REPUBLIC OF TURKEY
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COHESION POLICY OF THE EUROPEAN UNION AND A CASE STUDY IRELAND

Master's Thesis

BARIŞ ORHANLIOĞLU

İSTANBUL, 2009

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BARIŞ ORHANLIOĞLU

Thesis Advisor: PROF. DR. ESER KARAKAŞ

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Prof. Selime Sezgin
Director

I certify that this thesis meets all the requirements as a thesis for the degree of Master of Arts.

Prof. Ayşe Nuhoğlu
Program Coordinator

This is to certify that we have read this thesis and that we found it fully adequate in scope, quality and content, as a thesis for the degree of Master of Arts.

Examination Committee	Signature
Title, Name and Surname	
Prof. Dr. Eser Karakaş	…………………………
Assist. Prof . Dr. Selin Özoğuz	…………………………
Assist. Prof. Dr. Selcen Öner	…………………………

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ABSTRACT

COHESION POLICY OF THE EUROPEAN UNION AND A CASE STUDY IRELAND

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Beginning with the Treaty of Rome of 1957, one of the main tasks of the European Community, has been to develop the economic activities, together with finding a common coordinated solution to regional problems and correcting the regional imbalances. To realize these tasks, the creation of a Regional Development Fund was decided for the first time in 1972. Structural Funds program of the Community, whose name changed into European Union, which aimed at eliminating regional economic disparities, became more and more important matter for the Union. As the years passed by, this program became a policy that was named as Cohesion or Regional Policy without any change of the main aim. This policy has been trying to balance the regions of the Member States in the European Union, in terms of mainly income and infrastructure, in order to achieve the continuation of solidarity within the European Union. But the policy is not only limited to financial support; it also involves advice, open discussions with stakeholders and dialogue between different levels of governance.

The extent of the economic growth, the level of decrease of unemployment and increase of investment changes from one country to another and even from one region to another in the same country. Depending on the criteria listed above, some conclusions can be reached regarding to the application of the policy. For instance, when the data is observed, it can definitely be seen that the policy has worked well in Ireland.

Ireland as one of the major beneficiary of the Structural Funds of the European Union and the funds from the Cohesion Policy is the main theme of this dissertation. This paper has two chapters.

Keywords: European Union, Structural Funds, Convergence in the European Union, Regional Imbalances

ÖZET

AVRUPA BİRLİĞİ UYUM POLİTİKASI VE BİR ÖRNEK İNCELEMESİ İRLANDA

Orhanlıoğlu, Barış

Avrupa Kamu Hukuku ve Entegrasyonu

Tez Danışmanı: Prof. Dr. Eser Karakaş

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1957 Roma Antlaşması ile başlayarak, Avrupa Topluluğu'nun ana bir görevi, ekonomik etkinlikleri, bölgesel sorunlara ortak ve eşgüdümlü çözümler bulmak ve bölgesel dengesizlikleri düzeltmekle beraber geliştirmek olmuştur. Bu görevleri gerçekleştirmek için, ilk defa 1972 yılında Bölgesel Kalkınma Fonu'nun yaratılmasına karar verilmiştir. Adı Avrupa Birliği olarak değişen Topluluğun, bölgesel ekonomik farklılıkları ortadan kaldırmayı amaçlayan Yapısal Fonlar Programı, Birlik için önemi daha da artan bir olgu haline gelmiştir. Yıllar geçtikçe, bu program, ana amaç değişikliği olmadan Uyum veya Bölgesel Politika adını alan bir politika haline dönüşmüştür. Bu politika, ana olarak gelir ve altyapı konularında, Avrupa Birliği içindeki dayanışmayı devam ettirmeyi başarabilmek için Avrupa Birliği Üye Devletlerindeki bölgeleri dengelemeye çalışmaktadır. Fakat politika sadece mali destek ile sınırlı olmayıp; tavsiye, paydaşlarla açık müzakere ve farklı idari düzeyler arasında muhaverede içerir.

Ekonomik büyümenin derecesi, düşük işsizlik seviyesi ve yatırım artış seviyesi bir ülkeden başka bir ülkeye ve hatta aynı ülkede bir bölgeden başka bir bölgeye göre değişiklik gösterebilir. Yukarıda listelenen ölçütlere dayanarak, politikanın uygulanması ile ilgili sonuçlara ulaşılabilir. Örneğin, veriler incelendiğinde, politikanın İrlanda'da kesinlikle iyi işlediği görülebilir.

Avrupa Birliği Yapısal Fonları'nın ve Uyum Politikası'nın ana yararlanıcılarından olan İrlanda bu tezin ana temasıdır. Bu çalışma iki bölümden oluşmaktadır.

Anahtar Kelimler: Avrupa Birliği, Yapısal Fonlar, Avrupa Birliği'nde Uyum, Bölgesel Eşitsizlikler

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ABBREVIATIONS

Central and Eastern European	: CEE
Central Business District	: CBD
Cohesion Policy	: CP
Committee of the Regions and Local Authorities	: CoR
Common Agricultural Policy	: CAP
Community Support Framework	: CSF
Court of Auditors	: CoA
Directorate General	: DG
Economic and Social Committee	: ESC
European Agricultural Guidance and Guarantee Fund	: EAGGF
European Economic Community	: EEC
European Exchange Rate Mechanism	: ERM
European Free Trade Association	: EFTA
European Grouping of Cross-border Co-operation	: EGCC
European Investment Bank	: EIB
European Monetary System	: EMS
European Monetary Union	: EMU
European Parliament	: EP
European Regional Development Fund	: ERDF
European Social Fund	: ESF
European Union	: EU
Federal Republic	: FR
Financial Instrument for Fisheries Guidance	: FIFG
Foreign Direct Investment	: FDI
German Democratic Republic	: GDR
Gross Domestic Product	: GDP
Gross National Product	: GNP
Human Development Index	: HDI
Ireland Development Agency	: IDA
Member States	: MS
Multi Level Governance	: MLG
Multinational Companies	: MNC
National Economic and Social Council	: NESC
North Atlantic Treaty Organization	: NATO
Nomenclature of the Territorial Units for Statistics	: NUTS
Organization for Economic Co-operation and Development	: OECD
Regional Development Plans	: RPD
Regional Policy	: RP
Research and Development	: R&D
Single European Act	: SEA
Single European Market	: SEM
Single Programming Document	: SPD
Structural Funds	: SF
Third Cohesion Report	: TCR
Treaty on the European Communities	: TEC

United Kingdom	: UK
United Nations Development Program	: UNDP
United States	: US

1. INTRODUCTION

Cohesion was described as the product of solidarity previously and since than it was redefined in several conditions. An organization group or city involving active forces that are strong and lasting enough to hold a unit together would institute a cohesive unit. That social unit changes into something sustainable. The social sustainability of a neighborhood, a city or any other system is possible with social cohesion. Solidarity is perhaps the most important and the most discussed force leading to social cohesion. Social networks and social capital, common values and a civic culture, place attachment and interwining of place and group identity, social order and social control, social solidarity and reductions in wealth disparities are elements of social cohesion (Vranken 2008, pp.22-23).

Federal States such as the United States (US) can be characterized as having fiscal mechanisms to redistribute resources between rich and poor. The European Union's (EU) Cohesion Policy (CP) is the only instrument that addresses inequalities. What is more, this policy involves a transfer of resources between Member States (MS) via budget of the EU for the purpose of supporting investment in people and in physical capital (Barnier 2003, p.292).

CP assures that anyone in the EU can participate in and benefit from the common market. This policy can be regarded as the visible hand of the market aiming at balancing development and fostering economic integration throughout the EU. Whereas, it is never fair to limit the necessity of CP to shift of resources, development of regions and the common market. There are some additional points that prove how crucial CP is (www.eulib.com 2008).

The Lisbon Strategy tries to increase productivity and support economic growth in the EU. This action takes the form of various policy initiatives taken by all EU MS. Economical, social and environmental renewal and sustainability can be listed as the main fields of the strategy and this strategy is based on some economical concepts. These concepts include learning and high skilled economy, social and environmental renewal and innovation as the core of economical improvement. At this point, the importance of CP again comes on the scene as the programs and the resources, which account for a huge sum of the EU budget, of CP are the primary instruments for the Lisbon objectives to become true.

The EU ambiguously aims at becoming one of the most technologically advanced and competitive societies in the world so European CP becomes vital as it involves competitiveness in its core. High level of skilled employment and innovation in underdeveloped regions make regions more attractive to investors and increase standards of living. CP helps regions to resist against the negative effects of global economy and makes better use of their untapped economic potential. EU priorities like innovation, entrepreneurship, social inclusion, energy efficiency and infrastructure are linked to competitiveness and they have strong territorial dimension. The drivers of regional competitiveness, sharing of knowledge, human, social and institutional capital, strategy development and capacity building are linked to territories. CP increases regional competitiveness by mobilizing relevant territorial assets (http://ec.europa.eu 2009).

MLG, which enables different levels of administrative and non-governmental organizations' participation in decision making action, is another important application provided by CP, as it has offered them to shape the policy itself. While localities and regions have been acting in programs funded by the EU, in terms of policy shaping, program design and project implementation they got experienced in different fields. The experience of joint work of various layers of government and civil society brought the administrative capacity of localities up and the quality of EU policy making improved. Later on, the experienced institutions around the EU have exchanged their experiences at the European level. The outcome of this exchange was learning new working ways and learning from others' mistakes which led the way for tailor made solutions for individual problems (www.ccre.org 2002).

Additionally, CP is important because it has introduced some new concepts which are crucial not only for EU as a whole but also for individual MS. CP has also fostered some concepts which have already existed. To start with, by guidance of the programming principle, MS have tried to organize their resources and the funds they receive from the EU in a long-term efficiently. Then, transparency has allowed EU citizens to see where their money is being spent and who are the ones benefiting from

EU funds. When these are known, meaningful debates about how the money is spent which is a must for functioning democracies have been possible. Moreover, flexibility has enabled MS and regions to implement and finish more projects by the use of structural funds of CP by giving them the chance to allocate funds they receive from the EU for their own priorities up to a certain margin. This concept has also helped a lot to ease the sovereignty concerns of MS as they have been the only decision makers.

