

EU Regional Policy: has the UK government succeeded in playing the gatekeeper role over the domestic impact of the European Regional Development Fund?

Ian Bache

Thesis submitted for the degree of Doctor of Philosophy
Sheffield University 1996

Acknowledgements

There are many people to thank for their help during the writing of this PhD. I will begin with my partner Pamela and son Thomas, whose love made the completion of this research both possible and worthwhile.

Stephen George, my supervisor, has given sound advice and great support when it mattered most. I shall always be grateful for that.

I would like to thank the many people who gave their time to be interviewed for this research. Particular thanks goes to my friend and former colleague Linda McAvan who has been an important source both of information and encouragement.

Finally, I would like to thank the members of my family not already mentioned for their continued support; Daniel and Julie McArthur and Guy and Maria Scandlen for their friendship overseas (and computer!); and the staff in the politics department at Sheffield University, Patrick Seyd in particular for his helpful comments on an earlier draft.

Ian Bache, Sheffield, May 1996.

Summary

This research sets out to test the hypothesis that the UK government has succeeded in playing a gatekeeper role over the domestic impact of main instrument of European Union (EU) regional policy, the European Regional Development Fund (ERDF).

In relation to the domestic financial impact, this research examines the UK government's implementation of the EU principle of additionality: that EU regional funds should be spent in addition to planned domestic expenditure.

In relation to the domestic political impact, consideration is given to both additionality and the implementation of the EU principle that regional funds should be administered by partnerships involving national governments, subnational actors and the Commission.

While this research traces the development of the ERDF from its origins, the primary concern is with developments after the 1988 reform of the structural funds. In this reform, the allocation of funding doubled, the additionality requirement was strengthened; and the partnership principle was introduced.

It was found that despite the sustained and sometimes collaborative efforts of the Commission and subnational actors to undermine the role of UK national government in the implementation of EU regional policy, these efforts have thus far met with limited success.

While this findings may inform existing theories of EU regional policy-making, this thesis argues that existing theories are too general to guide case studies of single government action such as this. Moreover, existing theories tend to focus on EU-level decision-making and neglect the importance of implementation in shaping policy outcomes.

This thesis concludes by proposing a new framework for analysing the role played by a single national government over specific EU policy issues, throughout the policy process. The framework outlined is described as the 'Extended Gatekeeper' approach.

Contents

Chapter 1: Liberal intergovernmentalism and policy networks

1.1 Introduction

- 1.1/2 Towards a theoretical model
- 1.1/3 Intergovernmentalism and the gatekeeper concept

1.2 Liberal intergovernmentalism

- 1.2/1 State rationality
- 1.2/2 Liberalism, national preference formation and the demand for integration
- 1.2/3 Intergovernmentalism, interstate bargaining and the supply of integration
- 1.2/4 Supranational institutions and the efficiency of decision-making
- 1.2/5 Beyond liberal intergovernmentalism

1.3 Policy networks

- 1.3/1 The implementation stage of policy-making
- 1.3/2 The policy networks approach
- 1.3/3 Policy network typology
- 1.3/4 Policy networks and implementation
- 1.3/5 Policy networks and EU regional policy
- 1.3/6 Explaining policy outcomes
- 1.3/7 The emergence of 'rules of the game'

1.4 Core executive studies

1.5 Summary

Chapter 2: The creation and development of the ERDF to 1988

2.1 Introduction: traditional ways of viewing EU regional policy-making

2.2 The Creation of the ERDF

- 2.2/1 Origins of the ERDF
- 2.2/2 The UK government and the creation of the ERDF

- 2.2/3 The Commission's position
- 2.2/4 The role of local authorities
- 2.2/5 The role of the European Parliament
- 2.2/6 Additionality and the RDF

2.3 The Development of the ERDF, 1975-1988.

- 2.3/1 Introduction
- 2.3/2 The 1979 reform
- 2.3/3 The 1984 reform

2.4 Conclusion

Chapter 3: The 1988 reform of the structural funds

3.1 Context

3.2 The Principles Underlying the 1988 Reform

3.3 The UK Government's Position

3.4 The Outcome of the Negotiations

Chapter 4: The RECHAR dispute

4.1 Background

- 4.1/1 Local authorities and additionality before 1988
- 4.1/2 Local authorities and additionality 1988-90
- 4.1/3 Origins of the RECHAR programme
- 4.1/4 Details of the RECHAR programme

4.2 The RECHAR dispute

- 4.2/1 The views of the Commission and the UK government
- 4.2/2 What local authorities wanted
- 4.2/3 Early negotiations between local authorities and the DoE
- 4.2/4 Commission activity over RECHAR
- 4.2/5 A key turning point: the Heseltine memo
- 4.2/6 The conclusion of the dispute

4.3 The changes in the UK government's position

4.4 Conclusion

Chapter 5: The new arrangements for the treatment of ERDF receipts in the UK

5.1 Details of the new arrangements emerge

5.2 Initial responses to the new arrangements

5.3 Pressure for renewed action on additionality

5.4 More changes to the treatment of ERDF

5.5 Additionality back in the headlines

5.6 The 1993 Reform of the Structural Funds

5.6/1 The context of the 1993 reform

5.6/2 Summary of the 1993 reform

5.7 Conclusion

Chapter 6: The Implementation of the new arrangements for ERDF

6.1 Introduction

6.2 Survey of Local Authorities

6.2/1 Matching funding problems

6.2/2 Partnership arrangements

6.3 The Role of Non-Local Authority Actors

6.4 Summary of the Local Authority Situation

6.4/1 Did local authorities feel that had benefited from the outcome of the RECHAR dispute?

6.5 Commission and Central Government responses

6.5/1 Central government

6.5/2 The Commission's position

6.6 Conclusion

Chapter 7: Conclusion

7.1 The purpose of this research

7.2 The 1988 reform of the structural funds

7.2/1 Systemic and super-systemic decision-making

7.2/2 The Commission's role

7.2/3 Conclusion

7.3 The 1993 reform of the structural funds

7.3/1 Additionality and other changes

7.4 Domestic politics and the UK government negotiating position on additionality

7.5 Implementing additionality in the UK

7.5/1 The role of regional networks

7.5/2 The role of national networks

7.5/3 Implementing additionality before 1988

7.5/4 Implementing additionality after the 1988 reform of the structural funds

7.6 The RECHAR dispute

7.6/1 Informal relations

7.6/2 Party politics and political legitimacy

7.6/3 The government's strategy

7.7 After the RECHAR dispute

7.8 Additionality: a question of sovereignty?

7.9 Partnership

- 7.9/1 The operation of regional partnerships
- 7.9/2 New actors

7.10 Theory: problems, prospects and recent developments

- 7.10/1 Assessing the gatekeeper concept
- 7.10/2 Assessing liberal intergovernmentalism
- 7.10/3 The utility of the policy networks approach
- 7.10/4 Recent theoretical developments
- 7.10/5 The Extended Gatekeeper approach

Abbreviations

ACC	- Association of County Councils
ACGs	- Annual Capital Guidelines
ACOM	- Action for Mining Communities (see also EURACOM)
ADC	- Association of District Councils
ALANI	- Association of Local Authorities in Northern Ireland
AMA	- Association of Metropolitan Authorities
BCAs	- Basic Credit Approvals
BCE	- British Coal Enterprise
BC	- Borough Council
CAP	- Common Agricultural Policy
CBI	- Confederation of British Industry
CC	- County Council
CCC	- Coalfield Communities Campaign
CCLGF	- Consultative Council on Local Government Finance
CCLRA	- Consultative Committee of Local and Regional Authorities
CEC	- Commission of the European Communities
CEMR	- Council of European Municipalities and Regions
CI	- Community Initiative
COREPER	- Committee of Permanent Representatives
COSLA	- Convention of Scottish Local Authorities
CRP	- Community regional programme
CSF	- Community Support Framework
CWD	- Council of Welsh Districts
DC	- District Council
DG V	- European Commission Directorate General 5 (Social Policy)
DG XVI	- European Commission Directorate General 16 (Regional Policy)
DG XXII	- European Commission Directorate General 22 (for the coordination of structural instruments)
DLG	- Derelict Land Grant
DoE	- Department of the Environment
DTI	- Department of Trade and Industry
EAGGF	- European Agricultural and Guidance Fund
EC	- European Community (see also EEC, EU)
ECSC	- European Coal and Steel Community
ECU	- European Currency Unit (see also EUA)
EEC	- European Economic Community (see also EC, EU)
EIB	- European Investment Bank
EIS	- European Information Service
EJG	- European Joint Group
EMROP	- East Midlands Region Operation Programme
EMU	- Economic and Monetary Union
EP	- European Parliament
EPLP	- European Parliamentary Labour Party

ESF - European Social Fund
EU - European Union (see also EC, EEC)
EURACOM - European Action for Mining Communities (see also ACOM)
ERDF - European Regional Development Fund (see also RDF)
ESF - European Social Fund
FCO - Foreign and Commonwealth Office
GDP - Gross Domestic Product
GGE - General Government Expenditure
GOYH - Government Office for Yorkshire and Humberside
HMSO - Her Majesty's Station Office
HOP - Humberside Operation Programme
IDO - Integrated Development Operations
IDOP - Integrated Development Operational Programme
IMPs - Integrated Mediterranean Programmes
IULA - International Union of Local Authorities
LBA - London Boroughs Association
LGIB - Local Government International Bureau
KONVER - Community Initiative programme for the conversion of military industries areas

LEC - Local Enterprise Company
LGIB - Local Government International Bureau
MBC - Metropolitan Borough Council
MDC - Metropolitan District Council
MECU - Million European Currency Units
MEUA - Million European Units of Account
MEP - Member of the European Parliament
MP - Member of Parliament (UK)
NIERC - Northern Ireland Economic Research Centre
NPCI - National Programme of Community Interest
NUM - National Union of Mineworkers
OSB - Other Services Block
PES - Public Expenditure Survey
PMC - Programme Monitoring Committee
PSBR - Public Sector Borrowing Requirement
RC - Regional Council
RDC - Rural Development Commission
RDF - Regional Development Fund (see also ERDF)
RDP - Regional Development Programme
RECHAR - Community Initiative programme for the conversion of coal mining areas

RENAVAL - Community Initiative programme for the conversion of shipbuilding areas

RESIDER - Community Initiative programme for the conversion of steel areas

RSG - Revenue Support Grant
SCAs - Supplementary Credit Approvals
SEA - Single European Act
SPD - Single Programming Document
SRB - Single Regeneration Budget
SSA - Standard Spending Assessment
STUC - Scottish Trades Union Congress
TAWSEN - North East of England operational programme

TEC - Training and Enterprise Council
TSG - Transport Support Grant
TTWA - Travel To Work Area
TUC - Trades Union Congress
UDC - Urban Development Programme
UDM - Union of Democratic Mineworkers
UK - United Kingdom
UP - Urban Programme
WDA - Welsh Development Agency

Chapter One: Liberal Intergovernmentalism and Policy
Networks

1.1 Introduction

This research sets out to test the hypothesis that the UK government has succeeded in playing a gatekeeper role over the domestic impact of main instrument of European Union (EU) regional policy, the European Regional Development Fund (ERDF). This question relates to both the financial and the political impact of EU regional policy in the UK.

In relation to the financial impact, this research examines the UK government's position in relation to the principle of additionality: the principle that EU regional funds should be spent in addition to planned domestic expenditure. This principle has applied to EU regional policy expenditure since the creation of the ERDF in 1975.

With regard to the domestic political impact of regional policy, consideration is given in particular to how the UK government has implemented the EU principle of partnership in administering regional funding, introduced in 1988.

Yet while a distinction can be made between policies and principles that appear either primarily financial or administrative, in practice the implications of these decisions are related, the extent to which will be discussed below.

Defining terms and setting parameters

While EU regional policy is now classified as part of a broader definition of EU redistributive measures known as structural policy, this research is concerned solely with the ERDF. In its earliest manifestations the ERDF was called the RDF (Regional Development Fund), or simply 'the regional fund'. As ERDF is in current usage, this is generally employed, but where the discussion is specific to a particular period, the original usage of RDF or regional fund is retained. However, it is important to note that whether the term used is RDF, ERDF or regional fund these are simply time-specific ways of describing what has remained essentially the same financial instrument of EU regional policy since its creation.

While this research traces the development of the ERDF from its origins, and the principle of additionality as it has developed simultaneously, the primary concern is with developments after the 1988 reform of the structural funds. This reform marked a watershed in the history of EU regional policy: the allocation of funding doubled, the additionality requirement was strengthened; and the partnership principle was introduced.

The original data collated for this research relates to the period from the negotiations over the 1988 reform of the structural funds onwards. Chapter two, on the history of EU

regional policy up to 1988 is background to the original research rather than being original research in itself. As such it draws on secondary material, which has naturally been framed in terms of the then contemporary theories. The theoretical approach outlined in this chapter is then applied from the negotiations over the 1988 reform onwards.

1.1.2 Towards a theoretical model

As the theoretical approach outlined below will explain, consideration of the gatekeeper role of the UK government requires an understanding of the whole regional policy process, as this role is not confined to government activity at just one level of policy-making but is played throughout. As such, this approach acknowledges that the different stages policy-making are inextricably linked, with explanations of one phase of the policy process necessarily related to developments in others.

At present, no single theoretical model exists which facilitates analysis of EU policy-making from the EU-level decision-making stages through implementation to policy outcomes. The theories from international relations most often applied to EU decision-making, intergovernmentalism and neofunctionalism, focus on initial decision-making at the EU-level. Yet to consider this level only might be the equivalent of seeing the tip of an iceberg as the most important part. Decisions taken at EU-level have to be

implemented and, within the EU, this is the task of national governments in fifteen different domestic contexts. Under such circumstances, the potential for transforming the initial policy objectives into very different policy outcomes is obvious. At the very least, there is the likelihood of variations in policy outcomes between member states once implementation stage bargaining has taken place. Thus, consideration of policy implementation is essential for a more complete understanding of the EU policy process.

Yet the task of developing a complete theoretical model of the EU policy process is made difficult by the scope and complexity of EU policy-making:

"The patterns of policy-making and the roles of member governments and Community institutions in the policy process vary considerably from sector to sector depending on the extent of Community involvement, the type of instruments used, and the continuing importance of national policies" (Helen Wallace 1983a, p52).

Two things are important here: the need to recognise the differences in policy-making between sectors; and the need to account for the influence of domestic politics.

The first of these is dealt with by limiting the scope of this research to the main instrument of regional policy. The second factor is more complex, but the approach outlined below incorporates analysis which seeks to deal with domestic politics.

Yet the problem of model-building is complicated further by the argument that the EU regional policy process is not confined to what happens within the formal framework of EU institutions, but also,

"...embraces a network of relationships and contacts among national policy-makers in the different member states, both directly through involvement in the Community arena and indirectly as that arena impinges on national policy process" (Wallace H 1977, pp 33-34).

The importance of networks to EU regional policy-making is a central theme of this research and is considered in detail in the concluding chapter.

Developing a theoretical approach

Levels of analysis

Theorising about EU policy-making, and EU regional policy-making specifically, is a relatively new activity. At this stage of its development, existing theories from international relations and domestic policy-making are being applied separately to analyse EU decision-making at different levels. This chapter will bring together two analytical approaches, one from international relations, the other from domestic policy-making, to develop a framework for analysing the EU regional policy process from initial decision-making through to policy outcomes. As a starting point it is important to be clear about the distinctions

made for analytical purposes between the different stages in the policy process.

Having already noted above the practical linkages between different stages of the policy process, it is necessary for analytical purposes to make a distinction between the 'EU-level' of decision-making and the implementation of those decisions which is in practice a domestic matter.

Following Peterson (1995a, pp71-76), a further distinction is made between super-systemic and systemic levels of decision making at EU-level. The super-systemic level is concerned with history-making decisions, usually taken at EU summits by the European Council, which transcend the EU's ordinary policy process:

"History-making decisions alter the Union's legislative procedures, rebalance the relative powers of European Union institutions, or change the EU's remit" (Peterson 1995a, p72).

Systemic decision-making, on the other hand, is concerned with policy-setting decisions:

"where choices are made between alternative courses of action according to one of several versions of the 'Community method' of decision-making" (Peterson 1995a, p73)

The dominant actor at this level is the Council of Ministers, although less controversial matters are dealt

with by national civil servants working together through the Committee of Permanent Representatives (COREPER).

Peterson's distinction between 'super-systemic' and 'systemic' levels of decision will be considered in relation to the empirical evidence in the final chapter of this thesis. However, to prevent confusion, for the rest of this chapter both super-systemic and systemic levels will be referred to under the general term of 'EU-level' decision-making.

The use of two approaches: liberal intergovernmentalism and policy networks

Following the argument set out above that it is necessary for this research to analyse the role played by UK government at both EU-level and at the implementation stage, the approach taken here draws on the theory of liberal intergovernmentalism from the international relations tradition and the policy networks approach from the study of domestic policy-making.

Liberal intergovernmentalism provides a theory of EU-level decision-making, outlined below. It is from the intergovernmentalist tradition that the metaphor of government as gatekeeper derives and this metaphor is

extended here to hypothesise the role also played by the UK government in the domestic arena where EU regional policy is implemented. The policy networks approach provides analytical tools through which the claims of the gatekeeper concept can be tested more fully. However, before discussing in more detail how the two analytical approaches relate to each other, it is important at this stage to explain the theory which underpins the concept of government as gatekeeper.

1.1/3 Intergovernmentalism and the gatekeeper concept

The intergovernmentalist approach to EU decision-making is best understood in relation to neofunctionalism (see George 1994), which was the dominant theory of European integration in the 1950s and early 1960s. The main contention of intergovernmentalism is that national governments have managed to retain control over the key developments within the EU and thus determine the pattern of integration. In contrast, the neofunctionalist school argues that national governments have increasingly found themselves caught up in a web of interdependence that makes them less able to resist pressure towards greater integration.

While neofunctionalists stress the unique nature of international co-operation in the EU, intergovernmentalists suggest that intergovernmental co-operation in the EU is not

significantly different from that in other international regimes. Consequently, when a national government perceives that a policy developing within that regime may challenge its domestic priorities, it will act as 'gatekeeper' to prevent this. Thus,

"On the one hand, intergovernmentalism is presented as showing that the European Community is not distinctive as compared to other international organisations. On the other hand, there is the picture of '...governments holding the gates between the Commission and their domestic politics' "(Bulmer 1983, p356).

Hoffmann's intergovernmentalism

The evolution of the gatekeeper metaphor to describe the relationship between member state governments and the EU owes much to the intergovernmentalist approach to European integration taken by Stanley Hoffmann (1966 and 1982). Hoffmann's early work is best understood in relation to neofunctionalist arguments about the integration process. Hoffmann asserted the logic of diversity over the logic of neofunctionalism. The logic of neofunctionalism, he argued, was:

"that of a blender which crunches the most diverse products, overcomes their different tastes and perfumes, and replaces them with one, presumably delicious juice" (1966, p882).

The logic of diversity was the opposite:

"it suggests that, in areas of key importance to the national interest, nations prefer the certainty, or the self-controlled uncertainty of national self-reliance, to the uncontrolled uncertainty of the untested blender" (Hoffmann 1966, p882).

Thus, while states might accept integration in what Hoffmann described as 'low politics' policy areas, they would not be dispossessed in the areas of 'high politics'.

Hoffmann's formulation initially contrasted social and economic policies as low politics, with foreign and defence policies as high politics. However, this was later refined when Hoffmann acknowledged the weakness in his initial suggestion that foreign policy and defence were always 'high politics' and social and economic issues exclusively 'low':

"Whether an issue falls into one or the other category depends on its momentary saliency - on how essential it appears to the government for the survival of the nation or for its own survival, as well as the specific features of the issue ... and on the economic conjuncture" (Hoffman 1982, p29).

It was Hoffmann's image of Community policy making that was described as, "coloured by visions of governments acting as 'gatekeepers' between their domestic political systems and the Community" (Webb 1983, p24).

The gatekeeper concept criticised

Despite the considerable resources apparently available to national governments wishing to resist the development of unwanted Community policies, Hoffmann's gatekeeper argument provoked criticism:

"the overdrawn, unidimensional image of national governments favoured by intergovernmentalists is

inadequate and distorting. Far from being efficient and effective gatekeepers straddling the threshold between their national boundaries and the Community, national governments more closely resemble the juggler who must apply himself simultaneously to the tasks of keeping several balls in the air and not losing his balance on the rotating platform" (Webb 1983, p32).

Coordinating policies at a national level was identified as a particular problem for member states:

"Governments have to construct policy packages which both adequately represent domestic claims and yet can, nevertheless, be used as an effective bargaining counter in Brussels. What emerges in many instances... is something less than a consistently highly orchestrated and impenetrable national front" (Webb 1983, pp24-25).

Tensions within the national polity over Community issues raise questions about whose interests are being articulated by national government representatives in Brussels. That government representatives cite the claims of the 'national interest' in Brussels does little to clarify the matter. As Helen Wallace (1977, p47) suggests, "...the assertion of so-called national interests often is a substitute for the articulation of partisan preferences".

Coordinating national positions

The manner in which national governments have formulated positions on Community issues has varied, not least because of the different administrative traditions and political objectives of member states. These variations have produced differences in the coherence of national positions at EU-

level. For example, Britain and France have been identified as national governments which have:

"attempted to develop rigorous coordination of different domestic viewpoints, through mechanisms that reflect the expression of monolithic postures in the Communities. In principle they have permitted these governments to identify a relatively consistent line in Community negotiations" (Helen Wallace 1977, p48).

However, while a centralised domestic administrative structure may make the UK negotiating position more consistent and thus less prone to influence from within the EU policy arena, this does not necessarily mean it reflects a domestic consensus on the issue. This will be tested with regard to regional policy issues (chapters four to seven).

A range of other factors have been identified as influencing the national response to Community issues:

"the quality and morale of the national civil services, the internal balance of each government, and the constitutional role of their political leaders... The differential weights of particular ministries and their client groups in each national process are relevant - the strength of the British Treasury and Foreign Office" (Wallace H 1977, p48).

Where disputes arise between domestic actors over Community issues, it is suggested that national governments have demonstrated flexibility. As Helen Wallace put it:

"In situations where domestic controversy arises on a Community issue, the prevalent response of member governments is to bend to pressures rather than attempt to pursue a strategy based on long term considerations" (1977, p49).

This argument provides a useful reference point for considering the domestic dispute which arose in the UK over the additionality issue (chapter four).

The weaknesses in the early intergovernmentalist theories, and in particular the under-emphasis on the importance of domestic politics, have subsequently been addressed. Bulmer (1983) contributed to this and Moravcsik (1993) brought this contribution into a revised model which he called 'liberal intergovernmentalism', the main aspects of which are described below.

1.2 Liberal Intergovernmentalism

Moravcsik argued that at the core of liberal intergovernmentalism are three essential elements: the assumption of rational state behaviour, a liberal theory of national preference formation, and an intergovernmentalist analysis of interstate relations (1993, p480).

1.2/1 State rationality

Moravcsik suggested that the assumption of rational state behaviour provides a general framework of analysis, within which:

"the costs and benefits of economic interdependence are the primary determinants of national preferences, while the relative intensity of national preferences, the existence of alternative coalitions, and the opportunity for issue linkages provide the basis for an intergovernmental analysis of the resolution of distributional conflicts among governments (1993, pp480-1).

At any particular moment state action is 'minimally rational', in that it is "purposively directed toward the achievement of a set of consistently ordered goals or objectives" (Moravcsik 1993, p481).

However, Moravcsik departed from the traditional realist approach to state action which portrays national governments foreign policy-making as isolated from the influence of pressure groups. For Moravcsik, national governments act purposively in the international arena, but their goals are not determined in isolation. Instead,

"the foreign policy goals of national governments are viewed as varying in response to shifting pressure from domestic social groups, whose preferences are aggregated through political institutions" (1993, p481).

The concept of national interest thus remains important in international negotiations but is not defined solely by national governments. Moreover, the national interest is defined differently over time as the demands of competing domestic groups change and new policy directions are accepted by national governments. Thus, an understanding of domestic politics is central to understanding how states

interact: rational state behaviour is based on domestically-constrained preferences. This, Moravcsik argued, implies that conflict and co-operation between states can be modelled as a process that takes place in two successive stages: each government first defines its interests, then governments bargain among themselves to try and realize those interests (Moravcsik 1993, p481).

Metaphorically, these two stages shape demand and supply functions for international co-operation for each government:

"A domestic preference formation process identifies the potential benefits of policy co-ordination perceived by national governments (demand), while a process of interstate strategic interaction defines the possible political responses of the EC political system to pressures from those governments (supply) (1993, p481).

