment subsidies and infrastructure works on the one hand, and assigned considerable resources to subregional programmes and territorial pacts on the other hand. Symptomatic was the disappearing of the axis “industry, craftship and services for enterprises” which was absorbed in the axis “local system.” The head of the DPS, a well-known economist, pointed out:

⁸ In fact, including the reward reserve, a premium for the best performing regional programmes, the regional quota is near 80%.

Despite strong pressure from the conservative Italian confederation of Industrialists, incentives for businesses have been drastically reduced. A larger share of resources is thus left to finance projects proposed by local infrastructures and training and research facilities. Territorial pacts inside clusters therefore have a relevant role to play (Barca 2000:106).

HORIZONTAL GOVERNANCE

At the regional level also, substantial institutional gaps if not institutional voids emerged. First, a considerable part of administrative functions had been for decades assigned to the Cassa per il Mezzogiorno. Second, the relations between regions and local authorities were at best contradictory, if not tense. Traditionally, it had rather been local authorities that had taken over (however rudimentary in the south) functions in economic development policies.

The DPS engaged in an institution-building process in administrative practices and a large-scale experiment in new forms of territorial governance. Following up administrative reforms of the so-called Bassanini laws of 1998 that delegated a large part of the administration to the subnational level, the DPS attempted to diffuse a result-oriented administrative culture. Regional administrations were provided with evaluation units (“nuclei di valutazione”) to strengthen the regional executive and tighten control of policy implementation. However, this did not coincide directly with the inclusion of non-state actors in the policy-making process. Private and public interest groups are weakly organised at the regional level in Italy. Instead of bringing non-state actors in, the DPS used another instrument the Commission had devised in the 2000-2006 period: the reward reserve. The reward reserve is allocated conditionally on the fulfilling of implementation criteria; a part of it is allocated only to the most successful programmes. In contrast to other member states such as Germany who strongly resented the introduction of the reward reserve, Italy added another 6% reserve to benefit the building of institutional capacity.

On a subregional level, territorial pacts and territorially integrated programmes constituted a new form and a new level of territorial governance. Territorial pacts were developed in the Italian context at the same time (starting in 1996) when the Commission promoted Territorial employment pacts. Both were designed to encourage economic entities encompassing one or several provinces to elaborate common agreements for development projects with all relevant public and non-public actors. These should include commitments by the administration, employer organisation and trade unions to increase efficiency and flexibility in their co-operation. Accordingly, the resources spent on territorial pacts have been described as the “public incentive for local communities, which want to change the

rules of the game and of territorial governance” (Cersosimo and Wolleb 2001: 221-222; cf. Trigilia 2001). The EU-supported pacts turned out to become the example of “best practice” in the Italian debate. They provided more resources in particular to employ technical staff, and established at the same time stricter regulations for the commitments of all participating actors (Cersosimo and Wolleb 2001). Territorially integrated programmes, which followed the same scheme, became an important part in the period 2000 to 2006, encompassing around 20% of the regional expenditures.

The aim of this new form of governance is evidently to replace the informal rules of co-operation in the common practice of dividing the spoils, and to encourage deliberative processes aiming at producing public goods. Territorial pacts and territorially integrated programmes became a large-scale experiment in “new modes of horizontal governance.” This attempt still has to be evaluated in detail, and differences within the regions have to be analysed. The conception of evaluation units in all regional governments is an example that demonstrates that the new concepts and ideas in administrative practices had been developed in the domestic context (as early as in the failed reforms of 1981). However, European policies provided some innovative procedures and the external bounds to enforce new rules. European policies conferred the approach of the DPS, in the words of Fabrizio Barca, “credibility and legitimacy.”⁹

With the period 2000 to 2006, the responsibility for territorial integrated programmes and territorial pacts was handed over to the regions. The relation between the regions and territorial pacts became a new level of vertical governance. The regions were assigned a similar function for these pacts as the central government to the regions, that is to set framework conditions and evaluate and monitor the results. The DPS attempted to diffuse this new mode of governance in the relation between the central government and the regional governments, and encouraged regional governments to establish the same relationship between regional governments and subregional territorial pacts and territorially projects and pacts.