Lastly, CP includes a fundamental element for the EU, not only single market but a political community with common values and solidarity. In its early years, CP has been about solidarity trying to push underdeveloped regions of the EU to the level of developed ones. With the enlargements that have taken place, this aim of the policy has kept going and new members have benefited from the resources formed by the contribution of all MS. The improvements taking place in a MS by the common resources have been regarded positive and served solidarity without making MS feeling as secondary partners (www.aer.eu 2007).

The founders of the European Communities were six and these original six MS had considerable differences in the standard of living between themselves. In Rome Treaty, this fact was mentioned and the intention to reduce the differences existing between the various regions was also declared. However, any concrete provision didn't take place in the Treaty and any legislative action couldn't be taken. By the realization of the common market, it was thought that, the differences would go away.

In 1965, European Commission adopted a first communication regarding European Regional Policy (RP) and in 1968, Directorate-General for RP was created. Then, the economic crises in the 1970s and 1980s and the increase of under-developed regions with the expansion of the Community caused a comprehensive policy on this issue to be emerged in the mid-1980s. In 1972, RP was declared as an essential factor in strengthening the Community in Paris Summit. Thompson Report of 1973 concluded that the balanced and harmonious nature of the expansion set in the Treaty wasn't achieved. 1975 brought the European Regional Development Fund (ERDF) for a three-year period with a budget of € 1,300 million with the objectives of correcting regional imbalances.

The Single European Act (SEA) of 1986 was the first major amendment of the Treaty establishing the European Economic Community (EEC). The main aim of the SEA was to bring new momentum to the process of the European construction in order to complete the internal market. This aim wasn't easy to achieve by the existing treaties because of the decision-making process at the Council. The SEA concluded with a Treaty relating to Common and Foreign Security Policy and amended the EEC Treaty at the level of the decision-making process within the Council, the Commission's powers, the EP's powers and the extension of the Communities' responsibilities. The SEA also created the basis for a genuine CP which involved to ease the situation resulted by the single market for the under-developed regions of the Community.

The Maastricht Treaty or the Treaty on EU changed the name of the EEC to the European Community. New forms of co-operation between Member State governments were also introduced and new structure with three pillars were also created by this Treaty. This political and economic structure was the EU.

The Treaty on the EU and the revised Treaty on the European Communities (TEC) entered into force in 1993. TEC presented a new instrument, the Cohesion Fund and a new institution, the Committee of the Regions and Local Authorities (CoR) as on the cohesion and regional side. Financial Instrument of Fisheries Guidance was also in the new CP regulations and the policy's key principles were confirmed as concentration, programming, additionality and partnership. The five existing objectives remained more or less unchanged; what's more a sixth objective was prepared.

Article 130(a) of the Treaty establishing the European Community describes CP's general objective. According to this article, the disparities between the levels of development of the various regions and the backwardness of the least-favored regions, including rural areas were aimed to be reduced. Article 130(b) of the Treaty required the MS to suit their economic policies to this objective and co-ordinate them accordingly. Community was also given the task to take this aim into account while implementing the internal market and ensure that various financial instruments contribute towards the achievement of these goals.

The major themes between the period of 2000-2006 about CP were the changes of its design and procedures due to the EU membership of ten new states in 2004. The population of the EU increased by these new countries, whereas, the income and employment levels of these countries were low. So, huge amount of budget was allocated for CP in order to provide convergence between the new regions of the EU which were mostly eligible for high level of fund supports. Another issue in which CP funds were used during this period was the Lisbon Strategy, whose aims were providing economic growth, increasing the level of employment and innovation.

Policy budget for the period covering 2007-2013 is the 35.7 percent of the total budget of the EU which will be used as a tool to finance growth and employment mainly. As the agenda of the world changes so quickly, new priorities come to the agenda of the EU CP. Improving the environmental infrastructure and fighting against the climate change are the recent priorities of the period up to 2013.

CP of the EU is a necessary policy so CP and Ireland as one of the major beneficiary of the Structural Funds (SF) of the EU and the funds from the CP are the main themes of this thesis. This thesis has two chapters. The first chapter is about the CP. There is a need to learn more about CP in detail because of its great necessity. The first chapter aims at finding answers to the questions; what does CP do? How does it work? How is it managed? In order to test if CP is an efficient and effective policy and to find out if it has really worked out, a sample will be analyzed. In the literature, it is mentioned that member states which have benefited from the structural funds of CP have experienced remarkable levels of economic growth and especially one country, Ireland has been a success story. With all the aspects, the success story of Ireland will be observed and the data collected will confirm or deny this fact.

The first chapter starts with representing the basic terms involved in CP. The definition of region is the first term. The small part of the territorial unit of a state is called region. The act of dividing a state into regions is a way of improving the administrative capacity of related institutions, thus the state itself. There are also natural regions which are the parts of a greater division like a state with distinctive geographical or cultural properties. Region term has different meanings in European scale so region term is described in the first section of this study in detail. Euroregions and regionalization terms were discussed in accordance with CP in the following sections.

In the 1980s, there was a change in the perception of regional development in which the local or regional actors were responsible from the development and operation of development strategies (Lenoardi 2006, p.160). Furthermore, since the mid 1980s, regions and other sub-national governments have been participating in political matters and policy decisions at the European level. Sub-national levels have been crucial links in implementing EU regulations and economic allocations. CP of the EU has been one of the most apparent examples of Multi-level Governance (MLG) which was explained in the last section here (Borras 1998, p.211).

EU experiences the fact that the disparities between its regions have been so high. These disparities could be seen at the foundation of the union and enlargements have prolonged them. The EU aims to provide economic welfare to its regions and there will be other enlargements in the future so a section on regional disparities in the EU was prepared in this thesis.

CP has contributed to change institutions involved in policy implementation into more advanced through its support for institution building and support for improving administrative capacity. However, in some situations, there has been difficulty to change existing domestic administrative structures to suit the demands of EU programs and support has been provided to develop new frameworks and build experience (Leonardi 2006, p.160).

The experiences of CoR, European Investment Bank (EIB) and European Court of Auditors (CoA) were included as a section to this thesis in order to analyze the changes.

SF are crucial instruments in order to advance cohesion. In the realization of cohesion, important roles are given to the Member State policies. They take part in institutionalized inter-regional income transfers and programs for the development of under-developed regions (Begg 1997, pp.675-676).

Since SF are important for the cohesion and for the CP as well, four of them have been presented in this thesis. These are; European Agricultural Guidance and Guarantee Fund

(EAGGF), European Social Fund (ESF), ERDF and Financial Instrument for Fisheries Guidance (FIFG).

In order to provide better running SF, there was a need for some principles. These four principles presented in 1988; concentration, programming, additionality and partnership took place in historical development of CP section in detail. This section aimed at telling the CP from the early years of its foundation to the end of last programming period, the year 2013. What's more, this section concluded the first chapter of this study.

Ireland, the Celtic Tiger of the European economy grew in huge quantity. The average income per capita rose above the EU average in the mid 2000s. Ireland's unemployment which was the most serious problem of its economy almost disappeared by 47 percent and about a half million new jobs were created between 1986 and 2000. The ratio of public debt to Gross Domestic Product (GDP) decreased to 47 percent in 2000 that was over 100 percent in the late 1980s. All these improvements and macroeconomic figures resulted from Ireland's transformation from a traditional industrial base to high-tech specialization (Garcimartin *et al*. 2008, pp.409-410).

Is Ireland really a success story when compared with other EU members? If so, what are the things Ireland has done in order to be successful? The answers for these questions have been searched in four areas in the second chapter. Firstly, the condition of Ireland before the accession to the EU and just after the accession has been questioned.

Ireland is a unitary state and the reason for Ireland not to have a coherent RP is the absence of any form of regional autonomy. Irish governance system is also one of the most centralized of any European country. RP in Ireland, whose origins date back to 1952 and the "Underdeveloped Areas" of that year is synonymous with economic policy. This Act provided support to the West of Ireland and then the rest of the country gained support by the Industrial Grants Acts of 1956 and 1959. The establishment of Shannon Free Airport Development Company (SFADCo) by the Shannon Free Airport Development Company Limited Act of 1959 has evolved to a formidable regional development body and maybe the best example of a regional institution with autonomy, power and resources. The national planning for economic development programs contained little reference to any regional development policy. In 1964, the Local Government Planning and Development Act came into force. According to this legislation, local authorities would become development corporations for their areas. County Development Teams followed this role later on, but the promise was never realized due to lack of resources and any local development fund. Again, this Act made no reference to regionalization. A statement on RP in 1972, indicating that an overall regional strategy shouldn't only look for the attainment of acquired national growth rates but should also provide for the maximum spread of development to all regions was issued by the government. This statement was the most important statement on RP until 1998. In 1998, development in EU RP moved forward with the Community Regional Aid instruments. Apart from this summary, this thesis offers more detailed information on the subject in the first section of the related chapter (Stone, pp.1-4).

Cohesion or Regional Development in a country is possible with the collaboration of a large number of institutions. The institutions and the changes of pattern of governance were presented in the second section of the CP and Ireland chapter of this thesis.

By 1987, the Irish economy was close to an economic disaster. The only escape was to provide international attraction as a low cost manufacturing base by inviting foreign investment. To realize this, Ireland removed non-tariff barriers and state aid in the creation of single market, which carried it to become an important base for large manufacturers exporting to the EU. The impacts of Single European Market (SEM) and Foreign Direct Investment (FDI) have been analyzed in the third section. (http://ec.europa.eu).