It is the interaction of demand and supply, of national preference and international strategic opportunities, which shapes the foreign policy behaviour of states. In bringing together these two aspects, liberal intergovernmentalism unites a liberal theory of national preference formation with an intergovernmentalist analysis of interstate bargaining and institutional creation (Moravcsik 1993, p482).

1.2/2 Liberalism, national preference formation and the demand for integration

Liberalism and state-society relations

Liberal theories of power in democratic societies argue that the most fundamental actors in politics are individuals and interest groups and that state policies are decisively shaped by the interaction of individuals and groups in civil society. As this is true for domestic policies, so it is true for foreign policy. As Moravcsik put it:

"The most fundamental influences on foreign policy are, therefore, the identity of important societal groups, the nature of their interests, and their relative influence on domestic policy" (1993, p483).

It is acknowledged that the interests of societal groups in any country will be themselves shaped by both domestic and international factors.

To explain why individuals and interest groups are so important in shaping government policy, Moravcsik argues that the 'primary interest' of governments is to maintain themselves in office, which in democratic societies requires the support of individual voters, interest groups and bureaucracies (1993, p483). It is through the political processes which facilitate the expression of the views of these actors - domestic institutions and the practices of political representation - that national interest emerges. It is this domestically-defined national interest that

governments then bring to international negotiations. Where the pressure on government to adopt a particular policy stance is ambiguous or divided, it has greater discretion in these negotiations (Moravcsik 1993, p484).

Policy areas and national preferences in the EC

Moravcsik argued that to understand national positions on different issues, there is a need to understand separate patterns of domestic policy-making in different sectors:

"Different policy areas engender characteristic distributions of costs and benefits for societal groups, from which follow variations in patterns of domestic political mobilization, opportunities for governments to circumvent domestic opposition, and motivations for international co-operation" (1993, p488).

Within the EU, he identified three distinct categories of policy areas: commercial policy, market access and producer interests; socio-economic public goods provision; and political co-operation, EC institutions and general income transfers. The subject of this research, regional policy, is classified within the last of these categories. Of regional and structural policies, Moravcsik said:

"Since they are neither significant enough to provide major benefits to the donors, nor widely enough distributed to represent a policy of common interest - are most plausibly interpreted as sidepayments in exchange for other policies" (1993, p496).

This is a helpful interpretation which suggests the need for decisions over regional policy to be explained in the

context of decisions in other policy areas. As will be discussed later (chapter seven), the Peterson distinction (below) between super-systemic and policy-setting decisions aids understanding of this connection.

1.2/3 Intergovernmentalism, Interstate Bargaining, and the Supply of Integration

The range of potential outcomes from international negotiations is thus shaped by the domestically-determined national positions adopted by governments. As Moravcsik put it:

"The configuration of domestically determined national preferences defines a 'bargaining space' of potentially viable agreements, each of which generates gains for one or more participants" (1993, p496-7).

If governments are to emerge from international negotiations with a common policy, they must collectively decide on a policy within the 'bargaining space' available, as defined by domestically-defined national positions. Where the policy area discussed has important distributional consequences, governments are unlikely to be indifferent to which policy is decided on. The reconciliation of conflicting interests among states to produce a common policy is achieved through the process of negotiation. The outcome is a reflection of the bargaining power and intensity of preferences of the governments involved.

Bargaining power and the intensity of preferences

Moravcsik argued that the distributional outcomes of international bargaining are determined by numerous factors.

These include:

"the nature of the alternative policies and coalitions, the level of symmetry of information and the extent of communication, the sequence of motives, the institutional setting, the potential for strategic misrepresentation of interests, the possibility of making credible commitments, the importance of reputation, the cost-effectiveness of threats and side-payments, and the relative preferences, risk acceptance, expectations, impatience, and skill of the negotiating parties" (1993, 497-8).

Because of the range of factors which may affect the outcome, and the difficulty of testing each of these empirically through the case study method, there is a danger of generating 'irrelevant or illusory results' without contextual justification (Moravcsik 1993, p498). However, Moravcsik argued that the bargaining leverage each member state exercises in international negotiations 'stems most fundamentally from asymmetries in the relative intensity of national preferences', in that the more intensely a government wants agreement, 'the more concessions and the greater effort they will expend to achieve it' (1993, p499).

Moravcsik suggested that in EU negotiations, where intergovernmental co-operation is voluntary, there are three likely determinants of interstate bargaining power: (1)

unilateral policy alternatives ('threats of non-agreement'); (2) alternative coalitions ('threats of exclusion'); and (3) the potential for compromise and linkage (1993, p499):

"A necessary condition for negotiated agreement among rational governments is that each perceive the benefits of co-operation as preferable to the benefits of the best alternative available to it. Where there exists a policy more desirable than co-operation, a rational government will forego agreement" (1993, p499).

The ability of governments to refuse agreement provides them with one of their most fundamental bargaining weapons. The extent to which a government wants agreement on a particular issue can therefore be judged in terms of how attractive its alternative options are.

(1) Unilateral policy alternatives and the threat of non-agreement

The most obvious alternative available to governments reluctant to accede to an international agreement is to pursue a unilateral alternative. The extent to which a government is likely to do this depends on its assessment of the costs and benefits of the alternatives of unilateral action or international agreement. This determines the intensity of the government's preference for agreement. The problem of bargaining on the basis of the intensity of preferences is, as Moravcsik put it:

"that the need to compromise with the least forthcoming government imposes the binding constraint on the possibilities for greater co-operation, driving EC

agreements toward the lowest common denominator" (1993, pp500-501).

However, because it is in the interests of governments to compromise rather than threaten veto, a lowest common denominator outcome does not necessarily mean that the agreement finally reached reflects the preferences of the least compromising government, "only that the range of possible agreements is decisively constrained by its preferences" (Moravcsik 1993, p501).

(2) Alternative coalitions and the threat of exclusion

Where alternative coalitions can be formed which exclude some states from agreement, this provides a second type of option to governments in addition to unilateral action.

Where the alternative coalition option exists, it:

"strengthens the bargaining power of potential coalition members vis-a-vis those threatened with exclusion" (1993, pp502-3).

(3) Compromise, side-payments and linkage at the margin

As Moravcsik deemed regional policy to be 'most plausibly interpreted as side-payments in exchange for other policies', it is the third category of determinants that is of most obvious relevance for this research.

The range of viable agreements that are available to governments in international relations is defined by the

unilateral and coalitional policy alternatives available. While all governments prefer an alternative within that range to the status quo, the point at which agreement will be reached is more difficult to predict. However, "in general, bargaining power will depend on the intensity of preference at the margin" (Moravcsik 1993, p504). Again, the governments most likely to concede most are those who have the least attractive alternative options, particularly where there is time pressure or a possible breakdown in negotiations. Where there is less uncertainty, the final agreement will reflect preferences of "governments that place a greater value on concessions at the margin" (Moravcsik 1993, p505). Importantly, however:

"governments often have differential preference intensities across issues, with marginal gains in some issue-areas being more important to them than to other governments" (Moravcsik 1993, p505).

Where this is the case, there may be an incentive for governments to seek gains in issue-areas where they have strong preferences in exchange for giving concessions in others that are deemed less important. In linking issues in this way, all parties might gain:

"Even where a set of agreements, taken individually, would each be rejected by at least one national government, they may generate net advantages for all if adopted as a 'package deal'" (Moravcsik 1993, p505)

1.2/4 Supranational institutions and the efficiency of decision-making

Moravcsik suggests that there is no contradiction between the existence of strong supranational institutions and intergovernmentalism. Rather, the transfer of authority by national governments to supranational institutions is an acceptable trade-off by governments in exchange for perceived advantages. In this view, the supranational institutions of the EC are seen to enhance the power of national governments in two ways: by increasing the efficiency of interstate bargaining; and by strengthening the position of national governments within their domestic political systems by structuring a "'two-level game' that enhances the autonomy and initiative of national leaders" (Moravcsik 1993, p507).

Supranational regimes and functional regime theory

Moravcsik viewed the EU as unique among international regimes in that governments pool sovereignty in two ways: through qualified majority voting in the Council of Ministers and by the delegation of sovereign powers to semi-autonomous central institutions (1993, p509). One consequence of this is that national governments become more dependent on the agenda-setting role played by the Commission. The role of the Commission in selecting among viable proposals provides it with considerable power, at least in theory:

"The power is particularly decisive when the status quo is unattractive, creating general support for action, yet there is considerable disagreement between national governments over what should replace it. Often a number of proposals might gain majority support, among which the Commission's choice is decisive (Moravcsik 1993, p512).

However, while member governments may see this Commission power as a cost of international co-operation, they judge the benefits from this to be greater than the cost.

Moravcsik identified two other important instances in which governments have been willing to risk delegating authority to supranational institutions: external representation and enforcement (1993, p511). With regard to these and the Commission's agenda-setting powers,

"there is a substantive commitment to the achievement of broad goals, while the political risk is small, insofar as each delegated decision is relatively insignificant (1993, p511).

Significantly, however, the scope of delegation in each instance is limited by national governments. Most relevant here is that the Commission's agenda-setting power is said to be limited "by the Council's previous delegation of power and ultimate decision..." and "only the enforcement power of the ECJ (European Court of Justice) appears to have resulted in a grant of independent initiative to supranational bodies beyond that which is minimally necessary to perform its functions - and beyond that which appears to have been foreseen by governments" (Moravcsik 1993, p513). Moravcsik

argues that the decisions of the Court have transcended the expectations of national governments, but the expansion of judicial power is seen as an anomaly (1993, p513) and does not constitute a serious challenge to the intergovernmentalist view:

"Only where the actions of supranational leaders systematically bias outcomes away from the long-term interest of member states can we speak of serious challenge to the intergovernmentalist view" (1993, p514).

Supranational institutions and two-level games

While theory about international regimes has traditionally focused on their role in reducing the transaction costs of collective decision-making for national governments, Moravcsik suggested that EC institutions perform a second function:

"namely to shift the balance of domestic initiative and influence. On balance, this shift has strengthened the policy autonomy of national governments at the expense of particular groups" (1993, pp514-515).

National governments seeking to overcome domestic opposition can exploit their relations with EU institutions as part of a 'two-level' strategy. Supranational institutions assist national governments in two ways:

"by according governmental policy initiatives greater domestic political legitimacy and by granting them greater domestic agenda-setting power (Moravcsik 1993, p515).

Moravcsik's argument was that national governments have greater political legitimacy in the domestic arena for

policies that appear to have the support of EC institutions, while the increased domestic agenda-setting powers of national governments comes from decisions taken in the Council meetings that exclude other domestic actors. These advantages of EC membership are deemed important by national governments: so much so, Moravcsik suggests, that, "Ironically, the EC's 'democratic deficit' may be a fundamental source of its success" (1993, p515).

1.2/5 Beyond liberal intergovernmentalism

Absent from Moravcsik's analysis of EU decision-making is detailed consideration of the role of the Commission. While he acknowledges the Commission has agenda-setting powers, there is no discussion of whether the Commission has its own agenda which may conflict with the supremacy of national governments in the EU decision-making process. The concept of an active Commission is not considered central to the liberal intergovernmentalist argument:

"Where neo-functionalism emphasizes the active role of supranational officials in shaping bargaining outcomes, liberal intergovernmentalism stresses instead passive institutions and the autonomy of national leaders" (Moravcsik 1993, p518).

Yet there are competing views of the importance of the Commission which emphasise the tension between its view of the 'Community interest' and that of the national interest

claims of governments. These competing views need to be considered alongside Moravcsik's analysis, and will be dealt with in the section on policy networks below.

1.3 Policy networks

The policy networks approach, while not strictly a theory of decision-making, provides tools through which decision-making can be analysed at both the EU-level and at the implementation stage. Through the simultaneous use of the policy networks approach, the validity of the intergovernmentalist claims can be tested more fully. In essence, the policy networks approach is used here to *inform* intergovernmental theory.

1.3/1 The policy networks approach

The policy networks approach is most simply understood as a model of interest group intermediation developed in response to the perceived shortcomings of the existing pluralist and corporatist models. Rhodes and Marsh (1992) suggested that neither pluralism or corporatism provide an adequate picture of interest group intermediation primarily because they attempt a general model of relations between government and interest groups, rather than acknowledging the varying

nature of these relations in different policy areas. Thus, an advantage of the policy network approach is that it recognises that the relationships between actors is different in different policy sectors. As such, it takes a disaggregated approach to policy analysis. Further, this approach also recognises that:

"in most policy areas a limited number of interests are involved in the policy-making process and suggests that many fields are characterised by continuity, not necessarily as far as policy outcomes is concerned, but in terms of the groups involved in policy-making" (Rhodes and Marsh 1992, p4).

However, to recognise that a policy network exists, is not to pre-judge the influence of the network on policy outcomes. To explain policy outcomes, it is necessary to use the policy network approach in conjunction with a theory of power within networks.

Rhodes and Marsh (1992) argued that a particular strength of the approach is that it can be applied using different models for explaining power in liberal democracies. Whether different models of power sit equally comfortably with the policy network approach will be considered in the concluding chapter of this thesis. The important point to make at this stage, however, is that the policy networks approach does not constitute a predictive theory of policy making. Rather,

"Policy networks are essentially descriptive theoretical tools which simply help order facts and

evidence in novel ways. However, policy networks can be used to anticipate and explain policy outputs by providing insights into how and why decisions were taken which produced them." (Peterson 1993, p31)

The predictive element in the approach in this research is provided by intergovernmentalism.

1.3/2 Policy network typology

A policy network has been defined as "a complex of organisations connected to each other by resource dependencies and distinguished from other clusters by breaks in the structure of resource dependencies" (Benson 1982, cited in Rhodes and Marsh, 1992, p13). Rhodes (1988, p77) developed Benson's definition by arguing that networks have different structures of dependencies, structures which vary along five key dimensions: the constellation of interests; membership; vertical interdependence; horizontal interdependence; and the distribution of resources.

Constellation of interests - the interests of participants in a network vary by service/economic function, territory, client group and common expertise (and most commonly some combination of the foregoing);

Membership - membership differs in terms of the balance between public and private sector; and between political-administrative elites, professions, trade unions and clients;

Vertical interdependence - intra-network relationships vary in their degree of interdependence, especially of central or sub-central actors for the implementation of policies for which, none the less, they have service delivery responsibilities;

Horizontal interdependence - relationships between the networks vary in their degree of horizontal articulation: that is, in the extent to which a network is insulated from, or in conflict with, other networks;

The distribution of resources - actors control different types and amounts of resources, and such variations in the distribution of resources affect the patterns of vertical and horizontal interdependence.

(Source: Rhodes 1988, pp77-78).

In his work on sub-central government in the UK, Rhodes (1988) distinguished between five different types of networks ranging from highly integrated policy communities to loosely integrated issue networks. Between these, on what is seen as a continuum, are professional networks, intergovernmental networks and producer networks respectively. At one end of the continuum, policy communities are characterised by:

"stability of relationships, continuity of a highly restrictive membership, vertical interdependence based on shared service delivery responsibilities and insulation from other networks and invariably from the general public (including Parliament). They have a high degree of vertical interdependence and limited horizontal articulation" (Rhodes 1988, p78).

At the other end of the continuum, issue networks are distinguished by their large number of participants and limited degree of interdependence. The structure tends to be atomistic and stability and continuity are 'at a premium' (Rhodes 1988, p78).

Professionalized networks are dominated by one class of participant: the profession. In short, "professionalized

networks express interests of a particular profession and manifest a substantial degree of vertical independence whilst insulating themselves from other networks" (Rhodes 1988, pp78-79). The intergovernmental networks Rhodes referred to are those based on the representative organisations of local authorities (1988, p79). Producer networks are distinguished by the prominent role of economic interests (Rhodes 1988, p80).

1.3/3 Power dependence

While it is important to recognise the importance for policy-making of identifying competing interests interacting within networks, it is equally important to acknowledge that actors in these networks are unable to compete equally in the policy process. There is interdependence between those involved but this is "almost always asymmetrical" (Page 1982, cited by Rhodes 1986b, p5). Moreover, in some cases it is possible to talk of 'unilateral leadership'. The extent to which some actors are able to determine the behaviour of others is accounted for in the Rhodes model by the concept of power dependence.

The existence of policy networks is evidence of some resource interdependence between the actors involved. Each actor possesses certain resources which allow it to

influence decision-making. It is the extent to which actors control resources which determines the potential power they have in each situation. These 'resource dependencies' are the key variable in shaping policy outcomes:

"They set the 'chessboard' where private and public interests manoeuvre for advantage" (Peterson 1993, p28).

Between different sets of actors, different types of power resources will be significant. The important resources for this research are discussed below (1.3.5).

1.3.4 Policy networks and implementation

A strength of the policy networks approach is its emphasis on policy implementation, which Rhodes described as:

"a process of bargaining between conflicting interests. Policy does not 'fail' but is actually made in the course of negotiations between the (ostensible) implementors" (Rhodes 1986a, p14).

Implementation can be a crucial phase in the policy-making process and cannot simply be seen as a straightforward administrative follow on. Barrett and Hill (1986, p5) stated:

"The political processes by which policy is mediated, negotiated and modified during its formulation and legitimation do not stop when initial policy decisions have been made, but continue to influence policy through the behaviour of those affected by policy acting to protect or enhance their own interests".

The problem for the European Commission in securing policy objectives agreed at EU-level is its dependence on national administrative systems for policy implementation. These systems are inevitably closely linked to the authority of national governments. Thus, the implementation stage of EU policy-making can offer national governments considerable scope for shaping policy outcomes. Where the system of government in a member state is highly centralised, the scope for national government influence within the domestic networks is that much greater.

At the same time, however, the implementation stage of EU policy-making broadens considerably the number of actors involved in the policy process so that the nature of conflict over policy may change and new tensions may arise. Thus, the involvement of new actors at the implementation stage may also present new opportunities for the Commission.

"the Commission hopes to stimulate demands from groups who have become its clients, thereby increasing pressure for additional policy instruments at the Community level" (Helen Wallace 1977, p57).

Thus:

"it is only by examining the implementation phases that we can begin to gauge the effectiveness of Community policies in relation to the objectives sought, or to assess whether the experience of member governments and other national agencies at this stage increases or decreases their support for an extension of Community activity" (Helen Wallace 1977, p57).

1.3/5 Policy networks and EU regional policy

Preston's policy network approach

Preston (1984) began looking at the impact of ERDF in the UK through traditional 'top-down' implementation theories. This followed the argument that the Commission 'implicitly or explicitly' viewed the development of Community regional policy this way. The Commission visualised an ideal model of implementation in which,

"implementation is seen primarily as a 'management' task in coordinating and administering the various elements in a hierarchical structure... if the policy is clearly enunciated, designed to meet local needs and properly funded then it should succeed, and compliance can be ensured with a judicious mix of 'carrots and sticks'" (Preston 1984, p17).

However, Preston concluded that such a model failed to explain why the Commission had not achieved its regional policy objectives. He identified six constraints that determined actual behaviour in the implementation of regional policy:

- 1) the initial definition of implementation stressed technical and administrative constraints and failed to recognize that the problems had their roots in the larger policy process in which there was no agreement on policy goals;
- 2) the implementation structure was composed of complex, multi-organizational linkages;
- 3) the policy was modified, at times substantially, by the conflicts of interest and bargaining between the affected parties at all levels of government;
- 4) the outcome of such bargaining hinged on the pre-existing distribution of power, most notably the pre-eminence of national governments both

domestically and at the supranational level:
however,

5) the distribution of power is not static, the Commission is itself a political actor maintaining principles and interests different from the existing balance of national interests, and consequently national perceptions and position can be redefined; but,

6) in seeking to redefine national perceptions and position the Commission has to balance:

- its own initiatives with the interests, and its need for the agreement, of member states; and
- uniformity of policy with legitimate national and subcentral variations

(Preston 1984, pp25-39)

Preston suggested that a policy networks approach might provide a more useful means of understanding the outcomes of the Community regional policy process than the top-down implementation model. Despite the fact that this approach was not fully developed in Preston's work, and that a number of changes have taken place since 1984 affecting the ERDF policy process, his conclusions provide useful insights.

The EU-level regional policy network

Preston argued that it was possible to identify a 'Community-level' regional policy network through which important decisions were taken. This was based around the Council structure in Brussels:

"It consists of the permanent representatives of the ten (sic) member states sitting in Coreper or in the various specialist working groups set up to discuss

particular policies and issues and the ministers and officials who come to Brussels on a more or less regular basis to make decisions in the Council of Ministers" (Preston 1984, p274).

This description of an EU-level regional policy network would appear to meet some of the policy community criteria set out by Rhodes (1988): it has a highly restrictive membership and insulation from other networks.

However, Preston's description of an EU-level policy community is misleading in that all the actors identified were representatives of national governments of one kind or another. He concluded that: "all the major decisions surrounding the creation of the Regional Fund were taken in the Council structure" (1984, p277). Yet in Rhodes's terms, for a policy community to exist there needs to be a 'high degree of vertical interdependence: the only interdependence Preston identified for these actors was with representatives of other national governments.

Thus, Preston's argument that this group could be described as a policy community because "...they are largely in agreement on the need to maintain the existing pre-eminence of national governments within the EC policy process" (1984, pp276-277), misses the point that other actors outside national government elites have to be involved in decision-making for the concept of a policy community be relevant and useful. What Preston appears to be describing is an

intergovernmental network rather than a policy community. Had Preston argued that other actors were involved, it is unlikely his policy community criterion outlined above would have been satisfied. Particularly when he himself says of the Commission: "the assumption that underpins its long-term objectives is that regional problems are best tackled by supranational policies and decision-making" (1984, p54).

From the evidence of Preston's research, the application of the policy networks approach in a strict manner at EU-level, seeking adherence to the Rhodes' typology, is problematic although networks clearly exist. However, Preston's research was particularly informative in emphasising the role of the Commission as a political actor with a set of interests distinct from those of national governments. This argument is reinforced by the bureaucratic politics model outlined by Guy Peters (1992). In this approach:

"the component units of a government administrative apparatus are assumed to be quasi-autonomous actors with their own goals, which they pursue through the policy-making process" (Peters 1992, p115).

Under the Treaty of Rome, the Commission is charged with promoting the Community interest and as such has been seen as a promoter of measures designed to further European integration. In its attempts to do this, the Commission has been identified as engaging at times in 'active policy-making', by interpreting its role within the Community

system as the promoter of great leaps forward. Active policy-making is described as:

"(an) ambitious attempt to establish new or radically different policies, such that the problem-solving exercise requires big jumps" (Wallace H 1977, p35).

In this view, national governments, that carry more baggage in terms of domestic considerations, are more likely to engage in 'reactive policy-making'. This constitutes,

"an incremental process along a continuum, in which the solving of problems depends on the gradual adjustment of existing policies" (Helen Wallace 1977, p35);

As the Council and the Commission approach EU-level decision-making from different starting points, conflict inevitably arises. In most situations characterised by conflict, national governments are seen to have a distinct advantage:

"Community policies emerge if and when the member governments are collectively persuaded that they offer a package that will mitigate problems that otherwise they would be left to grapple with alone or through other channels. If a Community proposal fails to gain acceptance, governments can continue with their existing national policies or find some other means of achieving their existence" (Wallace H 1977, p44).

Thus, for the Commission to gain acceptance for its proposals, it has to somehow find coherence in the varying positions of the different governments. As discussed in the section on liberal intergovernmentalism, the fact that national governments attach different levels of importance

to different issues can make the task of the Commission difficult and the end result may be the emergence of the 'lowest common denominator' option. However, where national governments are committed in broad terms to agreement on policy, but differ over details, this may provide bargaining space in which the Commission may advance its agenda.

National level EU regional policy network

At national level, Preston suggested that the,

"major decisions which affect the scope and direction of regional policy are taken within the interdepartmental network centred in Whitehall, and particularly in the Departments of Industry and Environment" (Preston 1984, p278).

Again, Preston described this level of network as a policy community, primarily because of the shared assumptions of the actors involved in decision-making, the most crucial of these relating to the primacy of domestic macro-economic considerations in matters relating to EU regional policy. While the Department of Industry was identified by Preston as the 'lead department' in this network, with responsibility for taking the initiative in negotiations with other departments, the suggestion that macro-economic considerations dominate the overall UK approach to EU regional policy indicated the overriding influence of the Treasury view:

"Evidence submitted by the Department of Industry both to the House of Lords Select Committee Investigations

into regional incentives in general, has always stressed the importance of seeing regional aid in its national economic context, particularly in its relation to other public expenditure programmes" (Preston 1984, p278)

However, while there is evidence for EU regional policy coordination between government departments, ultimately constrained by Treasury public expenditure priorities, there is a problem whether it is appropriate to describe the interdepartmental networks of central government as a policy community when, in Rhodes's terms, policy communities are characterized by "vertical interdependence based on shared service delivery" (1988, p78). This criterion would seem to require that a valid description of the national ERDF network would need to include other service deliverers, in this case, representatives of local government.