Whereas the DPS demonstrated a high degree of policy convergence and the institutional capacity to promote the reforms in vertical governance at a regional and subregional level, it is rather dependent on the institutional capacity and the policy convergence of regional and local actors whether these reforms will be a period of policy innovation or transformation. However, the institutional void and the emergence of a new policy broker led to the use of European policies to reform administrative practices and institutional relations. In the Italian case, it concerned

⁹ Personal interview in September 2003.

the relations between regional and subregional entities as well as within these subregional entities.

CONCLUSION

The case studies have demonstrated considerable differences in the use of European policies. In Germany's co-operative federalism, the Länder in eastern Germany have been empowered as they replaced the federal ministry of economics in the position of gate-keeper to the Commission. They are to decide as to which of the competing domestic institutional frames they use European funds, either within the co-operative policy-making in the joint tasks or within their own regional policies of the Länder. This process of empowerment came close to the mechanism multi-level governance approaches have evoked: the coalition of pressure from below and from above on national policies. In contrast, no informal rules existed in Germany that would have allowed the federal government to use the contractualisation in European programmes to "invade" the regional policies of the Länder. In fact, even the demands of the federal government to have its say in the spending of the resources, which the solidarity pact transferred to the eastern Länder, have been point-blank refused by the eastern Länder.

In addition, European policies led only to limited policy change, as the eastern regions were not willing to accept European limitation on the inward-investment policies. Furthermore, as uncontested institutions existed at the regional level both with regard to the process of policymaking and in terms of administrative practices, informal rules dominated policy-making in the area of "Europeanised" policies.

Vertical governance in Italy was, from the inception of European regional policies, based on contested institutions. Centralised policy-making in vertical governance and a strong investment-orientation in economic development policies were executed by the Cassa per il Mezzogiorno and the state-owned holdings. Regional governments were not able to use in this situation the position as gate-keeper due to a lack of institutional capacity and policy convergence. Subsequently, in the aftermath of the Italian political and economic crisis in 1992, the national government was empowered by the use of European policies to enforce the ending of inward investment policies. It was only in the resulting situation of an institutional void that the position as gate-keeper was assigned to the newly established DPS in Italy. The DPS used European policies to push for the diffusion of a new mode of governance and strongly endogenous-development oriented economic policies. A new mode of governance is rather characterised by contractualisation in vertical governance and deliberation in horizontal governance on a subregional level. In addition, the conceptions have been developed in the

domestic context but European policies provided the detailed procedures and the “external bounds” to put them into practice.

Do European policies foster or even lead to a convergence of development paths in regional policies? There is a common tendency in Western Europe towards the adoption of the endogenous development approach and the establishment of some form of regional authorities. However, these developments are clearly the result of domestic economic and political changes and differences remain considerable. Despite increasing criticism, Germany and in particular eastern Germany still hold a strong inward-investment orientation in addition to endogenous development policies. Somehow ironically, the strong position of the regions in the German co-operative policy-making, which exceeds the degree of decision-making power in the Commission’s contractualisation approach, has further been strengthened. However, given the increasingly contested poor results in eastern Germany, co-operative federalism might turn from strength to weakness in the German domestic context.

As far as horizontal governance is concerned, a tendency toward result-oriented administrative practices can often be found, but is far from universal. As demonstrated, German administrative tradition shows considerable resistance. Even more so, policy-making in networks remains a vision. Moreover, it is debatable whether the regional level is the appropriate territorial dimension to develop a dense net of actors for the direct co-operation in economic development projects, when “economic regions” are usually much smaller (McAllevy and de Rynck 1997). Subregional territorial pacts in Italy are an interesting policy experiment in this respect; it still has to be fully evaluated.

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