As far as the SF in Ireland are concerned, the development process can be evaluated in three stages. The first stage between 1989 and 1993 and the second stage between 1997 and 1999 were very successful in providing national development. CSFs provided convergence of living standards between Ireland and the rest of the EU and the employment impact was also very positive. In the last stage between 2000 and 2006, the government revised regional boundaries and created two separate NUTS II regions. New administrative and management arrangements were also realized. All these developments were analyzed in detail in the SF section of CP and Ireland chapter (www.iro.ie 2009).

2. COHESION POLICY OF THE EUROPEAN UNION

There are five sections in this chapter and CP will be presented in detail. Firstly, basic terms involved in CP will be explained. There is a need to make these terms clear because they are unique. Secondly, regional disparities in the EU will be stated in order to find out what exactly CP is fighting against. Thirdly, institutions involved in CP will be listed so that the responsible organs and their responsibilities can be identified. The structural funds section is the fourth section in this chapter and it aims at informing how CP works. In the last section, the improvements from the early years to recent date will be expressed in a historical order to enable a comparison between the past and present of the policy.

2.1 BASIC TERMS INVOLVED IN COHESION POLICY

2.1.1 The Definition of Region

Region is a geographical term that is used in various ways among the different branches of geography. In general, a region is a medium-scale area of land, earth or water, smaller than the whole areas of interest and larger than a specific site or location. A region can be seen as a collection of smaller units or as one part of a larger whole.

Regions are areas or the spaces used in the study of geography. A region can be defined by physical characteristics, human characteristics and functional characteristics. As a way of describing spatial areas, the concept of regions is important and widely used among the many branches of geography, each of which can describe areas in regional terms.

For example, ecoregion is a term used in environmental geography, cultural region in cultural geography, bioregion in biogeography, and so on. The field of geography that studies regions themselves is called regional geography.

The concept of region, which takes part in the center of RP, can be described as a broad geographical area containing a population whose members possess sufficient historical, cultural, economic and social homogeneity to distinguish them from others.

By the time, region term is described according to the recent economic structures and common interests factor; areas in which certain sectors are dominant, areas at the border of a neighbor country which are affected by the economical actions of that country, areas in the context of traffic flow and areas affected by the economic structure of a common settlement come to mind. Another criterion to define regions is wealth. Here, the level of income per individual is taken into account as the economical situation in a region.

In the field of political geography regions tend to be based on political units such as sovereign states; subnational units such as provinces, counties, townships, territories, etc; and multinational groupings, including formally defined units such as the EU, the Association of Southeast Asian Nations, and North Atlantic Treaty Organization (NATO), as well as informally defined regions such as the Third World, Western Europe, and the Middle East.

Today, none of the definitions above is enough to define the national and sub-national region term alone in the European political map. A particular region with many different national borders may have some common problems but different nations on the border may have different views in the creation of a common policy related to that region. In the EU, the definition of region is a sensitive subject because of two main reasons. Firstly, there are some regionalism movements in Europe which discloses being different. This may cause seperationist violence actions or autonomous agreements. Secondly, the national or sub-national borders determine the limit of political power of the voters. A RP showing no respect to the borders will affect the political system of the nation state (Brasche 2001, pp.13-14).

Regions may be culturally distinctive and the inhabitants may have different feelings about regional identification. In the administrative and political structure of the embedding country regions also have more or less autonomy in political matters. Throughout the process of formation of modern European nations, regions have been the territorial units that lay the most convincing claim to historical continuity, approximating more closely than nations a high level of cultural unity, a deep historical heritage, a common language and sometimes a distinctive cuisine. In the near past, regional identity was a more salient marker of individuals in their interactions with others than citizenship. If the subnational territorial organization of Europe today is examined, it will be seen that there are modern-rational subdivisions superimposed on historical regional boundaries. The modern administrative boundaries are the result of the carving of the national territory into handy units of similar size, the basis of a strong administrative structure to serve the central state authority (Nielsen and Salk 1998, pp.231-232).

In the European context, regions influence and check the activities of the EU by means of regional offices which have no official status as the embassies and consulates. These offices represent the interests of regions in EU institutions. They also provide regional views to the European Commission and the Parliament on subjects that concern them, serve as regional information centers and participate in joint European sponsored projects with other regional offices.

The offices of European regions in Brussels also deal with foreign activities due to the economic and cultural transformations. Regional offices in other countries serve mainly economic purposes and partnerships with other regions and with nation-states that often have cultural foundation. Even if, there may be huge differences between cultural and economic activities of regions of federalized and regionalized countries in Europe, it is a necessity for European regions to be present in Brussels with an office. While, foreign activities of regions are increasing, the dominant role of the nation-state and its executive branch in political decision-making still remains (Blatter *et al.* 2008).

Ansell *et al.* (1997, p.359) claimed that the European Commission and regional or local authorities in all MS of the EU developed well-institutionalized group of relationships. The main drive of these relationships was the attempts of actors trying to get resources. The Commission gained new sources of information and political support for its programmes by regional connections. The information flowing from regions made the Commission less directly dependent on national government sources. Regional actors obtained useful information not only on SF but also on other EU policies from which they are generally excluded.

Because of the lack of adequate staff and resources, the Commission relied on the regional institutions for information to tailor the implementation of policy so regions played an important role in European policy process. Especially, at the implementation stage, regions have become part of policy networks with a high degree of resource dependence. In other words, in some cases regions have cut an indispensable part of the policy process. Even if, all of this suggest that the role of regions in policy implementation has increased as a result of the growing significance of regional funds, according to some intergovernmental critics, the relationships between MS' governments in developing policies gain importance. EU's SF were also viewed as side payments extended in exchange for other policies by the same critics (Mitchell and Mcaleavey 1999, p.179).

In a global economy, the change towards horizontal networking by cities has accompanied by a process by which disparities at a more micro level appear. So, while cities face new opportunities, they also become responsible for uneven development contradictions in capitalist society. Economically, regions are a collection of cities offering technical networks and benefiting from the trend towards concentration of capital. This trend pushes local decision-makers to present their causes in EU policy-making. All these structural changes brought political changes all over the EU. For example, some large cities in Belgium have mayors who were at powerful national or regional offices before and cities such as Barcelona and Lisbon have been headed by some powerful politicians in the national or European context. In Italy, a minister resigned from the government to return to Naples and mayors with national and international status have governed many Italian cities. In Germany, the institutional power of the regions has caused mayors to exploit MLG opportunities to strengthen their autonomy and local political capacity. The enlargement of the EU with Finland and Sweden brought new mayors into European political game who disposed considerable local autonomy and financial resources. The increasing political importance of local office-holders would lead them to bypass national administrations in order to act from symbolic politics to influencing policy (De Rynck and McAleavey 2001, pp.551-552).

2.1.2 Euroregions

The traditional perception of state, as the ultimate sovereignty over a bounded piece of land of the Earth's surface and people living on that land is changing because of the cross-border flows of capital, goods, people and ideas in the current world.

Under the globalization pressures the relations connecting politics, culture, and economics to national territories are loosening, what's more there is a re-territorialization of economic and political activity that is more important than the position of the nation-state. This means the disconnection of links between state sovereignty and territory.

Europe is currently experiencing a state re-territorialization in the context of EU. Borders are defined as the place of state territoriality and the EU together with European governments and local authorities are redefining their role by the implementation of various cross-border cooperation projects. The creation of Euroregions or Euregios, which are cross-border or transborder regions, depends on the attempts of decreasing their role as barriers in the definition of fixed, border-induced state territoriality. Euroregions are territorial units stretching across two or more state borders where social life can be organized irrespective of state borders to the benefit of the civil society. These regions have formal governing institutions and some may have their own symbols. The EU supports Euroregions, considering them as a model and an engine of European integration to help to reduce tensions between states and to relieve regional economic disparities (Popescu 2008, p.419).

Madrid Convention's passage and its Additional Protocol provided a legal framework for sub-national authorities to be involved in cross-border partnerships which had an important effect on border regions, offering opportunities for development in a wider European context.

With the EU's promotion of Single Market cross-border regions have grown in number and importance. They take advantage of EU funding and the abolition of border controls.

Anderson and O'Dowd (1999, p.593) find state borders and border regions all unique. Due to many variables like time, space and regime their definition and importance may change. Looking at what they contain and what crosses or is prevented from crossing them, territorial borders both shape and are shaped. The significance of borders comes from the importance of territoriality as an organizing principle of political and social life. The functions and meanings of borders have been ambiguous and contradictory.

European Community membership caused problems in border regions which can be divided as external and internal. External regions were at the periphery of the Community and they might have traded with third-countries before the Customs Union. But trading with these countries reduced with the new regulations of the community. For example, parts of West Germany on the border of German Democratic Republic (GDR) reoriented trade away from GDR to the rest of the EC till the reunion of the two Germany. Internal borders, which were considered internal by the formation of Customs Union lost opportunities with the emergence of European market (Swann 1995, p.296).

2.1.3 Regionalization

Regionalism, regional issues and regional policies were very important in the EU because of some reasons. To start with, there were considerable differences in wealth and income between the MS and between regions in the MS. Then, subnational levels of governments were encouraged to play an active role in ERDF and these governments established direct links with decision-makers in Brussels. Lastly, subnational governments started exerting pressure at the EU level by means of transnational organizations on common interests (Nugent 2003, pp.264-268).

The process of regionalization has been used to refer to the appearance and consolidation of various economic arrangements among groups of geographically proximate countries. In international economics, regionalism is thought about in terms of its effects on trade. Regions are considered as accelerators of free trade. By promoting intra-regional liberalization, regional orders can be sees as stepping-stones to the globalization of the percepts of liberal trade. The key is whether regions remain open or close to the outside and whether they can create new trade (Rosamond 2000, p.181).

Henry (2007, p.857) described regionalism as a process drawing together states in the same geographic region or sub-region, frequently within a regional organization. This concept is different from the regionalization which is a phenomenon of economic convergence driven by the market. In deed, these two are complementary. Some integration theories depart from its current definition have been developed in time, that is to say the formation, in the case in point, of a whole international organization which is the EU; by the parties, the MS for instance, as a consequence of a growing interdependence at the political, legal and economic level. The main concept, when adapted to the global and regional system, is that there are certain problems that States cannot solve on their own, so they pass them onto international organizations endowed with specific functions.