At this stage it would be reasonable to assume that there is a national level ERDF policy network in the UK which includes central and local government actors and others involved in implementation, but that this network is unlikely to constitute a policy community. There would seem to be no reason why those agencies spending ERDF, for example local government, would share the assumption of central government actors relating to the primacy of macro-economic considerations, when these assumptions would restrict the ERDF spending power of local authorities. It will be part of the task of this research to identify if a national policy network exists, and if so, ask the question

of where this might fit into the Rhodes typology, and, more importantly, whether this is a useful aid to understanding national level decisions over ERDF.

Regional level ERDF policy networks

While consideration of regional level ERDF policy networks was not a feature of Preston's work, it is included here because of the creation of regional level partnerships for administering the structural funds resulting from the 1988 reform. Moreover, Preston did look at networks in Scotland and Northern Ireland which provided some insights at the sub-national level.

Preston said of Scotland:

"The existence of a territorial rather than a functional department linked to other public bodies unique to Scotland fosters a strong sense of regional identity, and it can therefore be argued that a distinct Scottish policy community exists, focused on Edinburgh rather than Whitehall" (Preston 1984, p279).

Preston also described a Northern Ireland 'policy community' which had,

"a distinct territorial identity, made more acute by the continuing uncertainty over the constitutional status of the province" (Preston 1984, p279).

No assessment was made of networks in Wales as it did not feature as a case study in Preston's work.

It will be a task of this research to consider whether it is appropriate to talk of regional networks in England in the light of the 1988 reform of the structural funds, and to discuss whether the relationships in these differ from the ERDF networks centred around the territorial ministries of Scotland and Wales.

While the ERDF may have generated the development of policy networks at national and regional level, it is thought likely that there would be overlap between these in terms of the organisations represented and the personnel involved. This research will assess whether this is the case and whether such overlap affects policy outcomes.

1.5/6 Explaining policy outcomes

While much of the policy networks material is developed to assist the ordering of information and identification of key actors, the concept of power dependence discussed above provides a means to explain policy outcomes. While the controlling position of central government within the British system of government would suggest it has the capacity to dominate domestic networks, particularly when the other major actor is local government, this may depend on the issue. Thus, as Marsh and Rhodes (1992, p261) suggested:

"the more peripheral issues are to the government's programme and electoral fortunes and the more limited the range of interests affected, the greater the capacity of the network to run its own affairs".

In his study of ERDF policy-making, Preston (1984), following the Rhodes model, identified three types of resources as particularly important for actors bargaining over regional policy at both EU-level and during implementation. These were political, financial and informational resources.

Political resources

Preston (1984) suggested that political resources were the most important type in the domestic ERDF networks. Political resources consisted of the ability to make policy and decide on the framework for policy implementation. Preston (1984, p51) argued that at Community level, member states' governments had a near monopoly of this resource through control of the Council of Ministers. This gave national governments "both the legal right to enact legislation and the recognition, both by the Commission and actors in the member states that their use of this resource is 'legitimate'" (Preston 1984, p51).

However, Preston's work does suggest the need to incorporate a stronger explanation for Commission action within an essentially intergovernmentalist framework, because the

Commission has challenged the political legitimacy held by national governments' over regional policy-making:

"The Commission implicitly challenged the legitimacy of member states' possession of this resource for it has in effect claimed that it can provide better for the 'needs' of the regions than can member states" (1984, p51).

The Commission's attention to regional policy in particular stems not only from a commitment to reducing spatial economic disparities, but also from a basic political motivation:

"regional inequality is seen to be an impediment to Community integration and, therefore, to the emergence of a truly cohesive power bloc" (Pinder 1983, p113).

Thus, while Preston's work in 1984 did not suggest that the Commission had secured sufficient political resources to challenge the pre-eminence of national governments in EU level negotiations, he drew attention to the sometimes competing objectives of the Commission and national governments:

"The problems of differing objectives, values and interests thereby provide the substance of the bargaining that takes place between the member states who have political resources and the Commission which wants them" (1984, p51-52).

Financial resources

The possession of financial resources, like political resources, "...is both a lever to be used and a goal to be attained in bargaining." Again, Preston (1984, p52)

acknowledged the supremacy of national governments over the major financial decisions affecting regional policy at EU level.

At the implementation stage, however, where the Commission has overall responsibility for the management of regional policy, it does possess control over financial resources. As with other resources, the control of financial resources is likely to be contested. Thus, the extent of Commission control over ERDF allocations and the importance of this for influencing policy outcomes will be given full consideration in this research.

Informational resources

Preston defined informational resources as:

"those resources possessed by an organisation that allow it to maintain independence and discretion in the design and implementation of policy" (1984, p53).

This is a resource which has significance in the regional policy field not least because of the need for technical expertise on the dynamics of regional economies. The possession of informational resources, as with the other types already discussed are both used and sought after in bargaining:

"An organisation's claim to the possession of technical expertise can be used to justify a bid to control more financial resources, and vice versa, for much of the bargaining that has characterised the implementation of the ERDF has been over the exchange of data necessary to evaluate policy development" (Preston 1984, p54).

Both the Commission, through its comprehensive Community-wide reports on regional problems, and local authorities through their detailed local knowledge and experience of regional development, were identified by Preston as having possession of informational resources (1984, pp54-55). The Commission's expertise was important to its assumption that underpinned its view that regional problems were best tackled at supranational level (Preston 1984, p54). However, national governments countered the Commission's claims by arguing that,

"their experience and proximity to problem regions necessitates their maintaining a strong and distinct base of information and expertise" (Preston 1984, p55).

The distribution of informational resources and their importance in shaping policy outcomes will be assessed in relation to the empirical evidence of this research.

1.5/7 The emergence of 'rules of the game'

As Preston (1984) argued, the pattern of the distribution of these political, financial and informational resources constrains the room for manoeuvre of the various actors in the bargaining process. Consequently,

"The experience of these actors in bargaining with each other over a period of time gives rise to common perceptions of what is possible and 'permissible'" (Preston 1984, p56).

These shared expectations have, over time, produced implicit 'rules of the game' with regard to EU regional policy-making. For example, at EU level:

"... governments 'expect' the Commission to bring forward proposals which try and upgrade the overall Community interest but without costing any particular member state too dearly. Likewise, the Commission 'expects' these governments to eventually reach agreement whilst continuing to defend their 'national interest'. Gradually these shared expectations give rise to implicit 'rules'... (Preston 1984, p56).

These 'rules' define the approximate guidelines for how actors must behave within the bargaining process if their actions are to be deemed acceptable. However, different rules may apply to the behaviour of different actors within the bargaining process. This is illustrated by considering three rules of the game identified by Preston.

The first rule is that of 'national interest'. Again, this difficult concept arises, the essence of its importance here being that, "member states recognise that each has the right to decide at what point a policy initiative proposal infringes their own area of legitimate activity" (Preston 1984, p56). The concept of national interest has already been theorised in the section on liberal intergovernmentalism which deals with EU level bargaining. However, understanding this concept in the context of other rules not theorised by liberal intergovernmentalism provides a fuller understanding of the constraints within the bargaining process.

The second rule identified by Preston was the Commission's right of active policy-making. This is the understanding that:

"the role of the Commission in the EC's policy process is to posit Community as distinct from national political interests, and as the guardian of the EC's 'conscience' is expected to come up with proposals that are necessarily more radical than member states would wish" (1984, p57).

This is one rule that is not explicitly identified in Moravcsik's liberal intergovernmentalism. This rule suggests that national governments recognise the Commission's right to promote 'great leaps forward', while at the same time themselves often seeking to limit Commission 'interference':

"The existence of this rule explains why member states' governments have committed themselves to the development of a policy area at European level whilst frequently working to undermine its implementation" (Preston 1984, p58).

While national governments claim ultimate control over regional policy for themselves through the Council of Ministers and through their dominant position at the domestic implementation stage, "their prior commitment to an EC regional policy allows the Commission to make a counterclaim that it should be involved in the design and implementation of policy..." (Preston 1984 p58).

The third rule is that of 'local authority consultation'. This is the recognition given to the main implementors of EU regional policy by both the Commission and, perhaps more grudgingly, national governments, of their right to be consulted both at national and supranational level. While the Commission's position in EU-level bargaining may be strengthened by the legitimacy gained from consultation with sub-national government, which is excluded from formal EU-level regional policy negotiations, this rule may have more contradictory implications for a national government which may be "partially conceding to local authorities the right to undermine its own authority", particularly in the domestic arena (Preston 1984, p59).

The value of the rules of the game argument outlined by Preston for this research is in developing understanding of the concept of national interest as part of a broader context of unwritten rules which govern bargaining over EU policies. At the EU-level, the concept of national interest has to be placed alongside the competing claims of the Commission and in particular, its 'active policy-making' role. This role and the consultation accorded to local authorities may be deemed less important than claims of national interest but are deemed legitimate by all parties nonetheless.

The 'rules of the game' pattern is similar at the implementation stage. While the claims of the national government may be paramount, it also has to recognise that other participants in the policy-making process will have competing interests that they will attempt to promote and are legitimate in doing so.

The resolution of conflict over policy issues at both EU and domestic levels is determined in negotiations where the various actors are able to mobilise different types and different levels of resources in order to influence policy outcomes. This process of bargaining takes place within 'rules of the game' which are supported implicitly by each actor. When these rules are not adhered to, the bargaining process is undermined and agreement less likely.

1.6 Core executive studies

While the model developed here has thus far distinguished between the competing interests of different actors at EU level and within domestic politics, there is a need also to draw attention to the importance of not treating individual institutions as monoliths. Rather, within national governments, the Commission and sub-national government there also may be competing interests with differing views

on how each institution should act and react in a particular policy area.

Where there is conflict within an organisation this may hinder that organisation's ability to mobilize resources. The work by Dunleavy and Rhodes (1990) on 'core executive studies' provides some insights into this. While this work has focused on UK central government, the arguments could be applied equally to other institutions involved in the EU regional policy process. This work fits in neatly with the disaggregated and differentiated approach to the study of policy-making put forward in the policy networks literature.

In their work on UK central government, Dunleavy and Rhodes (1990) rejected the traditional focus on the relative influence on decision-making of the Cabinet and Prime Minister, suggesting instead that:

"The innermost centre of British central government consists of a complex web of institutions, networks and practices surrounding the PM, Cabinet, cabinet committees and their official counterparts, less formalized ministerial 'clubs' or meetings, bilateral negotiations, and interdepartmental committees. It also includes some major coordinating departments - chiefly, the Cabinet Office, the Treasury, the Foreign Office, the law officers and the security and intelligence services" (Dunleavy and Rhodes 1990, p3).

They reject the term 'cabinet government' as an inappropriate and misleading way of describing the central

policy coordinating machinery in British government and suggest:

"If British core executive research is to flourish a broader range of theories need to be used to help create far more systematic and diversified modes of empirical analysis" (Dunleavy and Rhodes 1990, p19).

Of the potential research areas which might broaden the scope of debate, Dunleavy and Rhodes suggested 'decisional studies' might be the most promising. Existing institutionalist literature, they suggest, "operates in terms of broad generalizations across different types of issues and time periods. There are very few decisional case studies of cabinet-level issues" (Dunleavy and Rhodes 1990, p20). Related to the decisional studies approach is the strategy of 'differentiated accounts of the central executive'. As Rhodes (1981) argued, the starting point for this is the increased recognition of the importance of policy communities:

"The problem-solving capacity of governments is disaggregated into a collection of sub-systems with limited tasks, competences and resources... At the same time governments are more and more confronted with the tasks where both the problems and their solutions tend to cut across the boundaries of separate authorities and functional jurisdictions... A major task confronting political systems in any advanced industrial country is therefore that of securing coordinated policy actions through networks of separate but interdependent organisations" (Hanf 1978, cited by Rhodes 1981, pp. 1-2).

This argument suggests that within the core executive, there will be different patterns of activity depending on the

policy area, and that "managing interorganisational relations is a key function even in 'high policy' issues at national level" (Dunleavy and Rhodes, p21).

The arguments of Dunleavy and Rhodes add a further layer of complexity to analysing in particular, the behaviour of central government in the EU regional policy process: not only must we recognise differences and tensions within the national polity, but we must also guard against viewing central government as monolithic. It cannot be presumed that government will function in the same way on each particular issue. Already, this chapter has noted how the Treasury view has traditionally shaped the context in which EU regional policy decisions are taken within UK central government. It is, however, likely that there is more than the Treasury view within UK central government which may be voiced if the position taken is widely criticised. This study will test the importance of this argument.

1.7 Summary

The question asked in this research is "has the UK government succeeded in playing the gatekeeper role over the domestic impact of the ERDF?". To answer this question requires consideration of the role played by the UK government both at EU-level and at the domestic implementation stage of EU regional policy-making. As such,

this chapter has outlined an approach which emphasises the inter-connectedness of the various levels of policy-making, but for analytical purposes distinguishes between EU-level decision-making and policy implementation. At EU-level there is a further distinction, following Peterson (1995a), between 'super-systemic' and 'systemic' decision-making.

At both levels of decision-making, this research will test the gatekeeper concept, which has its origins in the intergovernmental approach to analysing EU-level decisions. At both EU-level and at the implementation stage, this concept is taken as a metaphor for national government dominance of the policy process. Analysis of both levels of decision-making will be informed by the policy network approach, with particular emphasis on the power dependence framework.

The early work on core executive studies is included to stress the need to account for the possibility of both inter-organisational and intra-organisational tensions in the policy-making process.

Chapter Two: The creation and development of the ERDF to
1988

2.1 Introduction: traditional ways of viewing EU regional policy-making

In the early stages in the development of EU regional policy, EU level decision-making was widely perceived as intergovernmental. Helen Wallace argued:

"by no stretch of the imagination could the story of the ERDF vindicate the approach of the functionalist or neofunctionalist" (1983, p97).

The consensus was such that in 1992, McAleavey's work on regional policy was developed in response to,

"previous accounts of the regional policy process in the Community as a virtual paragon of intergovernmentalism" (1992, p3).

While intergovernmentalists acknowledged a limited role played by the Commission, and to a lesser extent the European Parliament, national governments were seen to dominate an EU-level process restricted to institutional actors. In 1983, Helen Wallace noted:

"There has been almost no scope for the direct involvement of extra-governmental interests for regional lobbies or other pressure groups, much though they have lobbied and pronounced on the various proposals tabled and important though their influence may have been at the national level" (1983, p97).

Helen Wallace (1983) rejected the applicability of transnationalism, interdependence, or regime theory for explaining the character of the EU-level regional policy process. Partly because regional policy had traditionally been a very domestic area of governmental activity and

partly because regional policy does not constitute a discrete functional sector. In looking for an appropriate analytical framework to explain EC regional policy, Wallace stressed the need to take into account two things. Firstly, that the ERDF emerged from a controversial debate within the Community regarding resource distribution at both EC and national level, central to which was the point that:

"To give EC institutions authority over regional policy is to enable influence to be exerted over allocative decisions both among and within states, territory which is contested on both political and economic grounds" (H Wallace 1983, p98).

Secondly, Wallace emphasised that regional policy is a horizontal, not vertical policy sector. As such, it has repercussions for economic and social welfare in general, for patterns of employment and for agricultural and industrial development. Not only does this limit the scope for the 'systematic mobilisation of interests', but also means that regional policy does not,

"readily permit the interactions through the formally established hierarchy of committees to acquire a life and purpose of their own in the way that has characterized agricultural policy in the EC" (H Wallace, 1983 p98).

Regional policy as 'high politics'

Hoffman's revision of his definition of what constitutes 'high' and 'low' politics provided a flexibility necessary for understanding the significance attached by member governments to EU regional policy. Chapter two opens the

discussion of how national governments have viewed EU regional policy and how this has affected the policy-making process. The fact that regional policy involves decisions over the allocation of financial resources has ensured that at least some member governments have maintained a keen interest in shaping EU regional policy.

Yet while national governments have at all times been centrally involved, other actors - notably the Commission at EU level, and sub-national government at domestic level in particular - were expected to become more important. As Wallace (1977, p57) suggested, very early in its development, regional policy was identified as an area in which the Commission might seek to develop important linkages with sub-national actors:

"the Commission hopes to stimulate demands from groups who have become its clients, thereby increasing pressure for additional policy instruments at the Community level. This has been a marked aspiration behind the utilization of the ESF, and it is likely, that there will be a similar, though more cautious trend in the case of the RDF" (Wallace H 1977, p57).

Subsequently, sub-national actors have become formally involved in the regional policy process at the implementation stage through the 1988 reform of the structural funds. This reform provided clearly identifiable networks operating within the domestic EU regional policy process. Whether the anticipated increased participation of

the Commission and other actors at EU level means that this stage of the policy process can no longer be seen as essentially intergovernmental is a matter of consideration for this research. The model set out in chapter one suggested a modified liberal intergovernmentalism offered the most appropriate way of understanding EU level regional policy-making. The applicability of this model will be assessed in relation to the policy process in the late 1980s and early 1990s. Here however, it is the early history of regional policy and its main instrument, the ERDF that is considered and the evaluation offered is that provided by other authors writing nearer the time. The model developed in the opening chapter will refer briefly to events up to 1988 in the final chapter, but will be mainly applied to the period after where new empirical data is provided.

2.2. The creation of the ERDF

As the main purpose of this research is to consider events after the 1988 reform of the structural funds, relatively little space will be given over to the considerable history up to that point. The 1988 reform brought a strengthened additionality requirement and the introduction of partnership arrangements, thus providing the context for potentially the most significant changes in the UK's treatment of ERDF since its introduction in 1975. Yet to understand the nature of EU regional policy, and ERDF as the

main financial instrument of this, it is important to understand something of its origins.

The Treaty of Rome and regional policy

The Treaty of Rome was framed in the context of a liberal market philosophy and made no specific commitment to the creation of a Community regional policy. However, it did outline the objective of promoting throughout the Community "... a harmonious development of economic activities, a continuous and balanced expansion" (Article 2). The preamble to the Treaty also made reference to "reducing the differences between the various regions and the backwardness of the less favoured regions" (Swift 1978, p10). Moreover, a number of early financial instruments had regional implications: the European Coal and Steel Community (ECSC); the European Investment Bank (EIB); the European Social Fund (ESF); and the European Agricultural Guidance and Guarantee Fund (EAGGF).

Early Community financial instruments with regional aspects

The Treaty of Paris establishing the ECSC in 1952 in part anticipated the decline of Europe's coal and steel industries. In doing so, the Treaty included financial measures to aid the 're-adaption' and 'reconversion' of workers facing redundancy, resettlement or in need of retraining. At the same time, under Article 46 of the Treaty, loans were made available for new investment in coal

and steel. The main beneficiaries from the ECSC have been Britain, France, Germany and Belgium. The ECSC will be phased out by 2002 as the Treaty of Paris intended.

The European Investment Bank was set up in 1958, under Articles 129 and 130 of the Treaty of Rome. This provides cheap loans to assist projects assisting economic development in the EU's less prosperous regions. Modernization and conversion schemes in declining industrial areas have been a high priority. The EIB draws its funds from borrowing on international capital markets and through borrowing on a large scale is able to pass on loans at a preferential rate.

The European Social Fund was also created in 1958, to improve the employment opportunities of workers. The ESF aims to improve mobility within the labour market primarily by providing funds for the training and retraining of workers affected by industrial restructuring. Following changes made in 1971, ESF assistance became more targeted to certain industrial sectors and disadvantaged groups (young people and migrant workers). The most recent changes are outlined in the next chapter on the 1988 reform of the structural funds.

The European Agricultural Guidance and Guarantee Fund was agreed in 1962 as part of the Common Agricultural Policy

(CAP) package. The guidance section of the EAGGF provides investment aid for a variety of measures to assist farmers in less-favoured areas. This funding has been used in conjunction with other financial instruments to assist agriculture as part of broader regional development strategies.

Despite the fact that a number of Community financial instruments with regional aspects existed in the 1950s and 1960s, this did not constitute a Community regional policy. In fact, as one observer stated, these instruments were "quite as likely to work against each other as together and obviously failed to do anything more than pay lip service to the words of the Treaty" (Swift 1978, p12). Commissioner George Thomson, who was centrally involved in the creation of the ERDF in 1975, went even further in his assessment of existing measures:

"Forms of Community aid, useful and well justified as individual acts of policy, when looked at as a whole... appear to be actually widening the regional gap rather than closing it" (New Europe, Spring 1976, cited in Swift 1978, p14).

In the period immediately before the creation of the ERDF, regional policies in individual member states had proliferated. This fact, despite their mixed success, made the question of a more significant Community role over regional policy more controversial. Consequently, it was not until 1973 that the decision was taken to introduce a

Community regional policy and not until 1975 that it came into effect. The background to the negotiations over regional policy provides a large part of the explanation for the nature of the policy that emerged.

2.2/1 Origins of the ERDF

An appropriate starting point for considering the origins of EU regional policy is 1961, when the Commission convened a conference in Brussels to provide the broad outlines of what a Community approach would be. This started a process of Commission deliberations which resulted in the Commission presenting its first report on regional policy to the Council of Ministers in May 1965. The report called for better information on the Community's problems and the coordination of the range of instruments with a regional impact. This would require more activity on the Commission's part and greater coordination over regional instruments between the Commission and member governments. In 1968, a directorate general (DG) for regional policy was created in the Commission. This brought together those parts of the Commission and the High Authority of the ECSC with responsibility for existing regional measures (Vanhove and Klaassen 1987, p398).

In 1969, the Commission again made regional policy proposals to the Council without eliciting much support. These proposals, however, were to provide the basis for the

Commission's arguments in the 1973 negotiations. In 1969, the Commission argued that the absence of a policy to address the Community's regional problems undermining the effectiveness of other policies, notably, the implementation of economic and monetary union. Among the Commission proposals this time was the creation of a Regional Development Fund (RDF), targeted through regional programmes and overseen by a standing committee on regional development made up of national governments and the Commission.

Despite a subsequent period of consultations with member states, there was no significant movement on the Commission's proposals until 1972. Only Italy, potentially the greatest beneficiary from regional measures, was in favour, with the other member governments having different reasons for opposition:

"The French Government wanted to limit Community funding to the EIB, with no role for the Commission. The Belgians would accept no Community policy unless it would endorse its own policy towards internal tensions. The German government favoured only modest regional expenditure restricted to the EAGGF and argued that the principle of redistribution should be *le just retour*" (H Wallace 1977, p141).

The efforts of the Commission and indeed the Italian government in 1969 may not have made any immediate impact, but did maintain the profile of the issue. After 1969, a combination of factors elevated the status of regional policy. Helen Wallace identified three factors as

particularly important: the issue of economic and monetary union (EMU); the proposed enlargement of the Community to include Britain and Ireland; and the issue of national aids to industry.

The completion of economic and monetary union, an objective of the Treaty of Rome, had been given impetus by the Werner Report of 1970. This report provided a plan to achieve economic and monetary union in the Community within ten years, necessitating institutional reform and closer political integration. The Werner Report also concluded that continued regional disparities within the Community would militate against EMU being achieved. From the subsequent agreement to work towards EMU, taken at the Hague Summit of 1969, came a recognition from the Council that some form of action would be needed to remedy the problem of regional imbalances. The prospects of further enlargement brought another dimension to the context of the introduction of EU regional policy.

The proposed enlargement of the Community to include Britain and Ireland, would bring with it a new set of disadvantaged regions to deal with. While the problems of Ireland, largely related to agriculture, might have been dealt with by reforming the EAGGF, Britain had a number of regions suffering industrial decline. Moreover, Britain was also likely to be a net contributor to Community funds and was

subsequently keen to explore avenues through which it could secure reimbursement.

The third factor providing the context for the introduction of EC regional policy was the Commission's plans for controlling member state aid to industry. In June 1971, the Commission recommended to the Council that state aids should be clearly measurable (transparent) and that there should be a distinction between the 'central' or wealthy areas of the Community and the 'peripheral' regions. The level of state aid to central areas should be no more than 20% of total investment (Helen Wallace 1977a, p142). In line with Treaty of Rome provisions to ensure fair competition within the Community, this proposal was endorsed by the Council in October 1971. The effect was to encourage a higher proportion of national aid to be targeted at less-favoured regions. As such, the decision placed constraints on national regional policy and thus intensified interest in developments at Community level.

The Paris Summit of 1972 and its aftermath

By 1972, regional policy was high on the Community agenda. At the Paris Summit of that year, the new member states were involved in discussing future priorities for the first time and it became clear that senior political leaders had accepted the case for a regional policy. The final communication of the summit outlined the agreement that a

'high priority' should be given to correcting the Community's structural and regional imbalances which might work against the achievement of economic and monetary union. Further, the Heads of Government invited the Commission to prepare a report on the Community's regional problems and suggest appropriate solutions. It was also agreed that member states would undertake to coordinate their regional policies and that a Regional Development Fund be established. The RDF, in coordination with national aids,

"should permit, progressively with the realisation of economic and monetary union, the correction of the main regional imbalances in the enlarged Community and particularly those resulting from the preponderance of agriculture and from industrial change and structural unemployment" (Vanhove and Klaassen 1987, p402).

For advocates of a significant Community role in regional policy, it appeared that the main battle had been won. But it was a difficult journey from this declaration to the formal introduction of ERDF in 1975.

From policy decision to policy detail

In the new Commission of the enlarged Community, Britain secured the regional policy portfolio. This post was filled by the pro-European George Thomson, a former Labour minister. Thomson quickly set about the task of producing the regional policy proposals the Commission had been charged with. The result was the Thomson Report of May 1973, which provided a Community-wide analysis of regional

problems, outlined the main features of an EC regional policy, set out how the RDF would operate, and provided principles for co-ordinating national regional policies. While the Thomson Report recognised the need for a Community regional policy to be implemented in conjunction with states' own policies, at the same time,

"the Commission also laid down objectives which would in the long term lead to these national regional policies becoming less important" (Preston 1984, p66).

On 25 July 1973, the Commission laid before the Council the draft for a decision establishing a Committee for Regional Development to work towards the co-ordination of national policies. This would comprise two members from each state and a representative from the Commission. At the same time, the Commission put to the Council a proposal to establish the RDF. The RDF would have 2250 MUA (Monetary Units of Account) allocated to it for a three year period and would be distributed on the basis of 'objective Community indicators'. There would be no national quotas, but it was proposed that only areas which had been nationally designated for assistance would be eligible.

A decision on the Commission proposals was expected in the Autumn of 1973, but by September the scale of the obstacles in the way of agreement had become clearer. There was conflict between member states over both the general

principles of regional policy suggested and the detailed proposals of the Thomson Report:

"These ranged from the enthusiasm of the *demandeurs* - Britain, Ireland and Italy - to the caution of Germany the chief paymaster, with various degrees of enthusiasm and reluctance being expressed by other governments" (H Wallace 1977a, p145).

Halstead (1982), in his study of the negotiations, suggested that the Irish and the Italians were pushing for a larger regional fund, while the French with support from the Dutch and the Belgians wanted any agreement on the fund linked to the co-ordination of national policies. Following the Commission's publication of the proposed eligible areas in October 1973, more disagreements emerged:

"First, the Germans, Dutch and Danes considered that the eligible regions were too widely drawn; second, the Germans wanted all infrastructure development to be linked to industrial development; third, it was still uncertain whether national aid would have to be a precondition of EC aid..." (Preston 1984, p68)

On top of this, Britain, along with Ireland and Italy argued that the regional fund was too small, whereas France wanted to link the fund to the issue of national aids.

The politics of the early negotiations

It became clear from the early exchanges that intergovernmental bargaining would come to dominate the creation of the RDF. Whatever embryonic regional policy networks may have existed at Community level at this stage,

the major decisions over the nature and size of the Fund were being thrashed out by the representatives of member governments either in COREPER or in Council. As Preston argued:

"whilst the different national positions were still capable of mutual adjustment it was becoming clearer that the major protagonists saw the Fund issue in terms of national interest. The attitude adopted on the problem of eligible regions were conceived primarily in terms of the 'politics of redistribution' rather than of the 'economics of regional development'" (1984, p68).

While the national interest considerations of member governments were the overriding determinant of the outcome of the regional fund negotiations, even at this early stage the Commission had played a significant role in keeping the issue alive and putting forward proposals. However, the context of the negotiations changed significantly with the outbreak of the Yom Kippur War in October 1973, threatening the prospects for agreement on regional policy.

The oil embargo of Arab oil producers in response to the Yom Kippur War, "had the dual effect of preoccupying the immediate attention of governments and of suggesting a linkage between the two issues to the German Government" (H Wallace 1983, p93). The consequence of this linkage was that the German government reflected on its previous enthusiasm to pay for a regional policy from which there would be no immediate return. Germany became particularly antagonistic towards the claims of the relatively oil-rich

UK government, which was pleading a special case for assistance from the new regional fund.

Negotiations came to a turning point when the UK government refused to give Community members preference for its oil in return for UK benefits from the regional fund. Argument over this changed the spirit in which negotiations took place:

"in failing a major test of solidarity, member states subsequently felt less inclined towards any financial or 'spiritual' generosity towards each other" (Preston 1984, p69).

As progress on the Commission's proposals gradually ground towards a halt, a new dimension was introduced into the negotiations with the election of a minority Labour Government in Britain in February 1974 which was committed to renegotiating the terms of Britain's entry to the Community and holding a referendum on continued membership. In this context, British interest in the proposed regional fund was marginalised, and with the attention of the UK government focused on other matters, the prospects for agreement on regional policy became even more distant.

Despite the British 'problem', however, the Commission maintained its efforts on regional policy and was supported in its efforts by the Irish and Italian Governments. Prospects for renewed progress on regional policy were

enhanced with the elections of both Schmidt in Germany and Giscard in France in the Autumn of 1974: "for Schmidt in particular the impending British referendum on EC membership highlighted the need to bring the whole protracted debate to a speedy conclusion" (Preston 1984, p74). However, no significant progress was made until the end of 1974 when the Irish and Italian governments threatened to sabotage the Paris Summit scheduled for December that year unless other member governments gave a firm commitment to establishing a regional fund.

Largely in response to Irish and Italian threats, member states agreed at the Paris Summit to establish a regional fund for a three-year trial period to begin on the January 1, 1975. The Fund was endowed with 300 MUA for its first year of operation and 500 MUA for each of the following two. This total of 1,300 MUA fell some way short of the Commission's original proposal at the Paris Summit of 1972 for 3,000 MUA, but was welcomed as progress. At the same time, it was decided that distribution of the regional fund should take place according to national quotas. These were:

Percentage (%)

Belgium	1.5
Denmark	1.3
France	15.0
Germany	4.4
Italy	40.0
Ireland	6.0
Luxembourg	0.1
Netherlands	1.7

United Kingdom 28.0

(Ireland was also to receive a further 6 MUA taken proportionally from the other countries, with the exception of Italy).

Once the European Parliament had authorised the creation of a supplementary budget to finance the Fund, the RDF was formally established in March 1975. Also created was a Regional Policy Committee, consisting of two representatives of each member state and one from the Commission, with the Commission also providing the secretariat. The chief tasks of the new committee would be to provide a forum through which national regional policies could be coordinated and to set the overall framework for regional policy in the Community.

2.2/2 The UK government and the creation of the ERDF

The British approach to the early ERDF negotiations has typically been described either as 'ambiguous' (Wise and Croxford 1988, p175), 'ambivalent' (H Wallace 1977a, p151) or 'ambivalent and, to a large extent contradictory' (Preston 1984, p73). The Wilson governments of 1964-70,

"... simply sought reassurance that Community rules would not impede its freedom of manoeuvre in the allocation of economic resources to regional development" (H Wallace 1977a, p151).

The Heath government of 1970-74 had less of a commitment to domestic regional policy to protect than its predecessor and, as more pro-European, was,

"... urgently in need of actions which could be used to show a sceptical public and Parliament that concrete benefits were resulting from common market membership" (Wise and Croxford 1988, p173).

The Heath government's enthusiasm for a Community regional policy was evidently more instrumental than ideological. As George put it:

"All that was being sought was an institutionalised subsidy from the Community for British expenditure in the regions. An integrated Community policy for regional development was not on the agenda" (George 1985, p146).

The problems facing the British negotiators during the period of the Heath government were related to the impact of the proposed Community regional policy on domestic measures, particularly on state aids, and the probability that the EC would be viewed by an already suspicious public as restricting national government's ability to respond to difficult economic circumstances. At the same time, however, the UK government had prioritised ERDF as a means of both reimbursement and of demonstrating the benefits of membership to its domestic constituencies. In addition, increased public demand for greater devolution of power to Scotland and Wales within the UK increased, prompting the government to see the regional fund as a potential means of diverting extra resources to Scotland and Wales in particular at no extra cost to the Treasury (Preston 1984).

Yet the Heath government did not only have to satisfy demands from outside government, but also had to deal with the competing demands of its own departments:

"The Treasury's prime concern was with the balance of payments dimension and with securing financial aid that would reduce domestic expenditure; by contrast the DTI, Scottish Office and Welsh Office looked to the RDF as a source of extra support for their client groups" (H Wallace 1977a, p153).

Almost two decades later, the disputes over the direction of ERDF receipts in Britain was to reveal remarkably similar inter-departmental conflicts. In the 1970's at least, these disputes meant that "the possibility of a well integrated policy was thus constrained by intra as well as intergovernmental compromise" (Preston 1984, p73).

However, the relegation of the regional fund issue at EC level following the election of a Labour government in 1974, was accompanied by its relegation in the domestic arena. As the matter fell from public view, public expectations of EC regional policy diminished:

"This, combined with increasing inflation, strengthened the hand of the Treasury in arguing that Britain's share of RDF should not increase the total expenditure on regional development in the UK, but rather cushion it against setbacks" (H Wallace 1977a, p154).

When regional policy negotiations resumed, the Labour government was concerned to retain national government control over the process to ensure that EC regional fund receipts could be directed to areas prioritised domestically

and not by the Commission. The importance of securing national government control over the implementation of EC regional policy became even greater to the UK government as the pressures for devolution for Scotland and Wales grew. With powerful assemblies in Scotland and Wales a realistic prospect, there would be potential for these sub-national authorities to deal with the Commission directly and by-pass the national government gatekeeper. Thus, the UK government wanted to shape the outcome of EC regional policy negotiations to strengthen its domestic control:

"There was a determined reluctance to allow the availability of Community funds to become a resource in domestic politics except in so far as it could be controlled by central government" (H Wallace 1977a, p154).

The UK government's position in the early ERDF negotiations was thus shaped by its recognition of the importance of the implementation stage of the regional policy process. Moreover, the government recognised that to act successfully as gatekeeper at the implementation stage, required it to act as a vigilant gatekeeper during EC-level negotiations. The various stages in the policy-making process from the initial negotiations over policy decisions in principle through to the policy outcomes are inextricably connected and this was demonstrated by the UK government's actions.

2.2/3 The Commission's position

As there were differences within the UK government over EC regional policy, so were there differences within the Commission, "given the cross-linkages between regional policy and other areas of policy (H Wallace 1977a, p160). However, these differences were not substantive, but concerned with detail rather than broad principles. Following the Paris Summit, when the Commission became more focused on regional policy, these differences became insignificant. It was recognised that, now responsive to an enlarged Community, "the whole Commission stood to win credit if the RDF could be set up quickly" (H Wallace 1977a, p146).

That the eventual deal to be struck on the ERDF would be essentially the result of intergovernmental bargaining was immediately recognised by George Thomson, who consequently made no effort to construct a coalition of non-governmental interests in pursuit of his objective. Instead,

"...the Commission concentrated on constructing a package of rewards that would satisfy the demandeurs and persuade the other member governments that the RDF would further their interests too" (H Wallace 1977a, p147).

That importance of regional policy to national governments was illustrated by each member state being allocated an ERDF quota. Although in some instances the quota secured by national governments was very small, "none was prepared to forgo the possible leverage that a stake in the Fund would

give it, both in bargaining over the Regional Fund and over other policy sectors" (Preston 1984, p84).

Thus, nature of the original RDF was largely determined by national government representatives through the Council machinery. That the Commission was able to influence the agenda was important, but not decisive. This was reflected by the fact that what emerged fell some way short of a common regional policy and that control over the operation over what emerged was placed firmly in the hands of national governments.

Yet it could be argued that the development of a Community regional policy of any kind by 1975, when so many factors appeared to be working against it, was at least in part due to the Commission's persistence, and in particular, that of DG XVI. At the same time, it is more certain that acting alone, the Commission's efforts would have been insufficient: the intervention of the Irish and Italian governments prior to the Paris Summit of 1974 was probably a decisive moment. But the Commission did play an important role in keeping the regional policy issue alive when some member governments were indifferent and others would have been happy to have seen it buried. In doing so, the Commission at least provided an important ally for those member governments continuing to promote a Community regional policy.

It may be said, therefore, that although member governments through the Council structure possessed most of the political and financial resources in the negotiations over the creation of the RDF, the Commission was able to use, both formally and informally, the political and informational resources at its disposal to ensure a continued profile for the issue. The Commission recognised the imbalance of resources in favour of national governments and worked within the constraints this set. By keeping the issue alive and establishing Commission involvement, Thomson and his Commission allies had provided foundations on which the Commission could seek to build in future.

2.2/4 The role of local and regional authorities

One of the striking aspects of the emergence of the Regional Development Fund was that the representatives of regional and local authorities played no part in Community level discussions. This was despite the fact these were to be the main implementors of the policy. While domestic considerations were a feature of coordinating national positions, and local authorities were consulted by national governments, sub-central government was to play no independent role in the creation of the regional fund. With the Commission having to play a delicate political balancing act, national governments largely shaped the implementation process and were thus well placed to dominate the

development of regional policy with the minimum of interference from 'above' and 'below'. As Swift commented in 1978:

"The national governments decide which projects should go to Brussels, they form the committees which decide which are accepted and they are responsible for implementing the projects assisted. They present the regional development programmes and are responsible for them, and can exclude the regions from having any say on how the policy should develop" (Swift 1978, p16).

2.2/5 The role of the European Parliament

In contrast to sub-national government, the European Parliament was able to make a significant mark during the emergence of the Fund. Following the Council decision to establish the RDF in February 1975, the Parliament blocked the release of the necessary funds by refusing to approve the Supplementary Budget Regulation. By designating the Fund's three-year endowment as 'obligatory' rather than 'non-obligatory' expenditure, the Council had effectively ruled out any significant role in the process for Parliament: only on the latter did it have effective ability to amend. So although Parliament would be able to propose changes to the regional fund budget, any amendments would have to be supported by a qualified majority in Council, leaving national governments in firm control.

Parliament argued that the RDF endowment should be classified non-obligatory because there was no provision in

the original treaties for the RDF and its existence was thus a discriminatory decision by the Council. Eventually, and after considerable argument, Parliament, unsure of the legal position of its argument, agreed to accept the RDF budget proposal as it stood. However, it did not accept the principle of RDF as obligatory expenditure. In taking this position, Parliament reserved its right to return to the issue at a future date, less the legal position be clarified against it. Yet this dispute did demonstrate Parliament's keenness to exercise some control over the budgetary process and, by implication, some control over the fund's effectiveness. Again, the main impact of the Parliament's involvement at this stage was to put down a marker for further involvement in future.

2.2/6 Additionality and the RDF

Although the Commission had accepted a limited role for itself in the initial phase of regional policy, it still hoped to exert influence over RDF expenditure in two ways: through its limited discretion in approving applications and through seeking to ensure additionality. The Commission's effectiveness in the first of these areas would be circumscribed by national governments not substantially over-bidding and therefore restricting the Commission's discretion over the types of projects funded.

Securing the additionality of regional funds would have been a major step towards a genuine supranational element in EC regional policy. This was recognised by national governments, not least the UK government, which was determined consequently to avoid having its hands tied on the matter. While the wording agreed in the original ERDF regulations stated that,

"the Fund's assistance should not lead Member States to reduce their own regional development efforts but should complement these efforts" (Commission of the European Communities 1975),

national governments found convenient ways of circumventing this requirement, much to the frustration of the Commission.

The Commission accepted that in the initial phase of regional policy, RDF receipts could be spent on projects that had already been prepared in anticipation of domestic funding. Initially therefore, additionality was defined by the Commission in terms of increases to global national expenditure on regional development and not necessarily by specific projects being additional in the sense that they would not otherwise have gone ahead. Many of them clearly would have. The point was, however, that the total value of projects developed in each member state would increase by an amount equivalent to ERDF receipts. In the longer term, the Commission wanted projects drawn up specifically for RDF funding which would be distinct from and additional to projects planned for domestic grant applications, but time

constraints meant this was not practicable for the first phase of RDF.

The early response of governments to the principle of additionality was mixed: while the Irish and Italian governments embraced the principle, the French only did so in the first year because it coincided with domestic priorities, and made this fact clear. The German government, although initially reluctant, did embrace the principle in November 1975. The UK government's response was initially unclear because of inter-departmental tensions, mainly between the Treasury and those 'spending' ministries that expected to benefit directly from ERDF receipts.

A major problem for the Commission in dealing with recalcitrant governments over additionality emerged soon after the Fund's creation. This was the problem of being able to prove that regional fund receipts had not been spent additionally when national governments claimed they had. As one observer put it:

"even if the amount of total regional expenditure remains constant in the year before Community aid is received and in the first year in which it is, a government can claim that, but for Community help, their national regional expenditure would have had to be reduced by an equivalent amount" (Swift 1978, p16).

However, the position of the UK government became clearer in 1976 when the Department of the Environment issued a circular to local authorities on the use of RDF receipts:

"the Government would not feel able to authorise individual local authorities to undertake additional projects because of the availability of assistance from the Fund. The Government's intention is that monies received from the Fund should be passed to the authority responsible for the project and used to reduce the amount that authority might otherwise have to borrow. The unused borrowing will not be available for other schemes and the (borrowing) allocation of the authority will be abated by the amount received from the Fund" (DoE 1976, cited in Thomas 1992, p295).

Thus, local authorities would not be able to increase their total spending on economic development projects even if in receipt of RDF grants. In short, RDF would not be spent additionally in the UK's targeted regions. The only possible benefit for local authorities receiving RDF and thus the only possible 'additionality' was through savings on interest payments to councils who would not have to borrow as much money as they would otherwise. However, there was no requirement that these interest savings, a modest form of 'additionality', had to be spent on regional development - they could just as easily be used to subsidise other local authority expenditures:

"local authorities cannot therefore spend more, but they have a cash resource which they may use to reduce rates or to reduce the increase in rates, that otherwise would be necessary to service borrowing charges. It is not additionality, it may be of benefit" (M. MacLennan, House of Lords 1982 pp36-7, para.67).

It was possible, however, that even this modest and non-project additionality was denied UK local authorities:

"that additionality... may be expunged and removed if even that cash element is eroded by a compensating reduction in the rate support grant because that extra cash is deemed to be an own resource of the local authority" (M. MacLennan, House of Lords 1982, p37, para.68).

The argument was that even additionality in the form of interest savings could be denied by central government when setting a local authority's rate support grant.

The Commission's problem of getting national governments to accept additionality in principle and apply it in practice continued to be a feature of ERDF in the years that followed 1975 and subsequent reforms were characterised by the Commission's attempts to enhance its ability to act on this. The next section considers the nature of the subsequent reforms and the Commission's attempts to make progress on the additionality issue in particular.

2.3 The Development of the ERDF 1975-1988

2.3/1 Introduction

In the period up to the reform of the Structural Funds in 1988, Community regional policy underwent reforms in 1979 and 1984, the history of which was:

"largely one of a struggle to throw off the many restrictions imposed by the Council of Ministers in the original 1975 Fund Regulation" (Armstrong 1989, p172).

The policy package which was introduced in 1975 and the RDF in particular were subject to much criticism:

"The Fund was held to be too small and spread over too wide an area of the Community (covering some

60% of the geographical area and 40% of the population). The system of national quotas was considered too rigid and, moreover, inadequately related to the nature and seriousness of existing disparities" (Mawson, Martins and Gibney 1985, p30).

Moreover, it was becoming clear that the principle of additionality was being interpreted as member states saw fit, meaning in the British case that RDF was seen as a form of reimbursement for contributions to the Community budget. The Commission appeared powerless to ensure that RDF was spent additionally in targeted regions.

2.3/2 The 1979 reform

In June 1977, before the initial regional fund period expired, the Commission sought to increase its influence by proposing that a non-quota section for 'specific Community measures' be introduced in the new regulations scheduled for 1979. This would target areas whose problems had been exacerbated by the impact of Community membership, whether these were within nationally delineated assisted areas or not. For the most part, these would concentrate on regions across member states suffering from the decline of the same industry. Clearly, the Commission was seeking to break with the rigidity of the national quota system and,

"make some modest movement towards the ERDF becoming a development agency of a more genuine 'Community' character rather than a somewhat limited subsidiser of separate national policies" (Wise and Croxford 1988, p175).

Perhaps not suprisingly given the history of the regional fund's creation, the Commission's non-quota proposal met with opposition within the Council. This was strongly supported by the Netherlands but the French government rejected the proposal outright as trying to give too much power to the Commission to intervene in what it considered a domestic policy area. The German government would support the proposal only if the non-quota section was sufficiently restricted and its uses tightly defined. But the Commission was also seeking to define more broadly the types of schemes that could be funded. Over these issues, the position of national governments continued to reflect perceived national interests:

"Once again the negotiations saw the net beneficieries, such as Britain and Italy, pushing at the reluctant Germans to broaden the scope of eligible activity, with only the smaller states, such as the Netherlands arguing for a strengthening of authority at Community level... member states were applying the criteria of national advantage applied to all Fund negotiations. This suggested that the Commission's intentions would be constrained as before" (Preston 1984, p226 and p227).

Consequently, there would be little immediate change to the legal and administrative framework which had guided the operation of the Fund since 1975. However, the proposed non-quota section was eventually accepted in June 1978, although only at a maximum of 5% of ERDF and even this amount was to be distributed subject to unanimous agreement

in the Council, rather than by qualified majority voting as proposed by the Commission.

The national quotas which had been established after considerable negotiation in 1975 were not suprisingly left largely unchanged when considered again in December 1977, thus maintaining the political balance. The new allocations were (previous figures bracketed):

Table 1: RDF national quotas agreed December 1977

	Percentage (%)	
Belgium	1.39	(1.5)
Denmark	1.20	(1.3)
France	16.86	(15.0)
Germany	6.00	(4.4)
Ireland	6.46	(6.0)
Italy	39.39	(40.0)
Luxembourg	0.09	(0.1)
Netherlands	1.58	(1.7)
United Kingdom	27.03	(28.0)

(The biggest increase was awarded to France for its overseas departments).

(Source: Preston 1984, p226).

During the same December Council it was agreed by the Heads of Government that the regional fund would be allocated 1850 MUA for 1978-1980 (580 MUA for 1978, 620 for 1979 and 650 for 1980). The European Parliament was dissatisfied with these amounts and provoked another budgetary dispute with the Council, although accepting the 1978 level rather than risking no commitment at all for that year. Parliament was in a stronger position this time around, with ERDF being

classified as non-obligatory expenditure from 1978 thus giving Parliament more power over the allocations to the regional fund.

The compromise which eventually emerged in March 1979 provided an allocation for that year of 945 MUA - a significant increase which signalled to the Council that the Parliament should be consulted at an earlier stage in the process if it wished to avoid future budgetary conflicts. Yet it has been argued that this compromise did not constitute the surrender of any real authority by the Council to the Community institutions: the important point was that, "the essential political bargain upon which the Regional Fund was based... remained unchanged" (Preston 1984, p233).

Additionality and the 1979 reform

One important illustration of the continued member state dominance of ERDF was the fact that the 1979 reform contained no movement on the issue of additionality. This was despite the efforts of the European Parliament, which had been lobbied to push for changes by sub-national authorities in regions denied additional resources by national governments' interpretation of the principle. This significant omission and the moderate content of the other changes continued to stifle the development of a significant relationship between sub-national authorities and the

Commission in the regional policy sector and signified the continued dominance of national governments.