2.1.4 Multi-Level Governance

MS in the EU didn't have the exact same structure of government. There were centralized states such as United Kingdom, Ireland and Greece, through regionalized states such as Italy and France, federal states such as Germany and Austria and there was a highly decentralized one such as Belgium. This pattern of diversity caused a degree of diversity in how regional questions and issues manifested themselves and how governments responded through domestic public policies. The integration of Europe had an indirect effect on regional structures and policies in MS because of the fact that the EU gave priority to not to interfere in the domestic arrangements of its MS (Mitchell and Mcaleavey 1999, pp.174-175).

EU CP increased the duty of regions in the control of the formulation and implementation of the regional development policies that based on 'multilevel governance" approach. MLG can be described as the participation of various institutional actors in order to achieve the policy aims such as; the Commission, national government, regional administrations and even the organized socio-groups and voluntary organizations whose contributions are necessary for the preparation of civil society in the development process. The approach introduced new ideas and changes in the decision-making features of the policy, thus regions became directly responsible for the control of the implementation of EU CP funds and organizing the EU regional operational programmes, lastly they asked for greater autonomy. CP has contributed a lot to way of considering implementation. It has also contributed to change institutions involved in policy implementation into more advanced through its support for institution building and support for improving administrative capacity. However, in some situations, there has been difficulty to change existing domestic administrative structures to suit the demands of EU programmes and support has been provided to develop new frameworks and build experience (Leonardi 2006, p.160).

The MLG concept developed in the context of a structural policy study is now used to describe how the EU functions and identify the various forces contributing to the EU's development as a system in which local, regional, national, transnational and international actors take place in governance process. This approach emphasizes that a broad variety of actors have an influential say in European integration on the contrary to the state-centered approaches (Cram *et al.* 1999, pp.13-14).

In general politics, the MLG offers less hierarchical and more interactive relationships between state and non-state actors and the government regulates public activities rather than redistributing resources. In European politics, it offers the reregulation and deregulation of the market by a system of multi-level, non-hierarchical, deliberative and political governance in which politics and government at the European and national levels transform.

Mamadouh and Van der Wusten (2008, p.20) notes that the European governance system is not only a new scale of governance, it includes new relations between different scale levels which is referred to as MLG. The birth of this new system shifted modern or Westphalian state system to a state system in which interstate, suprastate and transnational cooperation affect and change traditional state authority in various ways. Thus, new authorities come to life at local or national levels and they can act according to their interest and their ideas in the European arena if they think they will be more successful.

Many European policies were implemented on-the-ground by regional and local governments across the Union and these governments became desirable partners in policy-making when the scope of the policies grew. In some cases, especially in structural policy the role of the governments became formalized with the name MLG. As regional and local governments took place "from above" in the multi-leveled European decision-making process there were also new trends operated "from the bottom up". The importance of sub-state governments increased by patterns of governance within the MS being recalibrated. Globalization processes which brought redundant traditional economic policy intervention by central governments, proved the need for differentiated economic strategies for local and regional strengths. Some MS come face to face with regional autonomy movements. The result was a growing capacity among regional and local governments to be involved in policy-making processes at domestic and European levels. New multi- level governance appeared from sub-state political mobilization launched from 'above' and 'below' (Jeffery 2006, pp.313-315).

The SF of the 1980s and 1990s presented a different image of the EU, in which central governments were losing control to the European Commission which played a key part in the designation and implementation of the funds and to local and regional governments inside each member state which had a partnership role in the planning and implementation by the 1988 reforms of the funds. Many regional governments took a pro-active stance in European policy-making by establishing offices in Brussels and being part of the delegations from their respective MS in the Council of Ministers. MLG focuses on the territorial aspects of governance in Europe but it also focuses on the authority change between national governments and supranational and subnational actors.

By MLG analysis it can be claimed that EU is a polity which enables different levels of governance and actors to have authority in governance and which includes significant sectoral variations in governance patterns. Even if, in some theories the withering away of the state or its resilience is argued in multi-level theory, states are never considered to be unimportant and they are viewed as arenas where so many various agendas, ideas and interests are contested. MLG like other models of decision-making can be displaced with some new ones in the future. Of course, all this makes things difficult. It is hard to expect that the boundaries between various levels of governance (European, national local and etc.) will become less clear-cut. MLG is an attempt to create a less complex EU policy system with its priorities like variability, unpredictability and multi-actorness and also it may constitute the first truly postmodern international political form. While it can be argued that MLG language involves tiers of authority as federalism, the difference is the lack of a polity governed by constitutional rules about the locations of power. In addition, federalism as a normative project as well as a form of political settlement may be viewed modernist with rule-bound closures and a tight definition of authority. But MLG is about fluidity, uncertainty and multiple modalities of authority associated with post-modernity (Rosamond 2000, pp.109-113).

Ansell *et al.* (1997, pp.348-349) provided us the information that non-state actors have been privileged in various ways by intergovernmentalism challengers and according to neo-functionalists European integration would be driven beyond the nation-state by the collusion of subnational interest groups and supranational institutional actors. National governments would decrease in relevance as European institution-building progressed. Intergovernmentalists claim that EU is characterized by quasi-federal MLG in which decision-making power in EU politics is the distribution of power across supranational, national and sub-national levels. Once the power distribution across these levels is understood, EU can be understood easily. The supporters of multilevel governance describe the character of the EU polity by looking at the policy networks literature in which national policies are shaped by sectorally-defined networks gathering public and private organizations in a co-operative decision-making community. Policy networks occur because the mutual resource interdependencies force organizations to collaborate in the formation and implementation of sectoral policies. While the MLG provides an important role for national governments, the significance of supranational and sub-national actors in EU policy making increases. This situation draws an incomplete picture of the policy networks with incidents of national government dominance. MLG or policy networks approaches also prove the existence of multi-level policy networks with supranational and sub-national actors playing some role in policy-making. But their roles cannot be clearly identified.

George and Bache (2001, p.26) described multilevel governance as an eclectic collection of points that were primarily directed at the misrepresentation of the nature of the EU by the intergovernmental theorists, rater than a coherent theory. It contained some elements of an explanation for the development of the EU and it also concerned with the static analysis of the nature of the EU. This meant that it lost the basis for the analysis of political dynamics that were present in neofunctionalism. This dynamic element was recovered as a system of supranational governance.

Mitchell and Mcaleavey (1999, pp.175-176) conveyed us the information that the development of EU policies affected domestic center-periphery relations. In German example, the Länder were given exclusive competence under the German constitution for education, training, transport and environmental policy areas but the federal level, the Bund had exclusive competence over foreign affairs and the right to transfer sovereign powers to international institutions. Since, the competences of Länder were transferred to Brusells without their permission the balance between the Bund and the Länder were affected. This led to pressure from regions within the EU. The considerable impact of EU policies on sub-national levels of government which could also be applied throughout the EU was identified in the Audit Commission report in the United Kingdom (UK), in 1991. The report pointed out that euro-regulation imposed unavoidable obligations to implement, enforce and monitor EU legislation, European economic integration created new opportunities for and pressures on the local economic base and SF offered potential support for the local economy and local authority projects.

Bache and Chapman (2008, pp.398-399) quotes that there are two types of multilevel governance. Type I involves dispersion of authority as being restricted to a limited number of jurisdictional boundaries at a limited number of territorial levels. The distribution of authority is seen relatively stable and the focus of analysis is on individual governments or institutions rather than on specific issues or policies. Type II multilevel governance presents more complex and more fluid structure and consists innumerable jurisdictions. The distribution of authority is less stable and the focus of analysis is more on scientific issues and policy areas than on individual governments or institutions. Type I multilevel governance is closely connected to conceptions of representative democracy but this relationship is weak in Type II multilevel governance.

That is why, elected politicians are often absent from Type II bodies and democratic oversight is at best indirect. The deepening of multilevel governance presents a threat to democracy because the advantages of multilevel governance in terms of performance are traded against democratic values. The incentive structure of Type II emphasizes performance rather than conformance. The increasing number of Type II bodies and the resulting complexity of actor relationship involved reduce transparency and obscure democratic accountability. Particularly it confounds the role of elected politicians. Thus, it is against the key feature of representative democracy. There is disconnection between Type II bodies and elected politicians so accountability to voters is indirect. The established process of democracy in Type I jurisdictions are far from problematic and the advocates of Type II multilevel governance are warned against seeing the advantages of the deal and ignoring the darker consequences of the arrangement.

2.2 REGIONAL DISPARITIES IN THE EUROPEAN UNION

Mann and Riley (2007, p.108) underlined two features of income inequality in the contemporary world. To start with, national level income inequality varied by region. Individual nation-states and the world as a whole were not adequate units of analysis. Then ideological, economic, military and political processes produced inequality. These processes varied in different regions and at different times.

Cote (1997, p.55) thinks unequal development, under-developed or undeveloped doesn’t mean only disparities in the existing industrial infrastructure and low income rate and says the differences in community life-styles and values which may promote or hinder mobility chances should also be considered as undeveloped.

Large disparities existed at the creation of the European Community of six and these disparities have existed. In 1958, per capita income of most favored region in the Community which was Hamburg was seven times greater than the least favored Italian region, Calabria. That’s why; Rome Treaty included a declaration which parties involved were; “anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favored regions". The UK, Ireland and Denmark enlargements also caused disparities to exist. The Commission pointed out that, GDP per working person in various Danish regions was 100-115 percent or 115-130 per cent of the Community average but in various British and Irish regions it was either 70-80 per cent or less than 70 percent of the Community average. Then, with the Greek, Spanish and Portuguese enlargements regions with living standards less than 72 percent of the Community average joined the Community (Swann 1995, p.294).