From the Commission's perspective, probably the most significant development stemming from the 1979 reform was the use it made of non-quota aid, where its discretion was greatest. Here the Commission pioneered the use of the 'programme contract' - a package of initiatives drawn up in agreement with member states, specifically designed to alleviate a clearly identified regional problem. The first series of these programmes each focused on regions across member states affected by the decline of a dominant industry - steel, shipbuilding, textiles, fisheries. Non-quota programmes were designed to develop new alternative economic activity. A programme to assist development in border areas provided the only non-sectoral variant. These programmes were to prove important models for the Commission in shaping its proposals for a further reform of regional policy. Moreover, the Commission's influence over the non-quota programmes and the greater visibility of the sectoral programmes provided the Commission with potentially the greatest opportunity for securing compliance with the additionality principle.

2.3/3 The 1984 reform

The initial proposals

There were two phases to the Commission's proposals for the 1984 reform, with the initial proposals of October 1981 being replaced by re-worked proposals in November 1983. Again, the Commission's objective was to wrest some control from national governments to make regional policy more genuinely supranational.

Initially, the Commission's proposals for the 1984 involved major changes including:

"the definition of rules for the coordination of national regional policies; major changes in the geographical distribution of assistance from the quota-section of the ERDF and its methods of operations; a significant expansion in the size of the quota-free section of the Fund coupled with the regulation of the concept of integrated development operations" (Martins, Mawson and Gibney 1985, p38).

The Commission proposed that assistance from the quota section should be distributed according to Community criteria: aid would be restricted to regions with both a per capita GDP and long-term unemployment rate of less than 75 on an index where the Community average was 100. This would inevitably require substantial change to existing national quotas, but, more importantly, it would also mean transfer of significant responsibilities for allocating ERDF away from national governments to the Commission.

The Commission also proposed that the existing arrangement of financing individual projects should be gradually

replaced by the financing of programme-contracts: "these programmes were intended to be interrelated packages of investment projects set within the context of an overall regional development strategy based on a common format which included objectives and a finance schedule for implementation" (Mawson, Martins and Gibney 1985, p39).

The contracts would be for a period of no less than three years and would be agreed by the Commission and individual member governments, in close consultation with local and regional authorities and other implementing bodies. Once programme funding had been agreed, the Commission proposed passing on grants directly to the authority or agency responsible for implementation. The transition to the programme approach would take three years to complete, eventually covering all quota section applications.

The political implications of the Commission's proposals were clear: the role of national government's would be downgraded and the programme approach in particular would present new opportunities for the Commission to develop links with local and regional authorities in administering the Fund. The Commission's role would be further enhanced by the proposed increase in the non-quota section from 5% to 20% to assist regions affected by serious problems from recent industrial decline or by the direct effect of Community policies. In addition, the Commission proposed

that decisions on which measures would be undertaken would be made by the Fund Management Committee and not by the existing method of a unanimous vote in the Council. Not suprisingly, this ambitious package provoked a hostile reaction from member governments and led to a period of sustained negotiations at Community level.

Almost two years after the Commission's proposals had first been announced, there was little sign of a consensus emerging between the Commission and national governments. Eventually, the Commission accepted that little headway would be made with the proposals as they stood and so revised them. The two related issues blocking agreement were the proposals to target assistance to the Community's most disadvantaged regions through a more flexible system, thus meaning that a number of national quotas - those of Denmark, France, Germany and the Netherlands - would be reduced; and the increase in the non-quota section to 20%. Ultimately, national governments did not want to cede this much control over regional policy to the Commission. Despite enthusiasm for these proposals from sub-national actors in the UK and also from the Department of Industry (House of Lords 1982, pxii, para. 20), the government position opposed the changes on the grounds that the UK share of receipts might fall:

"It argues that the discretion attaching to the allocation of funds from such a large non-quota section could result in the UK receiving a smaller share of the

ERDF than it might expect" (House of Lords 1982, pxii, para.20).

As a consequence of the stalemate the Commissioner for Regional Policy, Antonio Giolitti, set about revising the proposals to make them more acceptable to national governments.

The revised proposals

The revised proposals contained two main changes. The first would abolish the distinction between quota and non-quota funding and replace it with a system of 'quantitative guidelines' which would provide each member state with a flexible ERDF allocation, constrained by upper and lower limits. This would still allow the Commission greater control over allocations but was intended to reassure member states over the sums they would receive. The second change proposed using the programme approach for all RDF funding, retaining a distinction between Community programmes and national programmes.

Community programmes, to be drawn up by the Commission in consultation with member states, would be similar to previous non-quota initiatives. Significantly, these programmes would be instigated on Commission initiative to 'directly serve Community objectives' and would as a rule 'concern the territory of more than one state'. The national programmes would be drawn up by member governments

in consultation with sub-national authorities and would be limited to nationally designated assisted areas. These would, however, have to be programmes of 'Community interest': that is, be consistent with Community regional development objectives. Both these and national programmes would be required to set out clearly both objectives and anticipated results.

When the Council finally voted to accept the replacement of the rigid quota system, it was with the important qualification that the percentage ranges proposed would not be indicative as the Commission had wanted, but that the lower limit would constitute the minimum amount of ERDF resources guaranteed to member states, conditional on sufficient satisfactory applications being made within the required time period. Additionally, the lower limits were set above those proposed by the Commission, leaving only 11.37% to be allocated with Commission discretion (See Table 1). This increase in the Commission's allocation of the regional fund was, in other words,

"a very modest increase, especially if one takes into account the fact that even under the existing system the quotas were flexible: when a member state failed to submit a sufficient number of acceptable projects to exhaust its share in the Fund (which happened regularly), the surplus was transferred to the other States" (De Witte 1986, p425).

However, the agreement that the frameworks for Community programmes would be decided in Council by a qualified

majority rather than unanimity was seen as an progress by the Commission.

Table 2: Distribution of ERDF among the States (1985)

Member State	Lower Limit %	Upper Limit %
Belgium	0.90	1.20
Denmark	0.51	0.67
Germany	3.76	4.81
Greece	12.35	15.74
France	11.05	14.74
Ireland	5.64	6.83
Italy	31.94	42.59
Luxembourg	0.06	0.08
Holland	1.00	1.34
United Kingdom	21.42	28.56

(Source: De Witte 1986, p425).

That the Council agreed to accept the national programme approach was also seen by the Commission as a step forward, although again the Commission's proposals had been significantly diluted. The Council had agreed that the programmes would only account for 20% of the total regional fund by the end of the third year rather than the 40% the Commission initially wanted. The Council had also insisted that the programme approach would only be introduced on a 'trial basis'.

In addition to diluting the national programme approach, Community programmes were not to be drawn up by the Commission as it proposed, but by 'the competent authorities of the member state or state's concerned in consultation with the Commission'. In short, this meant national

governments retained control of this process. The Council also limited the allocations to Community programmes to a maximum of less than 12%. The 1984 outcome, like that of the previous reform negotiations, turned out to be more of review than the substantial reform the Commission had wanted, particularly as:

"Community programmes which were the main supranational element of the review, appear to have been hijacked by member states" (Mawson, Martins and Gibney 1985, p56).

Despite the considerable dilution of Commission proposals, the 1984 changes were viewed as a "modest move towards the ERDF becoming an agent of regional development more influenced by Community perspectives" (Wise and Croxford 1988, p175). In particular, the introduction of minimum and maximum allocations meant that the Commission had a little more discretion over grant allocations. The programme approach, as discussed above, seemed to give the Commission a number of advantages. In particular, it seemed the programme approach would make it more difficult "for governments to use ERDF finance to subsidize their own efforts rather than augment them; and, by stressing the need to co-ordinate regional investment, the programme system would aim to tailor national policies to conform more closely with Community priorities" (Pinder 1983, p109). The programme approach, were it to have this effect, would clearly enhance the Commission's position relative to national governments.

With regard to the ERDF's endowment, again, the reforms brought an increase but the fund remained, "far too small to make a significant contribution to redressing the regional imbalances within the common market" (Wise and Croxford 1988, p180):

Table 3 Changes in the absolute and relative size of the ERDF 1975-1985

Year	Size of Fund	Percentage of EC Budget
1975	257.6*	4.8
1976	394.3*	5.6
1977	378.5*	4.9
1978	581.0	4.6
1979	945.0	6.1
1980	1165.0	6.7
1981**	1540.0	7.3
1982	1759.5	7.6
1983	2010.0	7.6
1984	2140.0	7.3
1985	2289.0	7.5
1986***	3176.5	9.1

Notes:

* Converted into ECU at January 1986 rate. The ECU replaced the Eua in 1979 as part of the European Monetary System (EMS).

** Greece joins the Community.

*** Spain and Portugal join the Community.

(Source: Commission of the European Communities 1986, reproduced in Wise and Croxford 1988, p163).

Additionality and the 1984 reform

The 1984 reform brought no significant movement on the issue of additionality save for the limited changes that might develop from the national programme approach and from the increase in what was effectively the new non-quota section

of ERDF. The Commission hoped that through increasing its involvement through these measures it would be better placed to secure additionality. However, in relation to national programmes, it was said as early as 1985 that:

"attempts to secure additionality through the identification of EC measures within RDPs (Regional Development Plans) and regional programmes can easily be overridden if member states so choose" (Mawson et al 1985, p56).

It was also less than clear that additionality had been implemented for the programmes introduced under the previous non-quota section, despite the Commission belief that assistance from these would be more transparent and thus non-implementation of additionality easier to prove.

In its initial proposals for the 1984 reform submitted in 1981, the Commission had attempted to tighten the additionality requirement by inserting new wording in the regional fund regulations. Even at this point, the Commission was dissatisfied with at least the UK government's implementation of additionality. While the government claimed it met the additionality requirements, the lack of transparency in its system for allocating ERDF in the UK meant the argument was impossible to prove or disprove. The Department of Industry outlined the government's position to the House of Lords in 1980:

"Although Fund receipts for individual projects are retained by the Government, they are taken into account in determining the levels of national regional assistance which would be lower without

the Fund receipts" (House of Lords 1981, p7, para.31).

While this explanation appeared reasonable in terms of extra resources being provided, conflicting information from local authorities and the UK government itself (DoE 1976, above) left the Commission unconvinced. While the government appeared to have changed its position from the DoE circular in 1976, it had not changed its implementation arrangements. Despite this, Commission proposals to amend the regulation covering additionality in the 1984 reform was blocked by the Council: no change in the additionality wording meant no new requirement for national governments to demonstrate additionality.

The UK government and additionality

If the Commission could claim that it had increased its role over regional policy in the decade or so after the introduction of the regional fund, it would also recognise that this progress fell short of its ambitions. National government interests conflicted with those of the Commission in two important ways. First, member states wanted to maximise their regional fund receipts; and second, they wanted to decide how to spend them. Where Community regional policy objectives loosely coincided with those of national governments there was no real problem relating to additionality; but where national priorities conflicted with

the additionality requirement, it was not fulfilled. This certainly appeared to be the case with the UK.

Throughout the period considered so far, the UK government's approach had been shaped by two related factors. The main concern was the Treasury view that public expenditure should be tightly controlled and RDF spending should be accommodated within Treasury limits. Related to this was the concern that concessions leading to a more effective EC regional policy would lead to a corresponding and undesirable increase in the Commission's authority to influence public expenditure levels in the UK. Thus, the main concerns of the UK government, and others, were domestic. Which, as one commentator suggested, was quite understandable:

"It would be politically irrational for them to operate in any other way, given that their power ultimately depends on national institutions, electorates and interest groups" (Wise and Croxford 1988, p172).

A third, but less immediate concern for the UK government was the possibility of sub-national authorities securing greater autonomy as a consequence of EC regional policy. This concern meant that despite EC-level agreement in the 1984 reform negotiations to consult sub-national authorities, the UK government, "proved reluctant to allow

local authorities much say in the preparation of the non-quota programmes..." (Mawson et al 1985, p49).

On the crucial matter of additionality, the UK government appeared to have found a way of expressing acceptance to it in principle but effectively denying it in practice. There was, however, one important instance where an exception was made which seemed to prove the rule. Here, the Community provided a special programme for housing development in Belfast. The EC's financial commitment to this programme was announced in 1980 after the UK government had decided on its public expenditure plans for the year ahead. This presented the government with a situation in which it could not feasibly claim that it accommodated this expenditure in the sums calculated. In its attempt to ensure additionality over the three year period of the programme,

"the Commission stated that the UK share of the expenditure should not decline in value from the 1981 level and that the special programme should show the number of additional new houses to be built annually through Community aid" (Martins and Mawson 1983, p74).

In this particular case, additionality was demonstrated:

"the Secretary of State for Northern Ireland announced that he intended to increase expenditure on housing in the province by some £50 million above the projected level in the previous year's White Paper" (Martins and Mawson 1983, p74). However, this was an exception, as a government spokesman acknowledged:

"This was an entirely different situation. Here, the Commission came along and said: "We have this kind of money available which we are proposing to divert to the United Kingdom to finance housing in Belfast". This was a grant which the Government could not have foreseen. Until the Commission came to offer it, we did not know it existed. Under the circumstances, and provided the money is paid in way enabling us to spend it in later years, not the year in which it is paid - because housing programmes take time - then some kind of additionality is possible" (J G Walmsley, Assistant Secretary, in House of Lords 1982, p5, para. 11).

The obvious inference in this statement was that unless circumstances were exceptional, the government would not feel obliged to demonstrate additionality. This response reinforced suspicions that under normal circumstances, additionality was denied.

This Belfast housing programme is an important example for this research because of the parallels between it and the RECHAR programme which is an important case study in this research. For reasons connected with additionality, RECHAR was also announced after UK public expenditure programmes had been drawn up for the programme period. However, with the RECHAR programme, the UK government's first response was to make no exception to its implementation arrangements.

2.4 Conclusion

Prior to the reform of the structural funds in 1988, the consensus of opinion was that national governments had

retained control over the key aspects of regional policy-making. Keating and Jones (1985, p54) concluded that:

"While the persistence of severe regional problems in certain member states, allied with the political pressures for economic and monetary union and enlargement of the Community have kept up the momentum for development of the CRP (Community Regional Policy), progress had nevertheless been marred by national control over all the major aspects of the policy..."

Preston (1984, p83) argued that the in its attempts to develop a genuine Community regional policy, the Commission faced a recurring problem:

"The Fund negotiations show clearly how the concept of national interest works strongly against the development of Community policies. The declaration by any member state that a particular Commission proposal is against its national interest has a multiplier effect..."

Yet the struggle over regional policy between the Commission and national governments was not considered unusual by commentators at the time, but was seen as:

"a familiar tussle between the member governments and the Commission over whose influence should predominate: the encapsulation of crucial stages of decision in the Council of Ministers and frequently their adjudication by the European Council..." (H Wallace 1983, p96).

Where the Commission made progress, it did so through its agenda-setting powers. While national governments rejected and diluted many of the Commission's proposals for regional policy from the 1960s through to the early 1980s, it was significant that national governments were usually reacting

to an agenda set by the Commission. While national governments retained control over the broad principles of policy, when it came to detail, the Commission provided much of the information. Consequently, the Council was choosing between options usually put to it by the Commission and some Commission preferences were adopted. The creation and development of both the non-quota system and the programme-contracts were examples of this. The Commission had the expertise and information to prepare solid arguments for these, and sometimes tentatively, the Council accepted them.

Thus, up to the 1988 reform of the structural funds, the Commission, at times assisted by the European Parliament, made piecemeal progress by seeking to, "educate and cajole governments at the margins rather than to promote immediate and radical changes in national regional policies" (H Wallace 1983, p97). Yet advances for the Commission depended on sufficient national governments accepting its arguments, which in many instances did not happen. Additionality was an important example of this and the Commission's failure to make progress on this key principle, was an illustration of the Council's resilience on matters of 'high policy' to national governments.

If the Commission's influence over the early development of regional policy could be described as significant in some areas, but severely constrained in others, the direct

influence of sub-national authorities and other interests on Community level decision-making would have to be considered negligible. As Helen Wallace suggested, the history of regional policy up to the early 1980s could not in any way 'vindicate the approach of the functionalist or neo-functionalists' (1983, p97). The consequence of national government domination was the failure of the Commission to establish a regional fund with the redistributive effects it desired. The reform of the structural funds in 1988 would provide another opportunity for the Commission to secure its objective. Up to that point, however, the consensus was that:

"Little has yet happened to disprove that the Fund is essentially 'cosmetic' and conceals the lack of a genuine desire among member states to adopt interventionist policies at a Community level capable of reducing spatial inequalities in wealth" (Wise and Croxford 1988, p187).

Chapter 3: The 1988 reform of the structural funds

3. The 1988 reform of the structural funds

3.1 Context

Two important developments provide the context of the reform of the structural funds which came into effect on January 1, 1989: the enlargement of the Community to include Portugal and Spain and the push towards greater economic and social cohesion given expression in the Single European Act (SEA) of 1986.

Enlargement

The most significant implication for regional policy of the accession of Spain and Portugal was the considerable widening of regional disparities in the EU, leading to "a doubling of the population of the least favoured regions (those with per capita GDP of less than 50% of the Community average)" (Commission 1989, p9). This in itself required an expansion of regional policy. However, the accession of Spain and Portugal was also important in prompting the introduction of a new type of programme, the Integrated Mediterranean Programmes (IMPs).

Hooghe (1996) points to the creation of the IMPs as important forerunners for the reform package of 1988. The IMPs were introduced as a side payment to Greece which had

threatened to veto the accession of Spain and Portugal. An important feature of the IMPs was that they "advocated continuing involvement of the Commission in all aspects of programming and aimed to mobilise 'non-central' actors" (Hooghe 1996, p11). The IMPs were drafted by a small unit attached to the Commission Presidency which was later upgraded to DG XVII and as such was central to drawing up the 1988 structural fund regulations.

Expansion of the EU had previously been a factor in shaping regional policy. As noted earlier, impetus for the creation of the original regional fund in 1975 owed much to British membership. In the mid-1980s, however, expansion was accompanied by the most determined push for the completion of the common market in the Community's history. Together, these factors provided the unique context of the 1988 reform of the structural funds.

The push for completion of the internal market

The fact that the economies of the US and Japan were outpacing the bulk of Community economies in the late 1970s and 1980s initially provoked the response of greater national protectionism from some member states. So much so that the European Economic Community was pronounced 'moribund' in 1982 (see Keohane and Hoffman 1991, p1). Soon

after, however, the general focus of member states was on the Community's need to achieve a genuine common market if the relative poor performance of EC economies was to improve. In this sense, the drive for the completion of the internal market,

"resulted less from a coherent burst of idealism than from a convergence of national interest around a new pattern of economic policymaking" (Keohane and Hoffman 1991, pp23-24).

It was in this context that the newly-appointed Commission of 1985 prioritised the development of proposals to promote a new phase of European integration.

The outcome of the Commission's deliberations was its White Paper of 1985 on "Completing the Internal Market" which led to the SEA. This set out almost 300 legislative proposals with timetables for approval and enactment by the end of 1992 with the objective of removing all existing physical, technical and fiscal barriers to the movement of goods and individuals within the Community by 1992. The impetus given to the EU by the SEA,

"served to alert the poorer regions of the Community that the completion of the internal market could lead to a concentration of wealth in the EC's core economies" (McAleavey 1993, p92).

The necessary restructuring which would take place led to talk of 'Golden Triangle' connecting prosperous parts of the Community which would benefit from the single market. The implication was that the regions outside this would face a

downward economic spiral in the absence of an effective Community regional policy.

\In response to the concerns of the Community's poorer regions, the SEA explicitly stated the need to strengthen the Community's economic and social cohesion in particular through attempting to reduce regional disparities:

"One provision essential to the passage of the internal market programme was the expansion of structural funds aimed at poorer regions of the EC. This provision, referred to as the "convergence policy" was not a vital element of economic liberalization, as the Commission at times claimed, but was instead a side-payment to Ireland and the Southern nations in exchange for their political support... (Moravscik 1991, p62)

Specifically, Article 130A of the SEA stated:

"In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion.

"In particular the Community shall aim at reducing disparities between the various regions and the backwardness of the least-favoured regions" (Commission 1989, p11).

Article 130D of the SEA called for a reform of the structural funds,

"particularly through a framework regulation on the tasks of the structural Funds and their effectiveness and on coordination of their activities between themselves and with the operations of the EIB and other financial instruments" (Commission 1989, p11).

The Commission commented that in providing for this, the SEA:

"clearly establishes the principle, hitherto implicit in the EEC Treaty of solidarity between states... It requires not only increasing convergence of Member States economic policies but also a reduction in regional disparities" (Commission 1989, p11).

The Commission was charged with the task of presenting to the Council a comprehensive proposal on the reform of the structural funds. To facilitate this process, the Commission issued policy guidelines in February 1987, as part of its broader policy document "Making a Success of the Single Act - A new Frontier for Europe", (also known as the 'Delors' Plan' after the President of the European Commission). This formed the basis for legislation to improve the coordination of the previously separate ERDF, ESF and EAGGF.

3.2 The Principles Underlying the 1988 Reform

The Commission stated that, "the crucial principles which should in future govern the Community's structural action are greater economic realism in what the Community does and improved coordination with national policies, leaving maximum scope for decentralized measures" (Commission 1988, p13). This general statement of principle was broken down into five 'complementary' principles:

- **concentration** of the funds on the areas of greatest need as defined by the accompanying objectives (see below)

- **programming**: multi-project programmes would replace the submission of individual projects to ease the Commission's administrative burden and promote a more coherent approach;
- **coordination** of the structural funds both with other EU funds and domestic regional initiatives;
- **partnership**: partnerships would be established to oversee the administration of the funds and would require the formal involvement of sub-national authorities;
- **additionality**: the additionality requirement would be strengthened by a new regulation and by the greater involvement of sub-national authorities and the Commission in the new partnership arrangements.

Expenditure was to be concentrated on the five objectives:

Objective 1 - promoting the development of less developed regions (ERDF, ESF and EAGGF (Guidance Section))

Objective 2 - converting the regions seriously affected by industrial decline (ERDF, ESF)

Objective 3 - combating long-term unemployment (ESF)

Objective 4 - assisting the occupational integration of people below the age of 25 (ESF)

Objective 5 - (a) speeding up the adjustment of agricultural structures (EAGGF) (Guidance Section));
(b) promoting the development of rural areas (EAGGF (Guidance), ESF, ERDF)

Funds were to be allocated through a three-stage approach. First, after full consultation with sub-national authorities, national governments would submit regional development plans to the Commission. Second, the Commission would incorporate national views in Community Support Frameworks (CSFs) drawn up by partnerships which would prioritise spending areas and provide a financial plan.

Third, detailed operational programmes would be agreed by the partners who would then implement the objectives of the CSFs.

In addition to the 'mainstream' structural funds allocated according to the five objectives, approximately 9% of the ERDF budget was retained for 'Community Initiatives'. These were programmes devised by the Commission to meet outstanding regional needs. As with the non-quota programmes that had preceded these, such as RESIDER (steel areas) and RENAVAL (shipping and shipbuilding areas), Community Initiative programmes would usually address the needs of regions suffering from the decline of a particular industry.

Additionality

As a key principle of the 1988 reform of the structural funds, the Commission was eager to secure the most precise requirement that member states should treat the structural funds as additional. The final wording on additionality stated:

"In establishing and implementing the Community Support Frameworks the Commission and the member states shall ensure that the increase in the appropriations for the (structural) funds... has a genuine additional impact in the regions concerned and results in at least an equivalent increase in the total volume of official or similar (Community and national) structural aid in the

member states concerned, taking into account the macro-economic circumstances..." (Article 9, Regulation 253/88 EEC).

As McAleavey points out:

The reference to Community Support Frameworks (CSFs)... is significant as it was a widely held view that the shift to a programme approach would help the Commission in its attempts to ensure additionality" (McAleavey 1993, p96).

Each CSF document subsequently included the following reference to the additionality regulation in Article 9:

"By agreeing to this Community Support Framework, the Member State also confirms its commitment to this legal obligation. The Commission will check the application of this commitment on a regular basis by undertaking a periodic assessment of additionality throughout the period of implementation of the Community Support Framework" (Community Support Framework for Northern Ireland, 1989-93 cited in NIERC 1992, p62).

3.3 The UK government's position

The UK government was opposed to several aspects of the proposed reform of the structural funds. With regard to the proposal to double the funds by 1992, Mrs Thatcher commented in December 1987:

"In common with several other heads of state I made it clear that this was out of the question. Our view is that growth of these funds must be contained within a strict framework of budgetary discipline, but that it would be right to concentrate a proportion of them on the less prosperous member states, particularly Spain and Portugal" (House of Commons, 8/12/87).

The UK was not alone among the larger member states in seeking to limit the increase in the funds allocations.

That the fund was ultimately doubled owed much to the commitment of larger member states to the single market programme. As Gary Marks argued:

"The most straightforward explanation for the growth of the structural funds is that they are a side payment or bribe paid by the wealthier members to the poorer peripheral members of the EC in return for their assent to the 1992 package of economic liberalization" (1992, p194).