Even if, Molle (1980, p.169) talked about a decrease of regional disparities between 1950-79 and Jensen-Butler (1987, p.169) mentioned about a decrease in both disparities in inter-regional and international disparities within EC in 1970s, regional disparities in industrial output per capita were static. With the industrial recession in the early 1980s, the older-established industrial regions were affected by the industrial restructuring by suffering from manufacturing losses and not attracting new service sectors but increase in job manufacturing in peripheral regions was observed.

Geppert and Stephan (2008, pp.208-209) concluded their study by stating that disparities in per-capita between the regions of the EU 15 were decreasing. The convergence process was interrupted in the first half of the 1980s but regained strength thereafter. It wasn't easy to answer if and to what extent the observed reduction of disparities was the result of neoclassical convergence through capital deepening and factor mobility, or the result of faster diffusion of innovations, or new economic geography convergence induced by very low transactions costs, or the EU regional and CP. But, the reduction of income disparities was a phenomenon between nations and not between regions within EU countries. National events, institutions, infrastructures, policies and macro-economic conditions determined the growth path of countries and their regions even if there was considerable regional variation on this path. Since, metropolitan areas kept and improved their position at the top of the regional income hierarchy a major variation took place. The factors behind this tendency were hard to distinguish. Possible factors might have been effective such as productivity in urban collection due to localized dynamic spillovers and Research and Development (R&D) infrastructures or selection of specific sectors and functions into specific types of regions. One way or another, the regional economic structure of the EU countries was shaped by agglomeration economies attracting high income activities to metropolitan areas. European regional and CP fostered the catching-up lagging countries and what's more, forces for agglomeration of economic activities tended to increase disparities within countries.

Generally, regional inequalities were greater than in the US and peripheral regions of the European Community had lower incomes per capita, higher unemployment, greater dependency on agriculture and disproportionate representation of low-technology and low-growth industries. What's more, in 1985 the ten richest regions of the EC had three times greater income than the ten poorest regions (Keeble 1989, p.169).

According to Armstrong (1989, p. 173) five types of disadvantaged regions in the EC could be identified. First type was located around Mediterranean area which was dependent on agriculture and had low incomes. Second type was declining industrial regions like Northern UK. Third type was peripheral regions such as Ireland. Fourth type was border regions like West and East Germany with major barriers to trade. Last type was urban problem areas such as Naples or Belfast with social, environmental and economic difficulties.

It was believed that regional disparities would be corrected by the creation of Customs Union but some imbalances also resulted by the development of common market. For example, the central locations gained important advantages in terms of accessibility, market potential, access to capital markets and R&D, whereas peripheral regions were only attractive to some industrial sectors such as textiles or car assembly firms in search of low cost labor. Then, because of the mobility limits of capital and labor, structural rigidities turned into regional inequalities and the three enlargements counterbalanced the processes of convergence. Each enlargement added a new member which had very low per capita incomes (Kowalski 1989, p.168).

It was clear that the lack of commitment to correct regional imbalances would have harmed Community solidarity and would have discouraged weaker economies from contributing to the economic and political unity. But apart from the regional problems that affected the unity of the Community, the membership gave rise to regional problems as Swann (1995 p.295) emphasized. Firstly, a member country had to confirm to the rules concerning external protection in forms of tariffs and quotas and these gave rise to structural changes in a regional form. For instance, by Common Agriculture Policy, external protection regime, a member state had to change its external protection by the common external tariff and quantitative restrictions had to be modified. If the Community system was less protective, then third country competition would have given rise to the contraction of certain sectors. Secondly, since membership required all forms of protection against partner economies, efficient industries would expand but inefficient would become smaller.

At the beginning of the 1990s, many of the Eastern European countries moved towards EU membership with the fall of communism so a new dimension had been added to the issue of regional income disparities. Eastern European countries received support from Western European countries in order to improve infrastructure and to be able to cope with the effects of the transition process towards an open market economy for example. The amount of foreign direct investment in this period, also increased by the opening of these countries to the West. The national economic growth differences between transition countries changed from one state to another because of some reasons such as the amount of national resources, level of industrialization and urbanization and distance to Western Europe. When several Eastern countries over the period 1995-2000 were observed, an increased regional income inequality was visible (Bosker 2008, pp.15-16).

Del Compo *et al* (2008, p.611) showed that the allocation of financial resources being based on a threshold corresponding to 75 percent of European's average GDP per capita led to very heterogeneous groups of regions and to be one-dimensional. Thus, it was in sufficient for characterizing the different domains of dissimilarity among group which was an important issue for designing the application of solutions tailored to the different groups of regions with different needs within the EU territory. That's why; there was a need to reduce the information of the major regional indicators in four categories which were demography, employment, economy and education. The resulting factors with an equal weight to classify the European regions into four classes for the sake of comparison, with the four clusters solution, were proposed by the European Commission. Each of the two major groups of EC classification, convergence regions and competitiveness and employment regions contained two different groups of regions which differed not only in terms of their average income but also in terms of other indicators. Also, the phasing-in regions and phasing-out regions seemed to lack homogeneity.

Territorially based governance systems had always experienced challenges because of heterogeneous economic and social living conditions in different regions. This heterogeneity had been transformed into regional inequalities and had threatened the social integration and the political integrity of political community. Since, EU couldn't be compared with a nation-state the rising dissatisfaction indicated that the EU could have also been confronted with the transformation of heterogeneity into inequalities. Therefore, the strengthening of economic and social cohesion became an important goal. It was possible to come to two different conclusions for the enlarged Europe because of some reasons. Firstly, national forms of solidarity and redistribution were challenged in an increasingly open and liberalized economy. As a consequence of economic liberalization, unfreezing of the territorial dynamics, especially in the former socialist countries increased regional inequalities. On the other hand, in a globally integrated society, the EU created a relatively homogeneous political, social and economic space which allowed the reduction of regional inequalities in Europe. A relative closure of European regulatory and economic field was achieved by supranational redistribution, legal harmonization of national social security regulations in Europe, voluntary coordination of national social and employment policies and by the creation of a common legal space for economic activities (Heidenreich and Wunder 2008, p.32).

Magrini (1999, pp.265-266) summarized the problems that occurred by the use of normative criteria and functional criteria for defining administrative regions which were described by the Nomenclature of the Territorial Units for Statistics (NUTS) established by the Statistical Office of the European Communities. To start with, the Central Business District (CBD) involved employment in all cities which were central areas but substantial residential location was on the outskirts. Residential segregation with poor neighborhoods and rich neighborhoods, ethnically specific areas, areas of social housing and etc. were also seen in all large cities. Whereas, different patterns were experienced in different cities. The poor concentrated in the city-centers in Britain while in Italy and France the location for the poor was on the outskirts. So, unless the definition of a region was selected to abstract from patterns of residential location and commuting, the level of per capita income depended on the definition of region being used. Secondly, with the early 1970s decentralization, the outward diffusion of people from urban areas interacted with the simultaneous absolute decline of employment in the manufacturing sector ill old industrial countries of the EU. The definition of regional boundaries determined the extent to which decentralization appeared as a loss of jobs and activity.

2.3 INSTITUTIONS INVOLVED IN THE COHESION POLICY

2.3.1 The Committee of the Regions and Local Authorities

As a consequence of all the regional developments of the Community, such as different wealth and income levels between regions and role shift of these regions, the Commission established the Consulvative Council of Regional and Local Authorities in 1988. But, the Consulvative Council did not go far behind (Nugent 2003, pp.264-268).

So, CoR was created by the Treaty on EU, which is also known as Maastricht Treaty, signed in 1992. There were two priorities of 1994 established CoR. Providing local and regional representatives, who were affected about three quarters of EU legislation, to state position in the development of EU laws was the first. The second one was bringing the elected level of government and citizens together more because the citizens weren't able to benefit from the improvements in EU.

The Commission and Council are obliged to consult the CoR if new proposals in some areas have effect at regional or local level. These areas can be listed in two groups. Maastricht Treaty group involves economic and social cohesion, trans-European infrastructure networks, health, education and culture and the Amsterdam group involves employment policy, social policy, the environment, vocational training and transport. Apart from these areas, the Commission, Council and EP may consult the CoR if they foresee some regional and local implications to a proposal. The CoR can put issues on the EU agenda by its own initiative.

The three main principles of the Committee are subsidiarity, proximity and partnership. Subsidiarity means that the decisions of the EU should be taken at the closest level to the citizens. Proximity provides the governments to be close to citizens while organizing their work transparently and the citizens' views to be heard. Lastly, partnership proposes that European, national, regional and local governments should work together and they should all be involved in decision making process.

The Committee of Regions has 344 members and the same number of alternate members. The MS choose them and appointed by the Council of Ministers for a four-year renewable term. The members of the Committee elect a President and a First-Vice President for a two year term.

The Committee organizes its work through six specialist Commissions, made up of CoR members who examine the proposals in detail and draw up a draft opinion. Then, the draft opinion is discussed at one of the five annual CoR plenary sessions. If a majority approves the draft, it is adopted as the opinion of the CoR and is sent to the Commission, Parliament and Council. CoR members live in their home regions and continue with their local or regional government responsibility (www.cor.europa.eu 2008).

The Economic and Social Committee (ESC) consists of representatives of producers, farmers, workers and of the general public. The Commission or the Council has to consult the ESC on a range of issues such as freedom of movement of workers, social policy, environmental policy and internal market issues but in practice ESC is not influential.

Even if, the ESC resembles CoR in terms of sharing a meeting chamber and support staff, they are completely different in one way. CoR is backed by political actors of considerable influence and with the political weight and the regional actors behind; the Committee is much more influential than ESC. The Commission has every incentive to work closely with the Committee because it can break down the domination of the decision-making by the central governments (George and Bache 2001, pp.218-219).

Ansell *et al.* (1997, p.368-369) believed that Committee of Regions, which was modeled on the weak ESC, has been a disappointment. It has disassociated itself from the ESC and delivered some respectable opinions, the Committee has been deeply divided by the profound inequalities between its members. Power disparities also made any identification of common interests difficult.

2.3.2 European Investment Bank

Long-term lending bank of the EU, The EIB whose task is to contribute to integration, balanced development and economic and social cohesion of the EU MS, was created by the Treaty of Rome in 1958. It funds projects related with EU policy objectives and follows the developments in EU policies.

The EIB provides support to projects and programmes, viable in four fundamental areas which can be listed as economic, technical, environmental and financial. Each project is appraised and followed through to the completion. EIB widens the range of funding possibilities through its borrowing activities; thus it contributes to the development of capital markets and it establishes policies in coordination with the MS and other institutions of the EU.

Within the EU, the EIB has six priority objectives for its lending activity and these objectives take place in the Bank's business plan. The first priority is cohesion and convergence. This means supporting developments in the less favoured regions to meet the challenges of enlargement. Second priority is to support small and medium-sized enterprises, powerful driving force of the EU's economy. Third priority is environmental sustainability which involves improving the quality of life in the urban environment, addressing environmental and health issues, tackling climate change, protecting nature and wildlife and preserving national resources and managing waste. Innovation 2010 initiative is the fourth priority that means establishing a competitive, innovative and knowledge-based European economy. Fifth priority is the Trans-European Networks which are large infrastructure networks of transport, energy and telecommunications. Last priority is providing sustainable, competitive and secure energy (www.eib.org 2008).

The EIB's main decision-making bodies consist of The Board of Governors, The Board of Directors and The Management Committee. The first body decides on the Bank's capital and lays down the general directives on its activities which also appoints the members of the Board of Directors and the Management Committee. It is composed of one minister per member state, usually the Minister of Finance and meets once a year. The Board of Directors has a general responsibility for ensuring that the Bank is managed according to the provisions of the TEC, the Bank's statute and the directives issued by the governors. The last body controls current operations, makes recommendations to the Board of Directors and is responsible for implementing decisions made by the Directors.

The EIB observes certain basic banking principles due to the fact that it is a bank not a body providing funds. It is also responsible for furthering a number of policy objectives. Its borrowing and lending is small when compared with the commercial banks across the MS. However, it is actually the largest international financial institution on capital markets and within the EU it is an important source of finance for capital investment (Nugent 2003, pp.268-271).

2.3.3 European Court of Auditors

The 1975 Treaty amending certain financial provisions of the Treaties establishing the European Communities and of the Treaty establishing a Single Council and a Single Commission of the European Communities, entered into force in 1977 and replaced two existing Community audit bodies with a single CoA which became a fully fledged Community institution, is based in Luxemburg (Nugent 2003, pp.276-280).

The reasons of the establishment of the CoA, whose effectiveness improved with the internal development of an agreed audit culture and growing human resources, were the changing nature and funding on the EC budget. After 1988, the Union's budgetary resources expanded so the rules of financial management were strengthened and MS accepted a tighter regime of financial control. Thus the position of the Court also was strengthened (Laffan 2006, pp.226-227).

The Court examines all EU revenue and expenditure accounts and provides the Council and the EP with a Statement of Assurance on the reliability of the accounts and the legality and regularity of the associated transactions. It is engaged in two main types of activity. The first one is to examine whether revenue has been received and expenditure has been incurred in a lawful and regular manner and secondly, to check whether the financial management of EU authorities has been sound.

The auditing powers of the Court cover the general budget of the EU and then certain financial operations excluded from the budget such as aid to developing countries. The CoA also submits observations and delivers opinions on a range of subjects under two circumstances. Firstly, if an EU institution asks the Court to submit an opinion on a matter and secondly when the Council enacts a financial regulation because of its obligation to ask for opinion from the Court on the draft text (Nugent 2003, pp.276-280).

The members of the CoA are appointed for a six-year term. The Council, acting by a qualified majority, consults the EP and adopts the list of members drawn up accordance with the proposals made by each MS. The members elect the President of the Court from among their number for three years (http://europa.eu 2008).

Lastly, it is important to point out that The CoA represent institutional innovation in the EU system. Due to the continuity of institutional innovation of the Court national criminal law systems and the need to combat transnational problems are becoming more important (Laffan 2006, pp.226-227).

2.4 THE STRUCTURAL FUNDS

2.4.1 European Agricultural Guidance and Guarantee Fund

Boldrin and Canova (2001, p.224) quoted that the oldest fund whose origins dated back to 1962 as a part of the Common Agricultural Policy (CAP) was the European Agricultural Guidance and Guarantee Fund (EAGGF). It promoted the adjustment of agricultural structures and rural development measures and generated growth in farming employment, productivity and income and employment of young people in farming.

45 percent of EAGGF financing was derived from levies collected on agricultural imports and the remainder from direct budgetary allocations from the member governments until 1970. Since that year the EAGGF gained the authority to finance all its operations from its own resources comprised of agricultural import levies, customs duties, sugar levies and an appropriate part of the value-added tax collected by the MS. But this last source of revenue hadn't been forthcoming until 1978 so the share of own resources to cover total expenditures was only 66.9 percent with the remainder to be covered by Gross National Product (GNP) based contributions from the MS. One reason for Community's own resources being insufficient to cover expenditures was the increase in agricultural costs between 1974 and 1978. What's more the total expenditures of the Community declined from 1971 to 1974 because of the rising cost of intervention purchases and subsidizing exports (Feld 1979, p.339).

The EAGGF of the EU budget financed the CAP jointly by the MS which was divided into two sections. The Guarantee section financed expenditure on agricultural market organizations on certain rural development measures and on veterinary expenditure and information measures. The Guidance section financed other rural development expenditure. When the CAP was established, Guarantee section was intended to be larger than the Guidance section by a ratio of two or three to one but in practice this wasn't even remotely approached and the Guidance section hovered at under 10 per cent of total EAGGF expenditure. The demands on the Guarantee section, occasioned by high EU prices and direct payments prepared this imbalance.

Lowe and Ward (1998, pp.9-10) claimed that the change of rural development supports from the Guidance to the Guarantee Section in the Agenda 2000 reforms meant an important change with implications for the legal basis, funding and mechanisms of Community involvement. What this shift was about involved the collapse of the distinction between agricultural market support and the improvement of production structures. There would have been controversy if this had been all that was involved. Previously, various measures had been transferred from the Guidance to the Guarantee section such as grubbing of vineyards but some of the procedures and the broader scope which developed around the EAGGF Guidance section in the context of the SF were also imported to the Guarantee section.

The weakness didn't seem to appear as a result of being represented by a 2.3 percent of the total as far as the EAGGF was concerned between 200-2004. The states joined the EU by 1973 and 1981-1986 enlargements with a higher dependency on agrarian and farming policies showed a 3.5 percent level of errors regarding the 1951 EU core states and 1995 enlargements. Due to a higher degree of consistency and enforceable requests of the Community Agrarian Policy (CAP) as regards the Regional Development Funds at large, with a younger history of execution and development and more difficult to apply the degree of deficiencies decreased in the Fund management of the EAGGF from 10.6 percent to 2.3 percent (Renart *et al.* 2008, p.158).

2.4.2 European Social Fund

The evolution of the ESF was the result of interrelationship between external pressures, especially the growth of structural unemployment in the global economy and of domestic politics in the MS. It was believed that the Social Fund would be a solution of major income and unemployment inequalities within the Community whereas it was not assumed that all social inequalities would disappear in the Community for the unequal distribution of income between capital and labor. Social Policy in the 1950s and 1960s served to measures to complete the common market for labor that is easing migration restrictions and securing social benefits for migrants and their families (Williams 1994, pp.181-182).

The creation of ESF which was a community social policy was mentioned in Article 3 of the Rome Treaty. In the original Rome Treaty, the aims of ESF were listed as retraining and resettlement of the unemployed and keeping the jobs of enterprises in difficulties in good condition before they change their activities (Swann 1995, p. 311).

Recession and unemployment were seen in 1970s and uneven development within the EC led to greater intervention in social affairs. The growing discrimination against emigrant workers threatened one of the few areas where the social policy of the EC was supposed to be effective, what's more, a greater influence on EC policy formulation by Social Democrats in Federal Republic (FR) Germany was felt on EC policy formulation. They were interested in converting EC's face into a more human face. As a result, a new Social Action Programme involving forty different measures was approved in 1974. Youth and long-term unemployment became the new objective of the social policy which was previously assisting migrants. 75 percent of ESF expenditure had been allocated to measures related since 1984. Women, the disabled, single parent families and migrants were other special priority groups. These groups were subject to discrimination in labor markets and experienced poor access to many other opportunities. The ESF expenditure was also spent to absolute priority areas of Greece, Ireland, Portugal, southern Italy, Northern Ireland, Corsica and the overseas provinces of France and poorer parts of Spain with a percentage of 44. ESF wasn't able to address overall structural inequalities in the EC but had impact on some areas of social inequality. An example area was the occupational segregation and employment discrimination against women (Williams 1994, pp.182-184).

Lion and Martini (2006 p.1) explained ESF as the main financial tool for implementing the EU's strategic employment policy. It provided funding to all European MS on a major scale of programmes which develop or regenerate people's employability. The focus was on providing citizens with appropriate work skills as well as developing their social interaction capacity, thereby improving their self-confidence and adaptability in the job market place. The reform of the SF for the 2000-2006 period considerably extended the ESF's aims and thus its spheres of intervention.

The role of the ESF changed over time and lastly it was instructed by the Council of Ministers in 1983. The vocational training and guidance payments, grant subsidies for up to one year for job creation of young or long-term unemployed, the expenses in connection with geographical mobility of workers, and lastly the assistance costs of services and technical advice related with job creation were the valid forms of spending of the ESF (Swann 1995, p.311).