Although the funds would continue to benefit regions in the more prosperous member states, the main impact of the doubling of the funds would be to transfer resources from Belgium, Denmark, Germany, France and the Netherlands to Greece, Spain, Ireland, Italy and Portugal with the impact on the UK largely neutral (Marks 1992, p194). The shift in EU resources to the structural funds has been seen as an illustration of "*forced spillover* in which the prospect of a breakthrough in one arena created intense pressure for innovation in another" (Marks 1992, p198).

Although Marks (1992, p199) points out that the "view that economic liberalization will hurt the weaker economies in the EC is contested" the side payments argument still appears to be the most suitable explanation for member states agreeing to pay more into the structural funds without receiving a greater return. However, while the matter of doubling the funds to compensate the poorer member states for the single market problem was not ultimately a stumbling block in the negotiations, other aspects of the

proposed reform proved more contentious. No issue was more fiercely contested by the UK government than additionality.

As one UK civil servant put it:

"Towards the end of the negotiations different member states had different reservations. There were a number of areas of concern. Ours was additionality" (DTI official, 1995).

The UK government and the additionality principle

There were two parts to the 1988 structural fund negotiations. The main (framework) regulation was dealt with in the first part of the year and signed in June 1988. However, the additionality requirement appeared in the coordination regulation. The negotiations over this began in September 1988. Interviewees for this research placed different emphasis on the importance the UK government attached to the additionality principle at least in the early stages of the negotiations:

"Additionality was a very small part of the discussions. The whole concept of the structural funds was changing. We were negotiating four regulations at the same time, one coordinating regulation and three fund regulations. Everything did not revolve around additionality but we did need to know what it meant" (DTI official, 1995).

"Additionality was one of the sticking points, particularly with the UK. We thought we were getting victimised" (DOE official, 1995).

"Additionality was the biggest problem for the UK government. The framework regulation had been approved in June 1988. The government opposed the coordination

regulation in December 1988 because the additionality regulation appeared in this. The government blocked agreement on the whole package because of additionality" (Commission official, 1995).

Despite these differences of emphasis, the UK government made it clear during the negotiations that it saw the final wording on additionality as an important part of the deal. As the DTI official (1995) quoted above also commented, "...from the UK's point of view the additionality issue was the last one to be settled".

The Commission suggested that the UK had a unique dual strategy for limiting the impact in the UK of a strengthened additionality requirement:

"During the negotiations the UK government saw the way additionality was going and as an 'insurance policy' did two things. One was to dilute the wording in the regulation so that it referred to additionality for 'increases in the appropriations of the structural funds'. The other was to ensure that the UK did not appear to benefit from such increases in the appropriations by maximising their structural fund receipts in 1988. So in parallel with pushing for changes to the wording the government submitted programmes in 1987-88 which amounted to a very large sum of money" (Commission official, 1995).

At the end of 1987 and the beginning of 1988 the government submitted large programme bids for the steel areas of Yorkshire and Humberside, South Wales and Strathclyde. Other major programmes submitted were for the Mersey Basin and Birmingham. It was suggested that:

"The financial allocation that these programmes represented bore no relationship to the needs of the region or per head of population. The Strathclyde programme, for example, was worth ECU 350m. It was the

biggest programme ever submitted and out of proportion to the needs of the region. It was simply part of a strategy to maximise the receipts from the Commission for 1988" (Commission official, 1995).

The intention of this strategy was to ensure that the UK would receive large amounts of structural fund money in 1988, thus ensuring that receipts for the following year would be lower. This would allow the government to claim that as it did not benefit from the increase in the appropriations resulting from the doubling of the funds it would not have to change its arrangements to prove additionality.

For its part, the government did not deny its role in ensuring the phrase 'increase in the appropriations' was inserted into the regulation:

"We had that put in. We felt we would get less after the reform and therefore we would be able to get round Article 9" (DOE official, 1995).

However there was a difference of opinion within government about the importance of the programmes submitted by the UK before the negotiations were concluded. One official suggested that the UK was not alone in doing this, although he acknowledged that,

"it is true that if those programmes had not been signed we would have had big problems" (DOE official, 1995).

Another pointed out that,

"the Commission did approve some programmes in 1988 but it was in December, so these were not paid until 1989" (DTI official, 1995).

A Commission official commented that,

"there was a UK government strategy of peaking its structural fund receipts in 1988. No other member state did this to the same extent. The timing was crucial because the day after such approvals are made a payment is made from the Commission to the member state equal to half of the first year's balance. Being aware of this, the government put a lot of the spending commitments for the programmes into the first year" (Commission official, 1995).

The programmes submitted by the UK were eventually approved in December 1988:

"To get these programmes through the government put tremendous pressure on the Commission. The regulations stipulated a time limit for the approval of these programmes which the Commission had to work within and there was also enormous political pressure placed on Jacques Delors who at the time was trying to get a number of things through including 'Financial Perspectives', a move to multi-annual planning for the Commission. In the end it was Delors' responsibility for the programmes going through" (Commission official, 1995).

While other member states had reservations about additionality, only the UK held out on the principle after it had agreed to everything else. Ultimately it agreed to the new regulation with the insertion of the clause "increase in the appropriations" when it became clear that the Commission would approve the programmes it had submitted:

"In the end it became a numbers game. After the programmes had been approved the government knew it wouldn't have to do anything new. One Mecu of difference would have required them to show additionality (Commission official, 1995).

For the government, the objective was clearly to get what it considered to be the best deal possible from the reform of the structural funds without jeopardising the single market programme:

"At the end of the day we had to do a deal. It was a bit of horse trading. That is how the Community works (DTI official, 1995).

Why additionality was so important to the UK in particular

Perhaps not surprisingly, different views were offered to explain why the UK was ultimately alone in holding up agreement on the reform of the structural funds because of additionality. One view was that additionality was only a problem for the UK because it was particularly targeted by the Commission:

"Each member state deals with additionality differently. The Commission says that the UK in particular is a problem. The UK says that it has a unique system to work within... In some member states you would be hard put to see that additionality exists" (DTI official 1995).

Or, put another way:

"The difference is that we play cricket. When we say we are going to do something we do it, others don't. Additionality had not been enforced elsewhere" (DOE official, 1995).

The same DOE official suggested that the UK government was put under greater pressure because Commissioner Millan had a domestic UK agenda:

"In 1988 we had this massive Article 9. I saw it as the end of the road. The ex-socialist minister was getting tough... Mr Millan was making political capital... He was using his position to influence domestic policies" (DOE official, 1995).

Another suggestion which would seem to have merit is that additionality coincided more with the policies of other national governments:

"In some states it fitted in with what they were doing. They have different public expenditure systems (DOE official, 1995).

This view was also expressed by the Commission:

"Other member states were carrying out their own regional policies and additionality coincided more with their efforts. There were no problems, for example, with Greece and Portugal. There had been problems with Italy. This was essentially the result of internal North-South conflict. The bulk of structural fund money for Italy went to the South and some people in the government were against that. But only in the UK did additionality clearly conflict with national policies" (Commission official, 1995).

It was also the case that during the 1988 negotiations, other member states had other priorities:

"Some were more concerned with the amounts they would receive. In the southern member states structural funds are a much higher proportion of public spending than in the UK. They can amount to something like 2-3% of GDP. In the UK the overall amounts are much less significant (DTI official, 1995)".

3.4 The outcome of the negotiations

At the end of the 1988 negotiations it was clear that the outcome had required compromise on the part of the national governments and the Commission. For the UK government's

part, it lost the argument about the amounts to be allocated to the funds but had apparently secured its objective of circumventing any new requirement to prove additionality. The funds' allocation would double in real terms between 1987 and 1993 with allocations in the final year of this period up to ECU 14 billion, approximately 25% of the EU budget. This contrasted starkly with the initial allocation of ECU 257.6m in 1975 which represented 4.8% of total EC spending and the 1987 allocation of ECU 3,311 (9.1%) (Marks 1992, p194). However, in losing this argument the UK government was compensated by the belief that it would be under no new obligation to demonstrate additionality, despite the Commission's efforts to make this a key principle of the reform.

The negotiations reflected the continued importance of national governments in EU-level regional policy making: agreements were made largely through trade-offs between member states. However, the Commission's role in the 1988 negotiations was also important. While it depended on the support of member states to secure changes, its ability to shape the agenda by framing detailed and coherent proposals made securing support that much easier. Significantly, the Commission's proposals were given legitimacy by the earlier adoption of the single market by member states which, as a corollary, implied a more significant role for EU regional policy. Consequently, the inclusion of the partnership

principle, the introduction of programmes and the change to the additionality requirement were all Commission driven.

Thus, coming at a high point of EU integration, the negotiations over the reform of the structural funds in 1988 allowed the Commission to advance its objective of a genuine regional policy. It engaged, as the terminology puts it, in 'active policy making'. The Commission sought to make a great leap forward towards a genuine regional policy and even if it did not secure all of its policy objectives in the negotiations, it was generally recognised to have made progress in that direction. However, securing changes in principle was one thing, while seeing them implemented could be quite another. In particular, the additionality principle was contested by the UK government and at the end of 1988 it was unclear whether this would be observed.

Chapter four: The RECHAR dispute

4.1 Background

4.1/1 Local authorities and additionality before 1988

Central government departments apart, in the period prior to the 1988 reform of the structural funds, local authorities were the major regional policy actors in the UK. However, despite a variety of channels through which local authority views on additionality were expressed, these views had little influence over the government's position in the negotiations over the 1988 reform. Given that the 1980s in particular marked a period of tension and at times hostility in UK central-local relations, this was no real surprise.

The main formal channel of consultation between central and local government prior to 1988 was the European Joint Group (EJG). The EJG was chaired by the DoE and brought together the local authority associations and the central government departments concerned to discuss the broad range of EC matters of interest to local government. It met on a quarterly basis and provided a two-way channel of communication: to inform local authorities of relevant developments and to provide central government with information about potential problems arising from EC policies. This forum also provided local authorities with the opportunity to put forward ideas for policy change at EU level.

In addition to the EJG, local authorities regularly contributed to Parliamentary committee hearings on EC affairs. The most influential of these committees was the House of Lords Select Committee on the European Communities, which regularly received evidence from local government representatives. While the final reports of these committees were often critical of the government's position on additionality, they did little to change policy. A number of other lobbying channels were used by local government - MPs, functional consultative committees and direct contact with individual ministries - but these channels were equally fruitless on the issue of additionality.

Despite the various channels of representation for local authorities there was no discrete local authority grouping focusing on additionality, although the European section of the Local Government International Bureau (LGIB), became increasingly specialised on the issue. But representations made by the LGIB and other additionality specialists, for example within the AMA, were made through the broad channels of representation available for the range of issues covering local government. Over time, the value of these channels fluctuated but even at relative 'high points' of local government influence in the national networks, influence was limited and tenuous.

The 1970s

In the 1970s, regular consultation with local government was a feature of the corporatist trend in British government. The national associations were recognised by central government as 'peak associations' with a legitimate role to play in decision making. The creation of the Consultative Council on Local Government Finance (CCLGF) by the Labour Government was an illustration of this. The CCLGF provided for the first time a formal channel through which local government representatives and government ministers would meet regularly to discuss local government spending in the wider context of national public expenditure. Central government's objective was to illustrate to local government the 'realities' of the restrictive economic environment in which decisions had to be made. Through incorporating local government in this way, central government hoped it would be able to make the cuts to public spending it wanted with a degree of consensus, thus smoothing the implementation process.

However, two features of this period served to outline the limits of local government influence within the new corporatist channels. First, the recognition and incorporation of local government associations was accompanied by central government asserting the primacy of macro-economic considerations in determining the level of

local government spending; and second, the greater recognition and consultation afforded to local government in the 1970s was given by central government and could similarly be withdrawn. Local government had no constitutionally enshrined right to participation: this remained in the gift of central government.

Thus, when local government representatives on the CCLGF were faced with severe cuts to local government expenditure in the mid-1970s, following a period of sustained financial growth, the consultation process was far from smooth and ultimately the cuts were achieved through "a mix of discussion, compromise and conflict through the established machinery of government" (Stoker 1988, p14). Central government controlled the financial and constitutional resources necessary to secure the cuts. But local government was able to influence the process. For local government to have been excluded completely from influence over decision-making would have been politically unthinkable at the time. The Labour government had been elected in part through its commitment to work with representative organisations and had succeeded a Conservative government which had failed to do so successfully. Moreover, local government representation on the CCLGF was provided in large part by Labour councillors who had played a part in drawing up Labour party policy while in opposition and had campaigned for it at the general election. This provided

Labour local government representatives with a degree of political legitimacy within the consultative framework which could be used in bargaining. This was a key difference of consultation between local authorities and a Labour government elected on corporatist principles in the 1970s compared with local authority consultation by the Conservative government elected in 1979 on a programme rejecting corporatism: a rejection which became firmer with each successive general election victory.

However, even in the 1970s, the involvement of local authorities in national decision-making was conditional on recognising central government's right to control key financial decisions. This was backed by the understanding that if local government peak associations strayed out of line too far, it would jeopardise the opportunity for regular consultation. Thus, over additionality, with its implications for public spending, the role of the national associations was severely constrained. As Rhodes (1986a, p312) put it, the national associations were:

"...a legitimized consultative channel with neither the resources, nor in many instances, the desire to challenge government... The costs of legitimacy are respectability and responsibility but there are also its rewards. The advantages of continuous access have to be weighed against the need to play by the centre's rules if the access is to be preserved".

The 1980s

During the 1980s, as relations between central and local government deteriorated and the principles of corporatism faded, the opportunities for influence available to the national associations decreased. While some consultative structures stayed in place, genuine consultation within those structures declined. One illustration was the demise of the CCLGF, which "was converted solely into a forum where ministers announced hard and fast decisions to unavailing protests by the local government representatives" (Rhodes 1986a, p377).

The resources of political legitimacy available to local authorities in the 1970s increasingly became a bargaining resource for central government. Local authorities were identified as wasteful and in need of major reform. For the most part, there was little public support for local authorities seeking to defend the status quo and local government alone appeared powerless to resist change. Indeed, only when local government reform was considered unacceptable by a much broader constituency than local government itself, notably over the poll tax, could successful resistance be achieved. In short, success was achieved on this issue because non-local government resources were introduced into the policy network to tip the balance against those of national government.

While local government influence declined in the 1980s, the national associations found themselves campaigning on an increasing number of fronts as central government policy challenged the role of local authorities in a range of areas. Consequently, the additionality issue was relegated in importance for local government. The attention of national associations was focused on issues of more immediate concern as central government pursued major reforms to the structure, functions and finances of local government.

Yet while local government made no advance on additionality in the domestic sphere, the increasing attention UK local authorities paid to the EC in the 1970s and 1980s meant that the profile of the issue in Brussels was increased. As more councils became recipients of ERDF grants, more became aware of the additionality issue; and as representation to the Commission in particular increased, the issue remained alive. While individual councils raised the issue individually, it was the views of UK local authorities expressed collectively that mattered.

The main formal channel for representation at EC-level was the Consultative Committee of Local and Regional Authorities (CCLRA). This was established in 1976, and although not formally recognised by the Commission until 1988, the CCLRA was an important forerunner to the Committee

of the Regions agreed in the Maastricht Treaty. The Commission listened to the CCLRA, not least because its views on regional policy often dovetailed neatly with its own. Because the CCLRA consisted of local and regional government representatives from all member states it provided the unelected Commission with a broader base of support and thus greater legitimacy for its regional policy arguments.

But while local authorities were increasingly listened to in Brussels, their experience within the UK was the reverse. Thus, the position taken by UK national government in negotiations over the 1988 structural fund reform were shaped essentially by discussions within government, through formal interdepartmental committees and informal interdepartmental linkages, with the Treasury view dominating. While central government was required to consult local authorities over EU regional policy matters, subnational actors had no formal channels of participation in the decision-making process until after the 1988 reform of the structural funds.

The local authority view

Through the 1970s and 1980s, local authorities had repeatedly made the point that although central government claimed that ERDF was passed on to eligible councils, there

that it is passed on 2 eligible councils
was no way of seeing this. The government argued that it took anticipated ERDF receipts into account when deciding how much public expenditure in total would be allocated to local authorities. Without ERDF receipts, it argued, the overall amount going to councils would be lower.

Local authorities believed that if ERDF was being passed on it was having little impact on their ability to spend. This was determined by the Annual Capital Guidelines (ACG) set each financial year by central government for each of five groups of services: housing (DoE); transport (Department of Transport); education (Department of Education); personal social services (Department of Health); and 'other services' (DoE).

It was expected that most local authorities would attempt to maximise their capital spending within this limit. However, to do so meant that councils had to borrow and the borrowing limit for each council was calculated by deducting the receipts the council had available to spend (calculated on a basis announced by the DoE) from the ACG figure given by the government to the council. The remainder was the council's maximum borrowing capacity for capital expenditure for the financial year, otherwise known as Basic Credit Approvals (BCAs). Thus, Annual Capital Guidelines (ACGs) less Receipts Taken Into Account (RTIAs) equals Basic Credit Approvals (BCAs). Or,

ACGs - RTIAs = BCAs

In 1982, Manchester City Council reported that:

"... under the present system of capital controls operated by the Government, there is no provision for such (ERDF) grants to increase Local Authorities' ability to spend additional money in their own areas. If this aspect of additionality is to be achieved, then the Local Authorities concerned should be allowed to increase their spending levels by the amount of ERDF they receive" (House of Lords 1982, p49)

The point made by local authorities was that irrespective of the source of the funds they had, the capital spending limits set by the government limited their ability to act. They could not prove that ERDF was not given to them, but if it was, they felt little benefit from it. It was generally assumed in local government that the main beneficiary of ERDF in the UK was the Treasury which used it according to the government's priorities, not those of the European Commission. Thus, if ERDF was given to councils it was likely to be at the expense of other monies that would have been given. As such, the process of allocating ERDF in the UK was seen largely as a theoretical exercise because money from the fund was as likely to go to non-ERDF authorities as to those that were eligible. In practice, they argued, the arrangements up to 1988 remained the same as outlined in the DoE circular of 1976. The Commission believed that the UK treatment of ERDF receipts was unique in this:

"Within the Commission and other member states no-one could believe what was going on in the UK... It meant that thousands of people were working for nothing. ERDF was going to the UK but it was being spent indiscriminately, going to places like Southampton or Aldershot which were not eligible. At the time, the best way of benefiting UK local authorities would have been to shut down their European offices: they would get their share of ERDF anyway, as determined by the government. The whole thing was a theoretical exercise" (Commission official, 1995).

The government's treatment of the funds was justified by the view that ERDF was public money, a rebate on the UK's contribution to the Community budget:

"Mrs Thatcher said it was 'our money: let's get our money back!'. The theory was that it was public expenditure paid through Brussels" (DOE official, 1995).

4.1/2 Local authorities and additionality 1988-1990

Following the reform of the structural funds in 1988, the government's handling of ERDF receipts looked set to remain unchanged. Following exchanges with the DoE, one council Treasurer commented in February 1989:

"the DoE remains unwilling to recognise the receipt of (ERDF) grant as conferring an equivalent amount of additional spending power to the authority. The previous proposal is repeated whereby the estimated level of receipts for ERDF would enhance the national total of credit approvals for distribution. Thus, in theory, the grant related expenditure would be initially scored against the basic credit approval and financed by borrowing with the actual grant itself being applied to redeem debt when received" (Borough Treasurer 1989, p1).

There was, however, a suggestion from the DoE that the government might consider weighting the distribution of credit approvals to match the distribution of expected ERDF receipts. This would mean taking credit approvals from local authorities that did not qualify for ERDF grants to give to others that did, while retaining a constant level of credit approvals overall. The government would issue Supplementary Credit Approvals (SCAs) to councils to allow them to borrow more to spend on ERDF projects. When ERDF was subsequently paid by the Commission, the councils would then use this to pay off the loans they had taken out. This was known as 'top-slicing'.

While the top-slicing approach would benefit ERDF authorities at the expense of non-ERDF authorities it would not represent additional spending, but instead would simply be a redistribution of existing spending capacity. Such a move had the potential to split local authorities over the additionality issue. As the Borough Treasurer quoted above put it:

"In the past this authority has supported the principle of full additionality of spending power from ERDF grants rather than such 'top-slicing'. However, if the only choice available is between a weighted or unweighted distribution... a weighted allocation should prove more advantageous to this authority" (Borough Treasurer 1989, p1).

A DoE circular of August 1989 said that ministers had considered whether any allowance should be made in the

distribution of credit approvals for the expected likely distribution of ERDF receipts. The decision was that:

"... in general it is appropriate to continue existing practice, and that capital allocations to local authorities should be based on overall assessments of authorities' needs to spend, without explicit account being taken of whether expenditure which needs to be incurred may be financed through ERDF grant" (Parker, DOE, 1989).

However, the same circular indicated the first concession by the government on ERDF:

"Ministers have, however, decided that there may be instances where the expected distribution of ERDF receipts should, in exceptional circumstances, be taken into account as one of the factors in determining Annual Capital Guidelines (ACGs) (Parker, DoE, 1989, p1).

For these 'exceptional circumstances' the government proposed that up to £25m of the Other Services Block (OSB) ACG total should be 'earmarked' for this purpose and distributed according to a formula which would include estimated future ERDF receipts in the OSB as a factor. Much of what was deemed eligible for ERDF assistance fell within the 'Other Services' spending area. The main elements covered by this block of spending were:

- general administration
- economic development and planning implementation
- waste collection and disposal
- parks and open spaces
- environmental health
- trading services
- arts and libraries (Department of National Heritage)
- consumer protection (DTI)
- careers and sheltered employment (Department of Employment)

- smallholdings (Ministry of Agriculture, Fisheries and Food)

(The DoE had responsibility for policy on all the above unless otherwise stated. Source: DoE 1993, p27)

The £25m earmarked represented an estimated 12.5% of ERDF grant income for authorities covered by the DoE. Such an arrangement was deemed necessary because:

- a) the relative size of the Other Services Block means that some authorities' ACG may not be large enough in any one year to accommodate major schemes;
- b) the number of eligible authorities and the potential number of schemes make it impracticable to invite bids for major projects against a central top slice.

(Source: Parker, DoE, August 1989).

The contradiction in the government's position claimed by local authorities and the Commission appeared to have been given weight by this and similar pronouncements. The government was clearly determined to make capital allocations to local authorities according to its own assessment of what they needed to spend, irrespective of what 'additional' monies were deemed necessary by either local authorities or the Commission for ERDF purposes. At the same time, however, the government recognised that the ongoing arrangements needed adjustment if local authorities were to be able to take advantage of ERDF grants to prevent them being lost to the UK. As one local authority Treasurer put it:

"The government seem intent on making the system unnecessarily cumbersome in their continued efforts to

restrict local authority capital expenditure" (Borough treasurer, August 1990, p2).

The introduction of limited top-slicing recognised the need for additional spending by some councils receiving ERDF in 'exceptional circumstances'. The corollary of this appeared to be that in normal circumstances there would be no additional spending in recognition of ERDF receipts.

Thus, while top-slicing of £25m may have been a significant concession politically, it was only for exceptional circumstances. The only non-exceptional additionality the government appeared prepared to allow on a regular basis was that "EC grants will reduce the debt servicing charges of the authorities receiving them and provide a direct benefit to the revenue accounts of those authorities" (DoE Circular 1990, p4). However, as before 1988, even the additionality of this 'concession' was disputed. As one council Treasurer put it:

"In simple terms, it appears that savings on interest payments, arising from the receipt of European grants, are fully clawed back by central government through reductions in Revenue Support Grant and in effect, it means that European grants are worthless to a Local Authority unless it can secure supplementary credit approvals" (Taylor 1991, p1).

In short, local authorities did not feel that the post-1988 situation had significantly improved. The government's position appeared to contradict the additionality principle contained in Article 9 of the 1988 regulations and the

problems facing local authorities continued. A survey completed by the Association of District Councils (ADC) mapped out some of the problems. For example, councils in the South West of England stated that they had been allocated £2.55 million of ERDF for the period 1989-91 towards an industrial land and building sub-programme, but that they had run into problems:

"Local authorities are expecting to bring forward schemes which will only be capable of claiming £1.1 million in ERDF grant. The reason for this is that local authorities do not have sufficient credit approvals to undertake capital schemes. The district councils in Cornwall need additional approval in the order of £2.9 million over the next two years" (ADC 1990, p4).