The actions of the ESF were appropriate as they reached the target groups while the distribution over target groups followed the policy priorities set by the programmes when the evaluation of 1994-1999 programming period and the mid-term evaluation of 2000-2006 period were considered. There was a huge variety in the measures adopted. The measures covered the set up of public employment services, intensive counseling and job search activities, life-long learning and education, employment subsidies and incentives foe start-ups. Much of these were deployed in the framework of active labor market policies. Here, ESF supported the spread of good practices to the countries without the experience of such policies. The effectiveness of policy measures that attacked social deprivation couldn't be evaluated due to range of factors which could be listed as the multitude and wide variety of ESF support schemes, the lack of clear specification of targets, the poor design of the programmes, the small contribution of ESF funds with respect to national funds and the difficulty of measuring outcomes instead of outputs. So, it was difficult to generalize the effects of specific measures of social policy and the evaluations of the EC had no reference to effectiveness. Nevertheless, the ESF had served as redistribution function of European money but it failed to achieve any specific objectives (Molle 2006, pp.10-11).

Number of weakness, even if they were multiple in amounts, represented 5.5 percent of the number perusal between 2000-2004 regarding the ESF. There was also a fact that the 1951 and 1981-1986 enlargements showed a lesser degree of weakness, namely 7.7 percent. Regarding the enlargement of 1973 it was 1.3 percent and it was 3.3 percent in 1995 enlargement. The main issue here was that ESF quantitatively affected less developed countries in 1981 and 1986 enlargements, when Greece, Spain and Portugal joined the EU. These countries were positioned in the South and they were less developed than the rest. 2003 was the year when the highest number of weakness took place with exception of the ESF (Renart *et al.* 2008, p.156).

2.4.3 European Regional Development Fund

By the inception of European Community, the Commission tried to develop a system which could play an active and positive role in dealing with the regional problems of the Community. To achieve this goal, the Action Programme of 1962 and Memorandum on Regional Problems of 1965 were expressed. And in 1969, the Commission decided to play an active part in aid-giving and studies of the general problems, for this reason the creation of a Regional Development Rebate Fund (ERDF) by which loans would be given for regional development purposes was proposed. This proposal wasn't implemented but in 1969 Hague Summit, calling for the creation of EMU by 1980, a proposal leading to the creation of ERDF was made. The Werner Committee in 1970, recognized that community-financed regional interventions would be necessary but the exact reasons weren't described in detail. Then in 1972 at the Paris Summit, Britain pressed for the establishment of ERDF, finally in 1975 ERDF came into operation (Swann 1995, p.303).

Williams (1994, p. 175) stated that ERDF had tended to complement national regional policies rather than replace them. Grants were provided for infrastructural projects and for industries and services. National projects were submitted via national governments and the ERDF contributes no more than 50 percent of the assistance provided by national agencies. As such ERDF was much more an extension of national policies than a genuine common policy.

ERDF financed infrastructure and business development scheme and was the largest of the SF in financial terms. Less than 5 per cent of the Community's budget was initially devoted to this fund (Mitchell and Mcaleavey 1999, p.180).

The role of ERDF was to attempt to contribute to regional development and to provide a decrease in excessive contributions of MS to the community's budget. The Fund's evolution involved the conflict between the development and the compensatory functions that was a variation of the tension between genuinely supranational European policies and policies designed to meet the interests of MS. The development vs. compensatory tension was a reflection of the supranational vs. intergovernmental debate. The negotiating process while the European Coal and Steel Community was being established, set up a pattern comparable to that associated with the ERDF. The original supranational High Authority conception with considerable scope for action and capable of developing genuine common policies had been limited. MS attempted to control and distribute the gains and losses arising in particular sectors to the extent to which the national interest of each party to the agreement would be satisfied. There were some other similar descriptions of the ERDF stating that this Fund wasn't an instrument to deal with regional disparities as a means to cope with national disparities regarding contributions from and payments to the community budget (Mitchell and Mcaleavey 1999, p.181).

RP was necessary due to the fact that there was a need to adverse the regional impact of community policies. One of the main reasons why ERDF was set up was its being a crucial part of the EMU by 1980. Its importance could be summarized as in the example. If the industrial unions in Britain applied Community pay levels and if Britain productivity was behind the Community level Britain would be uncompetitive in the Community market, an added that exports would fall and imports would rise. And finally, unemployment would be the outcome of this process. A possible remedy for solution could be devaluation but because of EMU by which exchange rates were fixed before the creation of a common currency this wouldn't be applied (Swann 1995, p.297).

The governments of MS refused to accept the Commission's proposals for objective Community criteria. They insisted that regional fund should be shared according to national quotas and each government demanded a quota. This meant, regions in richer MS were eligible despite having a greater per capita GDP than some ineligible regions in poorer MS. This intergovernmental carve-up proved that funding was dispersed rather than concentrated on areas of greatest need. In the first phase, the ERDF was to cover 60 percent of the geographical area of the Community and 40 per cent of the total population (George and Bache 2001, p. 367).

Some minor reforms were introduced in 1979 and 1984 but the Commission and most regional authorities found themselves in a policy process which became an instrument of national policy making. The primary rules governing the ERDF required unanimity in the Council which constrained the Commission in terms of what it could propose. The European Parliament (EP) saw an opportunity in that ERDF expenditure qualified as non-compulsory expenditure in the EU budget so was subject to their endorsement and potential influence (Allen 2005, p.217).

In 1982, the ERDF was made more selective due to the regional and national prosperity changes in the 1970s. Several Northern European States were excluded from assistance and resources were concentrated in Ireland, Italy, the UK and the new member, Greece. Quotas were replaced by ranges, providing minimum and maximum figures for expenditure in each country, in 1985. Thus, the Commission gained greater autonomy in policy implementation and some countries such as Belgium received some resources again. In 1986, the accession of Spain and Portugal revised all of these (Williams 1994, p.175).

ERDF's operation was problematic in a number of important ways. First problem was additionality which meant EC expenditure on RP was supposed to be additional to that by national governments. It was probable that several MS substituted ERDF funds for their own spending. The precise extent of this was not known but considerable substitution clearly occurred and directly undermined the effectiveness of ERDF. Secondly, the Commission reserved a small proportion of the Fund to be allocated at its own will, without taking national ranges or quotas into consideration. Thirdly, the term regional problem became a complex one. Back in the 1950s, the main regional problems in the Community were associated with underdeveloped regions and localized crises only in some specific industries. In 1980s, the economic space in the EC was more complex and new types of problems were present. To cope with such issues there was a need for additional resources and a more flexible RP. Fourthly, ERDF was a small one when compared to the regional expenditures of some MS and in relation to the difficulties faced by some problem regions (Williams 1994, pp.177-179).

2.4.4 Financial Instrument for Fisheries Guidance

Council Regulation 2080/93 of 20 July 1993 laid down provisions for implementing Council Regulation 2052/88 as regards the FIFG. The tasks of the FIFG were to contribute to achieving a sustainable balance between resources and their exploitation, to strengthen the competitiveness of structures and the development of economically viable enterprises in the sector and to improve market supply and the value added to fisheries and aquaculture products. Redeployment operations, temporary joint enterprises, joint ventures and adjustment capacities were eligible FIFG assistance. MS were also eligible for the Community aid from the FIFG when measures to promote the construction or modernization of fishing vessels in compliance with relevant conditions were undertaken. Since 1994, the European Commission approved some of the MS' applications for the community structural assistance including FIFG. In 1995, the European Commission approved a series of support programmes worth ECU 81.2 M for the EU's fisheries sector. These programmes aimed at modernizing structures in the EU's fisheries sector, in the form of Single Programming Documents (SPD) covering the years from 1994 to 1996. The fisheries support programmes applied to nine MS. The amount of the aid for the restructuring of EU's fishing fleet was a total of ECU 2.8

billion between 1994-1999. ECU 1.3 billion of the total was allocated to the structuring and modernization of the EU's fishing fleet, accompanied by measures to support the reorientation of fishing activities, measures to support permanent withdrawal of vessels via experts, transfer to other activities and scrapping and socio-economic aid measures (Song 1998, pp.569-576).

2.5 HISTORICAL DEVELOPMENT OF COHESION POLICY

2.5.1 Early Moves

European integration from the EC times to EU has had a very important objective which was the reduction of economic and social disparities between the various regions of the union. In 1957, the attitude mentioned in Article 2 in TEC was that the common market would promote a harmonious development of economic activities and lessen disparities between regions throughout the Community. The treaty was a package deal to distribute losses and gains among MS, not to redistribute resources between rich and poor regions (Dinan 1999, p.431).

The reactive RP which started with Rome Treaty finished in the mid-1960s. This phase was characterized by lax control of national RP subsidies by the Commission, as the expenditures of the national regional policies weren't intensive. A reactive RP was not applied despite the treaty (Van der Beek and Neal 2004, p.597).

The Commission recognized regional problems in 1961 by a conference in Brussels and in 1967 a Commission Directorate General (DG XVI) was established. In 1969, the Commission proposed to the Council to coordinate MS' regional policies and community policies with a regional impact and the creation of ERDF. These proposals of the Commission were not supported by the Council. Italy, containing the poorest regions in the EC was keen to see a progress in that direction but West Germany and France were opposing a common RP due to some political and economic reasons. By the agreement taken at the Hague Summit on 1969, the Council stated that action was necessary to address the problem of regional imbalances. After 1969, some factors such as the EMU issue, the proposed enlargement of the Community to include Britain and

Ireland and member state aids to industry elevated the status of RP. In Paris Summit of 1972, it was emphasized that high priority should be given to correcting the Community's structural and regional imbalances that night affect the realization of Economic and Monetary Union. In 1973, Thomson Report, which became known after the British EC RP Commissioner, it was argued that regional problems prevented balanced expansion of the Community. The poverty of the weaker regions limited the size of the potential market for the products of the stronger regions which limited the potential for continuous expansion of the economy as a whole. The report also stated that there was a tendency for the weakest MS' economies to involve regions, with the most serious problems and for the stronger MS' economies to contain few problem regions. The governments with serious regional problems were forced to follow national economic policies to ease the problems but this made such governments to expect Community aid (George and Bache 2001, pp. 363-365).