Similar problems existed in the North East of England with Wansbeck District Council (DC) claiming it had "insufficient capital expenditure and credit approvals to support a significant investment in projects grant-assisted by the EC without cut-backs elsewhere by the Council's capital programme" (ADC 1990, p4). In the Yorkshire and Humberside region, Hull City Council reported that there was a risk that "major schemes recognised as being eligible for ERDF support by the Regional co-ordinating Committee (plus DoE and EEC) may be unable to proceed due to capital restraints on local authorities" (ADC 1990, p4).

The pattern in Wales was similar, with Merthyr Tydfil Borough Council (BC) reporting that the "block to utilization of European monies has been that grants count

against capital receipts and therefore any scheme proposed has to compete with other Council priorities" (ADC 1990, p5). Newport BC stated that:

"It is believed the value of obtaining European Commission funding has been undermined and is becoming increasingly marginal. To support this statement, it is commented that no additional spending power flows from successful application, than any grant is offset by a requirement to set aside an equivalent sum for debt redemption under the new capital controls..." (ADC 1990, p5).

The 'new capital controls' referred to became effective in April 1990 in relation to ERDF grants and were an extension of the previous controls that had been in operation since 1981. These 1981 rules were central to the additionality problem since they were the ones which required local authorities to contain any expenditure financed by ERDF grants within their basic capital allocations as set by central government which, as outlined above, 'anticipated' ERDF receipts in calculating these allocations.

However, when the Commission questioned the government on additionality it's response was one that had been anticipated: there was no new requirement for the government to demonstrate additionality because the UK had not benefited from the 'increase in the appropriations' for the funds. The Commission argued that the UK government had not demonstrated additionality before the 1988 reform and as problems persisted, was obliged to do so. The dispute

*was 2 hours
when Pechar interv*

between the two sides came to a head with a Community Initiative programme for coalfield areas called RECHAR.

4.1/3 Origins of the Rechar Programme

As discussed in Chapter Two, Community programmes focussing on regions across member states affected by the decline of a dominant industry had been a distinct feature of the Commission's use of non-quota aid during the 1980s. Pre-dating the reform of the funds in 1988, 'Community programmes' had, for example, been established for steel areas (RESIDER) and* shipbuilding areas (RENAVAL) in decline. Thus, when the British alliance of coalfield local authorities, the Coalfield Communities Campaign (CCC), sought EC assistance for mining areas in decline, there were clear precedents for a Community-wide programme.

That ECU 5.5 billion of the total structural fund budget for 1989-93 was reserved for 'Community Initiatives' meant that funds were clearly available for sectoral programmes. Although ECU 1.7 billion of this was committed to the programmes agreed before the reform of the funds, the remaining ECU 3.8 billion "left the Commission considerable room for manoeuvre" (McAleavey 1993, p98). However, under the 1988 regulations, 80% of the Community initiative monies had to be spent in Objective 1 areas. This meant stiff competition for the funds available for new Community

Initiatives in non-Objective 1 areas. That the majority of the Community's coalfields were outside the Objective 1 areas, including all of the British coalfield, meant that the creation of a special programme for coalfield areas was not a foregone conclusion.

However, it was clear to CCC officials that in Bruce Millan they had a very sympathetic Commissioner who, "was well aware of the problems of coal areas and had in fact addressed a CCC conference within days of taking office" (Fothergill 1992, p25). As the Labour government's Secretary of State for Scotland in the 1970s, Millan, along with four of his Cabinet colleagues, had been responsible for appointing the Commission on Energy and the Environment, which among its conclusions, noted:

"Mining has often been highly localised in areas which have become almost exclusively dependent on this single industry with very limited alternative opportunities for employment. With it have grown up extremely closely knit communities with an exceptionally developed sense of group identity reinforced by a strong tradition" (Commission on Energy and the Environment 1981, p2).

Mining communities were in this sense unique and any necessary restructuring of the coal industry should be sensitive to these social and economic features, argued the 1981 Commission. That critics of the UK government felt that this argument had been largely ignored following the year-long coal strike of 1984-85 was unlikely to have been missed by the new Commissioner. By the time Commissioner

Millan took office in January 1989, the British coal industry had lost over 80,000 mining jobs since the end of the strike in March 1985.

It had also become clear to CCC officials in their dealings with the Commission before the appointment of Mr Millan, that their prospects for success in securing any form of Community assistance for coal areas would be greatly enhanced if representations were made from across the Community coalfields rather than from a group representing interests in one country. This knowledge was a key factor in CCC mobilising local and regional coalfield local authorities in other member states to form a Community-wide alliance of mining areas. Given the working name ACOM (Action for Mining Communities), this transnational network was formally constituted as EURACOM (European Action for Mining Communities) in October 1991. ACOM represented local and regional authorities in the coalfields of Belgium, France, Germany, Spain and Portugal as well as in the UK, thus covering virtually all of the EC's coal producing areas. The Barnsley-based CCC was to provide the secretariat for the new transnational organisation.

With the sympathy of the Commissioner responsible, ACOM made swift progress towards securing a coalfield programme of aid. It did so by enlisting the support of coalfield MPs

and MEPs and by maintaining close contact with Commission officials and supplying specialist advice and information when required. For the Commission, ACOM brought legitimacy in its efforts to provide a coalfield areas programme. ACOM represented virtually every coalmining area of the Community. In December 1989, the Commission announced formal approval for a programme of aid for mining areas (RECHAR), which was planned to run from the beginning of 1990 to the end of 1993. The process of lobbying for the programme, originally by CCC and eventually by ACOM provided evidence of the growing importance of transnational networks in Community regional policy-making and equally of the importance of the Commission in shaping and developing these networks. In this particular instance at least, the relationship between the Commission and the developing transnational lobby was clearly symbiotic.

The UK government and RECHAR

The CCC had found little encouragement from central government when seeking support for its efforts to secure Community assistance for the coalfields. The government made clear that it did not favour the Community funding sectoral programmes. It argued that:

"sectoral programmes distort the overall pattern that has been agreed on the Community Support Frameworks and are not normally necessary... long-term industrial problems like the run-down in the coal industry can be accommodated in the CSFs" (DTI official, 1992).

The Government's position on this matter was quite clear, even if it disappointed local authorities. As a matter of policy the government did not support bids for sectoral programmes of the type RECHAR would represent. However, once it became clear that such a programme was likely to be approved it was quick to seek to maximise the benefits to the UK. As the CCC director put it:

"The UK government, which had described its position as 'positively neutral' when the proposals were first mooted, swung to a position of enthusiastic support when it realised that such a programme was a real possibility and that the UK would be the largest beneficiary" (Fothergill 1992, p25).

4.1/4 Details of the RECHAR Programme

The RECHAR programme covered the coalfield areas of Belgium, France, Germany, Portugal, Spain and the UK. It would provide ECU 300m in grants, mainly from ERDF for spending on capital projects, but with a small amount of ESF also available to assist with the revenue costs of some projects. There would also be up to ECU 120m of interest rebates available on a total of approximately ECU 800m of ECSC loans in the period 1990-93. Supplementary assistance of a further ECU 40m from the ECSC would be provided in 1990 for the redeployment of former miners. Areas which qualified for RECHAR were those where coal mining activities were still taking place or where at least 1,000 persons were employed in the coal sector as of 1 January 1984 or later,

and which had lost, (or were set to lose), at least 1,000 mining jobs after that date. The aim of RECHAR was:

"To promote the economic conversion and social renewal of coal-mining areas which have been seriously affected by decline in the sector, thus contributing to the reduction of disparities in development and living standards in the Community" (Commission undated, p1).

This was to be achieved through a range of measures which would promote new job-creating activities, provide vocational training and improve the environment.

Of the 28 areas Community-wide which had been identified for assistance, no fewer than 12 were in the UK, with allocations being made to areas in proportion to the number of coal industry jobs lost in the period 1984 to 1990. As such, UK local authorities, identified as the main spenders of RECHAR in the UK, could expect almost half of the total fund: approximately ECU 170m at 1989 prices. Bids for RECHAR funding were to be submitted by member governments following consultation with the appropriate local and regional authorities.

The announcement of the programme was greeted with celebration by the coalfield authorities involved. While all the efforts had been concentrated on lobbying for programme and then shaping its detail, the potential for the additionality problem facing the UK authorities in receipt of RECHAR had not featured at this stage. While local

authorities clearly had personnel familiar with the problem, it was not an issue raised during CCC meetings prior to the programme being announced. Much of the lobbying for RECHAR had been undertaken by the CCC/ACOM secretariat and senior councillors within the organisation. Many of those centrally involved were unaware of the additionality problem and others believed that it would not affect RECHAR as a new Community Initiative programme which would be clearly additional to anticipated EU regional aid and as such would require demonstrable increases in local authority spending.

It certainly appeared to be the Commission's view that RECHAR was unique and demanded a unique response where additionality had previously not been transparent: in this sense, the UK was clearly a target. RECHAR was the first significant Community Initiative programme after the 1988 reform of the structural funds and had been announced after the UK government had set out its public expenditure plans for the coming financial period. As such, the Commission believed, this would require changes to be made to the public expenditure plans to accommodate RECHAR. If no such changes were made it would be clear that RECHAR would not be treated additionally. Whatever the motivation of the Commission or the Commissioner, RECHAR was clearly viewed as test case by the Commission for additionality in the UK.

4.2 The RECHAR dispute

4.2/1 The views of the Commission and the UK government

When taking up his Commission position in January 1989, as the new structural fund regulations came into effect, Mr Millan expressed the dissatisfaction he had felt towards the Treasury over its interpretation of additionality during his time as Secretary of State for Scotland:

"Every quarter we drew up a list of projects or companies due to get national assistance. We knew roughly what the UK as a whole and Scotland would get from the EC each year. So we just picked out as many projects as were needed to make up the UK quota, and sent the list off to Brussels. Back came the EC money, and the Treasury simply lopped that amount off its expenditure" (quoted in Cutler et al, 1989, p.92, reproduced by McAleavey 1992, p27).

McAleavey (1992, pp.27-28) draws attention to a series of visits to national capitals made by Commissioner Millan in his first year of office. During these visits he informed government ministers in the UK and elsewhere that he would be placing emphasis on the additionality criteria being met and that he would "challenge" those governments whose response was not satisfactory. By the summer of 1990 when it became apparent to Commissioner Millan that the British share of RECHAR would not be passed on to the coalfields, he attempted to put pressure on the UK Government by refusing to release the UK share of RECHAR until the government gave guarantees on additionality.

The UK government's initial response to Mr Millan's decision was to deny that it was flouting Community rules. For his part, Commissioner Millan argued that while there had always been a 'moral obligation' for the government to ensure additionality, this obligation had been made specific for the first time in the Article 9 of the 1988 coordination regulation. Moreover, other governments had responded satisfactorily to the requirements of the new clause, leaving the UK government the only remaining target on additionality. Commissioner Millan stated:

"We do not have problems with other governments in the way we have had problems with the UK government... I do not think I have a real problem in principle with any other member state" (House of Lords 1991, p102, para. 531).

In response, the UK government restated its argument that as the wording on additionality in Article 9 referred to additionality for 'the increase in the appropriations' of the Structural Funds and as the UK would not be receiving extra monies as a result of the doubling of the funds, it was under no legal requirement to demonstrate additionality (House of Lords 1991, p26, para. 78). Despite this, the government insisted that it was in fact meeting the underlying principle of additionality. As Peter Lilley, Secretary of State for Trade and Industry put it:

"We build that money (anticipated from the Structural Funds) into our planning proposals, and if it were not there we would not spend so much" (House of Lords 1991, p156, para 757).

The government also stated that this money was 'definitely' passed on to local authorities.

The two sides of this dispute had apparently entrenched positions which led to a stalemate lasting over a year. While the UK share of RECHAR was retained in Brussels, funds from the programme were released to other member states. By refusing to release RECHAR payments to the UK, the Commission had deliberately raised the stakes over the control of ERDF expenditure.

While the Commission had long been sympathetic to the arguments of UK local authorities that ERDF receipts were not used additionally, there had been no major push by the Commission on additionality before 1988. That activity on this increased after 1988 was undoubtedly due in part to the determination of Commissioner Millan. However, the basis for action on additionality was provided by the inclusion of Article 9 of the 1988 regulations. This, the Commission argued, set out quite clearly what was required of member governments.

The Commission's position was further strengthened by indications of support from the local authorities that would be affected by delays to the payment of RECHAR. In the event, this support was complete and effective, with none of

the authorities affected by the withholding of RECHAR payments critical of the Commission's actions. This 'alliance' against government policy on additionality between the Commission and UK local authorities, although often implicit, provided a unique element to the history of Community regional policy making which would challenge established decision-making practices. Crucially, the willingness of local authorities to support the Commission added further evidence to the argument that under existing arrangements they stood to benefit very little from RECHAR.

4.2,2 What local authorities wanted

It was clear soon after the RECHAR dispute started that 'securing additionality' could mean more than one thing. For the Commission, the main objective was for the ERDF grant element of any project to be treated as additional to planned domestic expenditure and for this to be 'transparent'. For local authorities, the ultimate ambition was both for the ERDF contribution to be additional and for the UK contribution to be additional to what would have been spent without receipt of ERDF monies. This would mean additionality in total for ERDF-sponsored schemes and not just for the non-domestic contribution. Local authorities wanted this because of the difficulties some experienced in raising the matching funding necessary to co-finance ERDF

projects, which was required under the structural fund regulations.

Under the matching funding requirement, local authorities had to provide up to 50% of the expenditure on ERDF projects. With local authority budgets under increasing pressure from central government, this requirement meant that some local authorities faced a constant struggle in order not to lose out on ERDF grants. Generally though, local authority matching funding was found from one of three sources: receipts (for example from property sales); reserves; and most importantly, borrowing (up to the limit set by central government in its allocation of BCAs in England and Wales or Capital Consents in Scotland).

As part of its macro-economic policy to control public spending, local authority BCAs and Capital Consents had been falling in the 1980s. Local authorities recognised that it was unlikely that central government would reverse this trend to make extra spending available for the domestic contribution to ERDF projects even if the Commission could secure additionality for the EC contribution. Thus, the realistic objective for local authorities was to secure additionality for the EC contribution and then find ways around the matching funding problems. While these had provided some difficulties for some local authorities, generally they were not seen as insurmountable.

4.2/3 Early Negotiations Between Local Authorities and the DoE

A meeting between local authorities and the DOE in July 1990 suggested little change in the Government's position was likely. As one participant put it:

"The meeting yesterday with the DoE did not appear to offer any hope of the current Government changing the rules on ERDF grant since they indicated that the Treasury would continue to insist that such grants would still form part of national expenditure limits and Public Sector Borrowing Requirements. The DoE also indicated that there would be no change in the current arrangements for 1990/91 with the possible exception of an increase in the 12.5% minimum level of SCAs on All Other Services. The only way forward in the short term, therefore, appears to be to lobby for a change in the distribution pattern of ACGs and BCAs for 1991/92 and beyond" (Hoyland 1990, p2).

Not for the first time, the Treasury was identified as the government department crucial to determining government policy over additionality. At the same meeting, local authority treasurers outlined three problems associated with the RECHAR programme.

First, was the lack of specific BCAs or SCAs to support the capital expenditure associated with RECHAR. RECHAR expenditure would comprise a substantial part of the OSB credit approvals and in the case of some smaller authorities the OSB would be too small to permit projects to be

undertaken in line with the RECHAR submission to the European Commission.

Second, was that the revenue consequences of RECHAR expenditure would impinge significantly on those authorities subject to Poll Tax "capping" arrangements. This expenditure would arise from three areas:

1. Debt charges associated with capital expenditure.
2. A general lack of capital receipts requiring authorities to use revenue contributions as a means of topping up capital expenditure.
3. The direct effect of ESF expenditure within the RECHAR programme.

The third problem was the contradictory financial signals being sent by central government which suggested it wanted local authorities to make maximum use of EC finance but did not want local authorities to breach the overall public spending limits, which were a principal part of government policy (Latham 1990, p1-2).

The DoE officials responded by stating that they understood the authorities' arguments, but did not accept that the government was sending contradictory financial signals: the total amount of public expenditure agreed by the Treasury could not be breached in any circumstances. To make the position clear, CCC officials were told:

1. That there were no "spare" BCAs or SCAs (at that stage of the year) to be redistributed to RECHAR authorities.

2. That attempts to have RECHAR money redefined within the Treasury so as to take it outside public expenditure controls had been tried and had not been found acceptable.

3. That the local authority proposal to disregard capital and revenue restrictions in the definition of RECHAR expenditure was not acceptable, as if the expenditure took place then there would be no deemed "public expenditure cover" for the additional expenditure (Latham, 1990).

The UK government was due to submit the final RECHAR programme to the Commission just eight days after this meeting (July 27) and was "concerned to hear that local authorities felt that under the current rules they would be unable to take up the RECHAR monies, as this implied that there was insufficient public expenditure cover and that they could not submit the programme" (Latham 1990, p2). However, the programme was submitted, on the assumption that "if local authorities did not take up the funds then other agencies, predominantly British Coal, would be able to do so" (Latham 1990, p2).

Thus, in July 1990, the DTI submitted the RECHAR programme on behalf of the UK government. For RECHAR purposes, the UK had been divided into eleven 'operational programme areas', each of which had drawn up a plan for spending RECHAR with local authority involvement. Had there been no additionality problem, the funds would have been released by the Commission in December 1990 and additional economic development projects in coalfield areas would have started

early in 1991. However, by the end of 1991, the UK share of RECHAR was still with the Commission, with Commissioner Millan having made clear his refusal to release the UK share of RECHAR money until he was satisfied that it would result in additional spending in coalfield areas.

Local authorities step up their activity and align with the Commission

The DoE position on additionality expressed at the July meeting with local authorities was the re-statement that additionality applied at national level and that this system generally worked for ERDF-qualifying authorities. That the general pattern of ERDF distribution had been altered by the RECHAR programme affecting only a limited number of authorities had been recognised by the limited top-slicing arrangement introduced. But the central problem for the CCC authorities remained: that it was impossible to prove whether RECHAR expenditure was taken into account at all when the Government drew up its public expenditure plans. The suspicion was that no extra provision had been made. However, there were perceived dangers in the CCC continuing to argue that additionality was being denied. If CCC argued this to the ultimate, then,

"we will have to admit that we cannot spend the money because of current Government rules and, therefore, will not obtain any net benefit to our communities. The consequence of this is that we will retain a purity of approach and will have to blame the

Government for its failure to adopt proper policies"
Latham 1990, p3).

The CCC representatives had also been left in no doubt that to engage Commission support for this approach would lead to an "even stronger rejection from central government, who will object violently to the principle of the Commission formulating any part of public expenditure policy for the UK" (Latham 1990, p3).

The alternative approach to confrontation that the CCC and its supporters could take was to agree to a DoE suggestion that the distributional aspects of RECHAR could be looked at, but that the issue of the totality of public expenditure was closed. One of the problems of this approach, as already suggested, was that it could divide local authorities. Shortly after the meeting with the DoE, the position adopted by CCC was made clear in a letter from its director to the director of the Local Government International Bureau (LGIB) which co-ordinated structural fund policy for the national local government associations:

"Any capital or revenue expenditure by a local authority which is eligible for aid through the RECHAR programme should be disregarded in determining the level of that authority's capital or revenue expenditure for comparison with the ceilings laid down by central government" (Fothergill 1990, p2).

This was recognised by CCC as an 'ambitious stance' but "the only one that satisfies the needs of some member authorities for whom the problem is lack of adequate capital spending

cover not just for RECHAR grants themselves but also for the matching local authority contribution" (Fothergill 1990, p2).

The LGIB put forward a more cautious approach. In a paper to the AMA Policy Committee of July 26, it recommended that:

"- the relative strengths of the Commission and Treasury positions on this be recognised: realistically it must be unlikely in the current climate that the Government would reverse their policy on additionality, thereby making more money available to local government;

- recognition be given to the value of savings to local authorities in interest payments that the present policy on ERDF brings'

- the possibly vulnerable position of local authorities on Social Fund receipts (where some additional benefit was perceived) be recognised and priority be given to protecting these" (Local Government International Bureau 1990, p4).

Thus, within local government, there were differences of opinion on how to proceed on additionality. The CCC, concerned as it was primarily with the RECHAR programme, could perhaps afford to be more ambitious, knowing that in the 'current climate' the government was unlikely to concede significant ground on additionality for the whole of ERDF receipts, but might be prepared to be flexible on the relatively small sums involved with RECHAR, if sufficient pressure was applied. Moreover, there was also the possibility that the 'current climate' might change. However, what the events of July 1990 had made clear was

that the government had no intention of willingly making a significant change to its position on additionality for either ERDF generally or for RECHAR.

The joint position adopted by the AMA, ACC and ADC was presented to the government at the Consultative Council on Local Government Finance on September 7, 1990. It accepted that 'additionality takes place at the national level', but expressed concern that this 'does not translate into additionality locally':

"In general credit approvals are distributed to individual local authorities on the basis of overall spending need with no regard being had to whether expenditure is to be supported by EC grants... Receipt of EC grant does not convey spending power unlike other capital grants" (AMA, ACC and ADC 1990, p1).

The associations identified the £25m in top-slicing for 1990-91 as a recognition of 'the case advanced by local government', but argued that this did not go far enough:

"The national enhancement to spending programmes should translate into full additionality locally. The Associations would like the Government to recognise the case for full additionality and to consider with the Associations how best this can be achieved" (AMA, ACC and ADC 1990, p1).

Thus, by Autumn 1990 the national local authority associations were increasingly active on additionality. Authorities individually, also set out their problems with existing arrangements, even with the £25m top-slicing arrangement:

"If the £25m held back represents 1/8th of grant income, the Government's estimate of income (from ERDF) nationally must be £200m. Nationally, spending on these ERDF schemes must therefore be assumed to be £400m.

"The ACG issued nationally for OSB schemes is only £245m. Assuming the £25m is also distributed the OSB total will increase to £270m. How can authorities carry out ERDF programmes of £400m plus all the other schemes covered by the OSB block on a total allocation of only £270m? Clearly, authorities cannot be receiving full additionality via the Other Services Block" (Bradford City Council 1990, p1).

Bradford stated that for the year 1990-91 it would have a total credit approval for the OSB of £1.615m if it was given an additional 12.5% approval based on the estimated size of its OSB ERDF receipts. However, given that these estimated receipts were £3.8m and the Council's total OSB ERDF programme approximately £6m, the credit approval provision fell well short of what Bradford needed if all ERDF-sponsored projects were to be additional. Indeed, "the Government's provision is not even sufficient to cover the OSB ERDF grant we receive from Europe. Other council capital resources will therefore have to be used to make up the shortfall" (Bradford City Council 1990, p2).

Fife Regional Council sent a report to the Commission in January 1991 detailing how authorities in Scotland still did not even benefit from the reduction in the amount of interest paid on loans which appeared to be the clearest net benefit to authorities in receipt of ERDF. The report pointed out that "any reduction in capital charges result in

a similar reduction of the authority's entitlement to Revenue Support Grant from Central Government" (Fife Regional Council 1991, Notes, p1).

In response to a CCC request for a meeting on additionality in October 1990, the reply came that:

"the Government's by now well-established policy in regard to ERDF receipts, additionality and domestic public expenditure controls has been well aired... At the present time I feel there would, therefore, be little point in our meeting to discuss the matter" (Atkins 1990, p1).

There was, however, further top-slicing. In April 1991, local authorities were informed that for the year 1991-92 a maximum of £45m in SCAs for ERDF grants would be allocated to qualifying authorities. Again, this was seen as a slight improvement secured through local authority lobbying, but was still insufficient to prevent local authorities continuing their campaign on additionality and maintaining support for the Commission.

4.2.4 Commission activity over RECHAR

In his speech to annual conference of the CCC in March 1991, Anton Herpels of the Commission (DG V) made some qualified comments on the additionality debate as it affected the UK. He suggested it was 'in many aspects... an internal British

affair', but which remained of 'extreme importance' to the Commission because:

"lack of additionality undermines the "raison d'etre" of its (the Commission's) funds. And so, the Commission will continue to require guarantees from the Member States that this principle is respected. If the Commission did not obtain satisfaction, it would inevitably draw its own conclusions prior to being committed in a further round" (Herpels 1991, p9).

It was shortly after this speech that Commissioner Millan responded to the 'unsatisfactory' position of the UK Government by announcing his decision not to release RECHAR funds to the UK. In April 1991 Commissioner Millan explained to the European Parliament that despite numerous meetings with British ministers and officials, he was "still not satisfied that the current system of treating structural fund grants in the United Kingdom taken as a whole satisfactorily transmits the effective value of Community structural funds to the eligible regions" (European Parliament 1991, p255, col. 437). Commissioner Millan also made the point that the Commission had "no problem with any other Member State in any way similar to the problem we have with the UK Government" (European Parliament 1991, p255, col. 438). As such there would be no delay in releasing RECHAR monies to other qualifying Member States.

Commissioner Millan made clear what he required from the UK Government to prompt him into releasing RECHAR funds:

"I would like... the UK Government to separate out the regional fund receipts from the other aspects of local authority borrowing consent... on a basis which took no account of regional funds and then allocated that on the basis of the actual distribution of the regional fund so that the whole process was completely transparent and we could be satisfied that the funds we are making available through RECHAR and other programmes were reaching the areas concerned" (European Parliament 1991, p256, col. 439).

By January 1992, the dispute had been ongoing for several months with the Commission receiving public support from the CCC and individual coalfield local authorities.

Commissioner Millan said at the time:

"There comes a point when you have to say this (additionality problem) can't go on indefinitely. We must see whether we can resolve this problem and the RECHAR programme was the occasion for it. It happened to be the first of the Community initiatives that was under the reform" (Local Government Chronicle 1992a, p16).

Moreover, by the beginning of 1992, the Commission had warned the UK government that unless changes were made, another £850m due to be allocated to the UK under the CSFs for the 1992-93 period could be blocked. The justification for this was that,

"the (additionality) problem is longstanding so obviously it affects not just RECHAR. If you block that and everything else carries on regardless it is unfair to RECHAR areas. So the logic of it is that any programmes which fail to meet the additionality requirement should not have approval until we get more satisfactory arrangements" (Local Government Chronicle 1992a, p16).

The failure of the UK government to keep separate accounts for EC grants, to make its additionality arrangements

'transparent' was the major sticking point. As one Commission official put it:

"If you accept their explanation, some of our money goes into everything - in the same sort of way that if you were to get a barrel of red dye and drop it into a gigantic barrel of water you would get some of the red dye in every cup you took out. That means some of the money is presumably going to Surrey which isn't exactly an area that qualifies for assistance under the structural funds (Graham Meadows, DG XVI, Local Government Chronicle 1992a, p16).

4.2/5 A key turning point: The Heseltine Memo

A key turning point in the dispute between the Commission and the UK government was marked in January 1992 with the leak of an internal memo prepared by the DoE for Michael Heseltine, the Secretary of State. The memo, sent to the Secretaries of State for Scotland (Ian Lang) and Wales (David Hunt) was accompanied by a letter which had been leaked to the press on December 17, 1991, in advance of the full memo. The letter said:

"We need to take action to improve the public expenditure treatment of European Regional Development Fund monies coming to UK regions. Our present arrangements fail to ensure that local authorities and other bodies are able to spend the ERDF receipts to which they are entitled" (Heseltine 1991, p1).

Mr Heseltine did not dispute that ERDF funds were taken into account in setting public expenditure programmes, thus making these higher than they otherwise would have been.

However, he argued that what the existing system failed to do, something the government had never claimed it did, was:

"to channel public expenditure cover to those bodies receiving ERDF, or to show transparency in tracing cover for ERDF receipts through the system" (Heseltine 1991, p1).

Mr Heseltine described the existing arrangements as 'no longer tenable'. The ERDF, worth approximately £380m per year to England, Scotland and Wales should, he argued, should have been of 'great political benefit' to the government. Instead, the ERDF had become 'a constant source of friction and recrimination' from the Commission, local authorities and MPs. The considerations for the Government were not merely financial, as Mr Heseltine stated:

"We cannot afford such an "own goal" in areas which are politically important to us" (Heseltine 1991, p1).

The more comprehensive memo, leaked to the press in January 1992, outlined the limited benefits to local authorities of ERDF grants, citing Bradford among a number of authorities which had been unable to take the ERDF grant allocated to them for 1990/91. While maintaining the position that ERDF receipts meant that the public expenditure total was subsequently higher than it would have been, the memo stated that:

"The benefit of ERDF receipts is... spread across all authorities rather than being felt by the recipient authority of the grant... Some authorities are now aware of this fact and beginning to use it to embarrass the Government" (Heseltine 1992, p6).

With regard to arguments that ERDF authorities save money on interest payments on loans they would otherwise have to take out, the memo outlined a mixed pattern. It explained how the Revenue Support Grant (RSG) is distributed to local authorities by reference to the Standard Spending Assessment (SSA) and that one element of the SSA reflects the estimated need for expenditure on the costs of capital financing. In Scotland, however, the memo argued "the ERDF grant is of minimal benefit to the individual authority", with any interest savings "distributed on a per head basis among all authorities" (Heseltine 1992, p6). In Wales, the use of ERDF for debt redemption "leads to a reduction in the debt assumed for calculating the capital financing SSA element" although there is some "temporary financing benefit" (Heseltine 1992, p6). In England, the memo states that there "is no reduction in SSA as a result of being in receipt of ERDF grant" (Heseltine 1992, p6). A fact which, it has been noted, has been disputed by some English local authorities.

The highly critical tone of the memo was perhaps summed up by the comment that:

"The very limited benefit to the individual authorities receiving EC grant may prove to be insufficient incentive in the longer term for an authority to go through the substantial efforts of securing grant. Moreover, many authorities have up till now been working quite hard to secure grant which benefits Scotland, Wales or an English Region significantly but themselves only slightly. This may well not continue, making it more difficult to take

the share of EC receipts allocated to the UK"
(Heseltine 1992, pp. 6-7).

Additionality in other member states

The Department of the Environment had also researched the situation on additionality in other member states and identified three broad approaches to handling Community receipts, the third of which was closest to the UK situation.

The first approach, which paired together France and Germany was characterised by the inclusion in the national public expenditure systems of 'direct budgetary lines' for ERDF receipts. This meant that, unlike the case of the UK, anticipated ERDF receipts could not be mixed with other budget lines and thus "central government grants are not seen to be reduced by the amount of such receipts as they are in the UK" (Heseltine 1991, Annexe B). It was suggested that

"the French further protect themselves from Commission accusations of non-additionality by organising the national resources spent on operational programmes into distinct multi-annual programmes. The size of these commitments of national resources are determined before likely levels of ERDF receipts are known. To this extent ERDF receipts in France are genuinely additional" (Heseltine 1991, Annexe B).

However, the report noted differences in the French and German systems:

"The German system is closer to our own than the French in that government spending may be reduced in

order to cover increased EC receipts. Such cuts are not necessarily attributed to the budget of the Department benefitting from the receipts" (Heseltine 1991, Annexe B).

Grouped together by the second approach were Denmark and Portugal. The report was unequivocal in stating that Denmark operated a system of 'genuine additionality'.

"(In Denmark) there is no mechanism for reducing public expenditure when there are additional EC contributions, and EC receipts go directly to the appropriate recipients" (Heseltine 1991, Annexe B).

However, it was noted that Denmark received only a relatively small amount in ERDF grants and as such could afford to operate this system without significant impact on public expenditure levels.

In Portugal also, genuine additionality appeared to be provided albeit through a different mechanism:

"In Portugal, Structural Fund receipts are treated as being outside the state budget and are therefore not regarded as part of public expenditure. EC funds are distributed through a separate accounting procedure; the consequence of this system is that once the annual national budget is passed by Parliament it is difficult to re-allocate resources so as to take account of higher than anticipated EC receipts" (Heseltine 1991, Annexe B).

The third approach outlined was the position taken in Spain. This was identified as being closest to that of the UK Government. Here,

"the amount by which EC receipts are allowed to increase public spending beyond planned budget limits

is strictly controlled... budget calculations are made on the basis of combined totals of estimated EC receipts and national contributions" (Heseltine 1991, Annexe B).

The whole tone of the Heseltine memo was critical of the Treasury-led government position. The comparative study, although by the admission of the authors a 'limited view' led to the conclusion that,

"the UK position, whilst not dissimilar to that of Spain, remains comparatively isolated within the Community" (Heseltine 1991, Annexe B).

Options for Change

The Heseltine Memo outlined in some detail five options that were available to the government:

Option one was to maintain the status quo, which would lose the UK a share of EC resources and be 'deeply embarrassing at home and in Europe'. This option was described as 'simply not viable'.

Option two was to extend the top-slicing arrangement to cover up to 100% of expected ERDF expenditure and to issue SCAs for the projects concerned. The major drawback to this was that it would 'squeeze the already inadequate OSB' and although this may help in the short term, it was 'not an acceptable long term solution'.

Option three was the creation of a 'territorial pool', which may be regarded as a development of top slicing. This would provide a pool of PES for Scotland, Wales and England each of which would be 'held back to allow additional ERDF grants to be issued for any appropriate recipient'. This would satisfy Commission demands on transparency and should satisfy the Treasury as total public expenditure would not be affected.

Option four was similar to option three except that 'a central pool of PES would be held by the Treasury (or DTI) which would be called upon whenever ERDF grant requirements was approved or paid'. The problem with both pool systems however was that 'annual fluctuations leading to under or over spends would be a continuing problem' and again, these options were seen as falling short of a satisfactory long term solution. The top-slicing which had occurred thus far had been seen by Commissioner Millan as welcome but did not provide a satisfactory solution to the additionality problem (European Parliament 1992, p249 col 421).

Option five was that preferred by the DOE. This was described as 'local additionality outside the planning total'. This would mean redefining the public expenditure planning total so as to exclude from it expenditure financed from ERDF grants. That expenditure would, however, be scored within the total of General Government Expenditure

(GGE'. This was a solution that would satisfy both the Commission and the recipients and was more straightforward than the other options, thus minimising the administrative costs. This solution would require new legislation so that ERDF grant expenditure would no longer need to be covered by a credit approval: an arrangement that already existed for some other grants paid to local authorities. The preferred option would not provide cover for the matching funds as well as the ERDF element which some critics of the existing system believed was necessary for genuine additionality.

The Heseltine memo suggested that preserving the status quo had some advantages but these were outweighed by the factors counting against:

Option 1: The Status Quo

Pros: 1. Present system not disrupted.
2. Minimises Commission influence on priorities.
3. No increase in administration.

Cons: 1. Not transparent.
2. No additionality at point of receipt.
3. Does not provide incentives for all players.
4. Not neutral between different types of recipient.
5. Does not satisfy objectives of the Commission and grant recipients.
6. Political criticisms not met.
7. Loss of ERDF grant.
8. Repercussions in other policy areas because of persisting with UK policy which is disliked.

By contrast, the factors in favour of changing to option 5 far outweighed those against:

Option 5: Removing ERDF from the Planning Total

- Pros:
1. Transparent.
 2. Fully additional at point of receipt.
 3. Simple to administer.
 4. No risk from underspend or overspend.
 5. Seen as "real" additionality.
 6. Neutral between recipients.
 7. Incentives for everyone.
 8. Good for UK reputation in Europe.
 9. Popular in regions

- Cons:
1. Priorities in spending constrained by Regional Fund Priorities.
 2. Apparent public expenditure increase.

(Source: Heseltine 1991, Annexe E).

In the letter accompanying the memo, Mr Heseltine indicated that he anticipated the support of the Secretaries of State for Wales and Scotland. These were to be the only Cabinet ministers contacted at this stage, an indication that he could not expect to depend on the support of other Cabinet colleagues so readily. In December, following the release of the letter, the indications were that there would still be no change in the government's position. Trade and Industry Minister Edward Leigh maintained that the delay in the release of RECHAR funds was the fault of the Commission and that the UK government had "bent over backwards to try to accommodate the 'unreasonable views' of European Commissioner Bruce Millan" (Barnsley Star 18.12.91, p3).

4.2/6 The conclusion of the dispute

On January 21 the additionality issue once again became headline news following its promotion by the Labour front bench. The press release sent out by Shadow Trade and Industry Secretary, Gordon Brown, was timed for that date deliberately to cause the government maximum embarrassment by appearing in the newspapers on the eve of a two-day debate in the House of Commons on the Maastricht Bill. By this time, support for the memo had been given by Ian Lang and David Hunt and with some minor amendments it had been passed on to the Chancellor, Norman Lamont. In response to the publicity, a Downing Street spokesman informed the press that the Prime Minister would be backing the position of the Treasury and the DTI, the departments identified by Mr Heseltine as the strongest advocates of the status quo. It was interesting that the DTI, as the Department of Industry, had previously been more critical of the Treasury's position on additionality. However, that the Secretary of State for Trade and Industry at this time was Peter Lilley, a well-known Euro-sceptic, made this understandable.

On the same January day that press reports of 'Cabinet splits' appeared, the situation was made worse for the government with the publication of a report into EC regional policy by the House of Lords Select Committee on the European Communities. While this report accepted the government's argument that it was under no legal obligation on additionality, it argued that:

"the Government should re-double its efforts to satisfy the Commission by the transparency of their procedures that the additionality principle is being followed in the United Kingdom, that anticipated grants from the Commission, when included in expenditure plans, do add to what would have been spent in regional development grant without the grant, and grants approved by the Commission reach the agreed areas" (Yorkshire Post 21.1.92, p5).

As the possibility of a general election increased, (the latest date it could be take place was June 1992), the government was increasingly concerned that the issue should be dealt with. Mr Millan reiterated his threat to other funds destined for the UK and the Labour party made maximum political capital. Thus, while Mr Heseltine's 'private' documents were critical of government policy, publicly he began accusing Commissioner Millan of 'ganging up' with the Labour Party ahead of a general election (Financial Times 29.1.92, p10).

The issue was clearly becoming more sensitive as the likelihood of an early general election grew. Conservative MPs in seats affected by the RECHAR dispute were aware of the continuing adverse publicity for the government and pressed for a resolution in advance of an announcement on the general election date. With over 70 local authority areas affected by the RECHAR dispute the issue had already impacted upon some marginal Conservative seats in coalfield areas, notably in the east midlands. Some of these MPs held traditional Labour seats won by the Conservatives in 1987

after the year-long miners strike which led to the formation of the Union of Democratic Mineworkers (UDM) with support from the government. Despite the creation of the UDM, the government's closure of coal mines had continued up to 1992 and included a number where the UDM was the dominant union. Thus, the public perception that the government were now blocking financial assistance to these areas was clearly a dangerous one for the sitting Tory MPs.

The warning that other EC structural funds might be affected enlarged the potential geographical impact of the dispute to non-coalfield areas and thus to other Conservative seats. Areas such as Cumbria and Bradford were politically important to the government and would be affected by the spread of the dispute to other ERDF programmes. Both of these areas were mentioned by Mr Heseltine in his leaked memo.

The timing of the Heseltine memo and the subsequent publicity it received was a major boost to local authorities, although Commissioner Millan at the time privately commented on his displeasure in the Labour party's use of the issue for political gain. Mr Millan believed that if the dispute became defined in clear party political terms it would undermine the chances of the government giving ground. It was a strength of the Commission's position that it had received support from across the

parties, primarily through CCC. If some of the non-Labour councils suspected that the dispute was connected to Labour's campaign for re-election, this support might have been lost to the Commission.

But the Heseltine memo itself, and particularly the timing of its release to the press, was not without at least one political sub-plot. Michael Heseltine had a well established reputation for being politically ambitious: ambitious enough to have provoked a challenge to Mrs Thatcher's leadership only a year before. That his challenge resulted in the election of John Major was not necessarily the end of Mr Heseltine's ambitions. He would have been aware that should the government have lost the 1992 general election, the Conservative party would once again be looking for a new leader. At the time, there were few viable candidates and Mr Heseltine, despite having made many enemies through his challenge to Margaret Thatcher, would once again have been a leading contender. While publicly he continued to display unquestioning support for the government, his 'leaked' private comments risked losing the government support. The memo certainly raised the stakes of the RECHAR dispute once again.

The subsequent publicity following the leaked Heseltine memo appeared to convince a growing number of Conservatives that the political cost of the RECHAR dispute was rapidly

outstripping the financial costs involved. The feeling grew among Conservative backbenchers that a settlement on RECHAR would probably benefit the interests of the government in the longer term. By the beginning of February 1992, this view had begun to sway the Cabinet. On February 13th, the government wrote to the Commission proposing new arrangements for handling ERDF receipts and on the February 17th, Mr Peter Lilley, Secretary of State for Trade and Industry, made a Commons statement that in response to the government's proposals Commissioner Millan had agreed to release RECHAR funds immediately and had withdrawn his threat to withhold other funds. By the end of February, it was announced that there would be a general election on April 9th.

4.3 The changes in the UK government's position

The changes in the government's position were outlined to Commissioner Millan in a letter to him from the UK Permanent Representative to the Community dated February 13, 1992.

The letter stated that:

"In future, published expenditure plans will show forecast ERDF receipts separately for each expenditure programme which receives them. There will be a change also in the public expenditure survey rules, so that public expenditure cover will be made available automatically for those forecast receipts" (Kerr 1992, p1).

These new arrangements would apply from 1993/94 and special arrangements would be made for RECHAR payments in the intervening period "to ensure that commensurate public expenditure cover is available to the relevant spending authorities" (Kerr 1992, p1). The changes were accompanied by the request that the Commissioner should approve outstanding ERDF programmes, including RECHAR.

In his response, Commissioner Millan said:

"As far as the new arrangements are concerned, the separation of forecast ERDF receipts within each expenditure programme seems to meet the need for transparency... and I welcome the fact that public expenditure cover will be made available automatically for forecast ERDF receipts" (Millan 1992, p1).

With regard to the transitional arrangements, Commissioner Millan replied:

"Local authority complaints about the lack of additional cover in relation to their RECHAR programmes were one of the elements in my decision to block those programmes and I hope that your assurance that in the transitional period special arrangements will be made available to the relevant spending authorities will provide a solution to this aspect of the current problem" (Millan 1992, p1).

In the light of the assurances given by the government, Commissioner Millan indicated that he would approve the outstanding programmes within a few days.

Not surprisingly, perhaps, the government's change of position was interpreted by critics and parts of the media

as a 'climbdown' (Guardian 18.02.92, p20, Yorkshire Post 18.02.92, p1). The CCC released a press statement headed "U-Turn for Government over Euro-cash for Coalfields", in which Chairman, Cllr Hedley Salt stated:

"That the government has been forced to back down proves that they were always wrong in operating a system of financial controls that stopped European regional aid reaching coal areas. The government's failure to introduce new procedures any earlier has meant that the whole programme is now more than a year behind schedule..." (Coalfield Communities Campaign 17.02.93, p2).

However, the delight of these campaigners was not unqualified. Cllr Salt continued:

"But I am deeply worried by the finer details of today's deal, which have sadly been left vague. In principle today's deal should mean a final solution to this long running saga. But the details do matter if authorities are to get the full benefit. I very much hope that the government honours its commitment today and that it proves to be a real step forward for coal areas, not a false dawn" (Coalfield Communities Campaign 17.02.92).

The Commons statement by Mr Lilley, made after the agreement with Mr Millan, set out publicly for the first time the government's 'revised' position. It was clear the government were not acknowledging that additionality had previously been denied:

"The present system for public expenditure control will remain unchanged. European regional development receipts have always been taken into account in determining forward expenditure plans which are in consequence higher than they otherwise would be..." (Peter Lilley, House of Commons 17/02/92, col. 22).

The government statement also contained one policy change which went relatively ignored at the time, but was to be of much significance for local authorities. Mr Lilley stated:

"... we are taking steps to secure better value for money by increasing competition for Britain's share of the fund. To achieve this increased competition, the Government want to encourage applications from a wider range of bodies. Organisations such as British Coal Enterprise, UDCs and regional enterprise agencies make a valuable contribution to regional development. We are therefore initiating new arrangements which will place them on an equal footing with local authorities" (House of Commons, 17/02/92, col. 22)

This would mean changes in the composition of the regional programme committees to reflect the wider range of applicants.

Neither the statement on public expenditure or that on increased competition for structural fund grants was designed to enthuse local authorities. Mr Lilley at least had decided that the announcement was not a time for defensiveness: the government was sending out clear signals to local authorities that the RECHAR dispute did not mean they would henceforth have things their own way. However, Mr Lilley explained the new arrangements on additionality would ensure that "the coal areas will receive the money to which they are entitled" (House of Commons, 17/02/92, col. 22). He also added:

"I can confirm that there will be no reductions in other funds to local authorities: there never were any, and none was ever intended under the existing arrangements" (House of Commons, 17/02/92, col. 24).

In response to a question from Alan Beith MP, Mr Lilley stated that every penny of RECHAR would be additional to what the government intended to spend in the areas targeted and that local government spending and capital limits would not prevent any of the money being spent (House of Commons, 17/02/92, col. 25). At the time of the Lilley announcement, it was largely assumed that the government had made significant concessions to the European Commission, although the details had yet to be provided.

4.4 Conclusion

On the surface, it appeared difficult to accept that after a long dispute, more details of the agreement between the Commission and the government were not revealed. The agreement formally rested on an exchange of letters in which the government appeared to guarantee additionality, but at the same time would not increase public expenditure. Yet the Commission did not push the government further on this, despite the fact that the RECHAR dispute had been precipitated because the government would not increase public expenditure to accommodate RECHAR as additional. It was this contradiction that made local authorities wary of the arrangements to be announced after the general election had taken place. Had the informal exchanges between the Commission and the UK government also been revealed, local authorities would have had even more cause for concern.

As part of the deal on additionality, the government made it clear to the Commission that any change to UK implementation arrangements for the structural funds would be accompanied by a government policy to encourage non-local authority actors to bid for funds. While this was a domestic issue on which the Commission could not officially express a view, government ministers believed that privately, Commission officials in DG XVI were highly supportive of a greater role for subnational authorities in the Community system. Thus, this accompanying measure to the deal on additionality not only advanced a favoured government policy by providing more competition for local authorities, it also undermined the latent objectives of at least some Commission officials.

While it might appear fanciful to suggest the government revelled in the fact that the promotion of non-local authority actors was an aspect of the deal that Commission personnel found irritating, but powerless to argue against, it is less fanciful when considered alongside evidence that the government was in part motivated by revenge towards local authorities when considering the basis of an agreement to end the RECHAR dispute. The government had not enjoyed the embarrassment caused by the Commission-local authority alliance and had no wish to see it repeated.

One local government secondee working in regional office of central government throughout the dispute suggested that the government intended to make local authorities "suffer" for their explicit support for the Commission over additionality. Moreover, some council officials were informed of this intention during the dispute:

"The secretariat of this region warned local authorities they would suffer because ERDF would be opened up to other agencies and they would have to compete. This gave them a dilemma. This information was passed on behind the scenes by civil servants. It was informal. Civil servants would get in to trouble for this otherwise (Secondee, 1995).

This information was available to regional office secondees because they "received notes of meetings between Ministers and the Commission" (Secondee, 1995). This information was filtered down by secondees and regional office officials close to local government personnel to make sure local authorities knew the consequences of their actions. The intention behind informing local authorities was to bring about a speedy conclusion to the RECHAR dispute which would leave the existing arrangements for implementing additionality unchanged. To continue their action, local authorities would risk losing their position as the main developers of ERDF projects. However:

"By the time local authorities became aware of the consequences of their actions it was too late. There was too much of a bandwagon rolling" (Secondee, 1995).

If the government had intended primarily to make local authorities 'suffer' for the embarrassment of the RECHAR

dispute, then it was perhaps at least a happy coincidence for the government that the means through which it would do this also irritated Commission personnel and undermined the DG XVI's prospects for future alliances with UK local government over regional policy issues.

The government felt it had been wronged by both the Commission and local authorities through their action on additionality. It suspected a hidden agenda: that the additionality dispute was part of a general strategy to strengthen links between the Commission and subnational authorities as part of a push towards a 'Europe of the Regions' in which central government would effectively be by-passed on a growing number of issues. While there was no formal acknowledgement of this agenda during the RECHAR dispute, support for a Europe of the Regions in local government circles was hardly surprising given the recent history of central-local relations in the UK. At the same time, such a development had obvious advantages for the Commission in areas such as regional policy, where national governments were the central obstacle to the development of a genuinely supranational policy.

The suspicion of a hidden agenda, made it more difficult for the government to accept criticism of its position on additionality to the point that it was not prepared to

concede to the arguments of local authorities and the Commission even after the agreement had been reached:

"At the time of the Lilley announcement in February 1992, there was no sense of concession in the government office. The government got a lot into the deal... ERDF is seen as public expenditure and the Government will control it" (Secondee, 1995).

In this context, local authority caution over the February 1992 agreement was understandable. They had every reason to suspect that in this case, the devil could very well be in the detail.