Against the changes of government in 1974 in Britain, an agreement was reached between West Germany and France on the setting up of an ERDF at the summit in Paris in December 1974. This unexpected development was a result of desperate action by the Irish and Italian governments which had a major interest in seeing such a fund come into existence. The removal of the British from the coalition of states pressing for the ERDF made it easier for West Germany to agree to the Italian and Irish demands. Even, Britain and West Germany relations were cool, since Britain wasn't asking for creating a regional fund during the summit, an agreement on the size and distribution of the ERDF was reached. MS agreed to establish a regional fund for a three year period to begin on 1 January 1975 despite the fact that there were concerns about the distribution of the Fund and the criteria eligibility. All the parties accepted that the Fund would be permanent against the French interpretation on the subject as a trial period (George and Bache 2001, p. 366).

2.5.2 Developments and Reforms

In February 1987, a five year budgetary package to control agricultural spending, increase the EC's own resources and impose budgetary discipline was presented. The so-called Delors I package also proposed reform of the SF which were financial instruments of CP, a doubling of resources available and a particular focus on regions whose per capita income were below 75 percent of the EC average. Against conflicts between UK and Germany that had to contribute most of the proposed budgetary increase, the European Council found a solution to the conflicts at the special Brussels Summit in February 1988. The decision of the European Council to double the SF by 1993 was perceived to be a second Marshall Plan. And some northern countries accepted the redistributional solidarity as part of market integration. EC's CP was reformed by the adaption of regulations in June and December 1988. This reform meant to double the combined size of the three SF but increase of the SF was not enough to cope with regional imbalances. There was a need to act at community level to cope with the disparities between regions and between different social groups. So 1988 reform was a gadget to turn the SF into effective instruments of economic development involving welding the EC's RP and aspects of EC social and agricultural policies into a strong mechanism to narrow the north-south divide (Dinan 1999, pp.433-434).

With the doubling of SF by the Delors I package, the SF accounted for 25 percent of the EU budget. The basic parameters of this agreement were established by high-level intergovernmental bargaining. The French and the UK governments demonstrated last minute reluctance to double the SF but this was overcome by the persistence of the German Presidency of the Council, the willingness of Chancellor Kohl to foot the bill and the negotiating activism of Jacques Delors. It was hard to claim that the heads of state or government had spent much time to debate the advantages and disadvantages of RP as such they had worked (Allen 2005, p.219).

The SF' reform in 1988 contributed to the strengthening of the redistribute impact of RP for the Commission. 1979 and 1984 reforms failed to convert ERDF to an effective RP instrument from a system of reimbursement but they contained the very first steps for future policy development as in 1988 reform. The view of poorer regions of the Community was that the completion of the internal market could lead to concentration of wealth in the EC's core economies in the mid 1980s. In response to these concerns Article 130(a) of the SEA of 1986, set out the need to strengthen economic and social cohesion within the EC aiming at reducing disparities between the various regions and the backwardness of the least favored regions. In order to define some community policies including structural policy, the term cohesion came into use which had two meanings. Firstly, it meant dealing more effectively with the problem of regional economic disparities and secondly it meant involving subnational actors more openly in European decision making (George and Bache 2001, pp.368-369).

2.5.2.1 Principles

By the reforms of 1988, it was determined that some complementary principles that were supported by the Commission would guide the RP.

2.5.2.2 Concentration

Concentration principle which involved the concentration of funds to the most disadvantaged regions took the form of elaboration of five priority objectives. Objective 1 intended to cover regions where GDP per capita was less than 75 percent of the EU average. The Council decided eligibility for this objective and drew funds from the ERDF, ESF and EAGGF and accounted slightly below 70 percent of the total funds. Objective 2 covered regions affected by industrial decline. Eligibility was negotiated between the Commission and the Council. This objective drew funds from the ERDF and the ESF and represented around 11 percent of the total funds. Objective 3 fought long-term unemployment by providing the integration of young people with the funds of ESF. Objective 4 assisted the occupational integration of young people below the age of 25 with funds from ESF. Objective 5 was divided into two. Firstly, 5a accelerated the adjustment of agricultural structures with EAGGF-Guidance Section and secondly, 5b promoted the development of rural areas with EAGGF-Guidance Section, ESF and ERDF (George and Bache 2001, p.370).

Objective 1 regions were the poorest parts of the Community that could be listed as Greece, Ireland and Portugal as well as some parts of Spain and Italy. Corsica and Northern Ireland were considered as Objective 1 regions even though they had not met the structural criteria. France and UK had argued for their inclusion. There were sixty regions classified eligible under Objective 2 which faced with industrial decline. UK received 39.7 percent of available funds as the main beneficiary (Mitchell and Mcaleavey 1999, p.183).

The Commission sought to impose consistent geographical and functional criteria for the management of the funds. Thus, the regions and states which were in the most need would benefit. This goal was achieved to a certain extent. There was constant tension between the Commission that wanted to provide more concentration for the SF and the MS that wanted to get as large a share of the SF as possible (Allen 2005, p.230).

By the 1988 reform of SF, area designation was carried out by Objective 1, Objective 2 and Objective 5b. On the basis of these criteria, eligible areas were determined by the Commission covering 43.5 percent of the Community population. This area designation system was a major change from the pre-1988 practice where EU regional funding was used to co-finance projects in nationally determined assisted areas (Bachtler and Mendez 2007, p.540).

The Commission drew up the list of eligible areas on the basis of Community-wide criteria that didn't match with the domestic RP objectives of all EU MS by the 1988 reforms. The use of technical criteria as the formal determinants of regional eligibility for EU aid enhanced the Commission's influence by basing decision making on functional technical grounds or secondary criteria where MS influenced the outcomes. With the revision of 1994-1999 periods, amendments to the area designation system provided more flexibility in the application of the criteria under Objective 2 and role for the MS to propose eligible areas. These amendments had been portrayed as a reassertion of Member State control over area designation to support the renationalization thesis. This claim based on the fact that under Objective 1, some regions above the qualifying threshold could become eligible for support. Changes to the designation system for Objective 2 and 5b which gave MS the authority to propose the initial list of regions to be designated represented a significant shift in control of the process towards to the MS. These arguments had validity. The extension of Objective 1 and Objective 2 eligibility and 5 b areas increased total assisted area coverage from 43.5 percent to 51.3 percent of the Community population. On the other hand, the level of control gained by the MS shouldn't be exaggerated. The basis of a Community criterion and indicators for the designation of Objective 1 regions didn't change. Under Objective 2 and 5b, the regions had to satisfy the primary EU designation criteria relating to unemployment and industrial employment. And the final eligible areas list had to be negotiated with the

Commission. By 1999 reforms, with respect to area designation, the Objective 1 remained unchanged, apart from incorporating Objective 6 which was introduced after the 1995 enlargement for the development of Nordic areas. This Objective drew funds from the ERDF, ESF and EAGGF. Objectives 2 and 5b were merged, while eligibility criteria remained the same. As a result, the proportion of Community population eligible for SF support reduced from 51.3 per cent to 40.7 per cent divided between Objective 1 (22.5 percent) and Objective 2 (18.2 per cent). The concentration principle was also said to constitute a further renationalization of policy by the 1999 reforms. The Council was able to determine Objective 1 areas and had more control over the designation of Objective 2 areas. It was also added that Objective 1 limited the power of the Commission to determine the area designation process because of the fact that regions had to obey the qualifying statistical requirements (Bachtler and Mendez 2007, pp.541-543).

2.5.2.3 Programming

This was the principle in which short-term project-by-project approach was replaced by multi-annual programmes of three or five years. The key point was to move towards more effective and coherent policy making (Mitchell and Mcaleavey 1999, p.183).

The shift from project-related assistance to programme assistance and decentralized management by the reform of SF put the emphasis on planning and continuity rather than on ad hoc activities. With the new system the Commission oversaw a much smaller number of CSFs (CSF) which made its job easier because previously the Commission dealt with many different separate projects (Dinan 1999, p.434).

1988 and 1993 regulations for the implementation of SF to be allocated to programmes rather than to individual projects made it possible for these programmes to be initiated at the national or Community level and also to be financed by one or more of the funds. The adaptation of national level programmes was on the basis of CSFs which were negotiated between the Commission and each member government on the basis of either national or Regional Development Plans (RPD). These were drawn up by the member government in partnership with its regional authorities. In 1993, this process changed and it was allowed for MS to submit a SPD. They weren’t negotiated with the

Commission in contrast to the CSFs and contained proposals for programmes from the outset, thus the process shortened. This meant the effective exclusion of partners and the domination of the process by central governments. The reform proposals of 1999 led to further streamlining as a response to the demands of member governments for simplification and the proposed changes later on, aimed at simplifying all aspects of programming from planning through operational and financial management to evaluation and accountability. This involved reducing the role and influence of the Commission to one of framework planning and general oversight. Therefore, the Commission moved away from uncoordinated funding of nationally selected projects towards the funding of programmes, designed in consultation with the member governments and using Commission-determined criteria. But, then member governments took the control of the programming. What's more, the designation of objectives, the areas they would cover and the programming criteria were affected negatively by the bargains of the MS. The programming principle was pushed the furthest in the Community Initiatives area by the Commission. Between 1988 and 1999 there were twelve Community initiatives and these were reduced to three in 1999. The first initiative was Interreg which was concerned with cross-border, transnational and interregional cooperation, second one was Leader concerning with rural development and last one was Equal concerning with transnational cooperation to combat all forms of discrimination and inequalities in labor market (Allen 2005, pp.226-229).

The revised programming procedures allowed MS to submit an SPD on which the Commission would adopt a single decision. This was a procedure used for the smaller Objective 1 programmes in Belgium, the Netherlands and the UK for all the Objective 2 programmes expect those in Spain. Some claimed that this process reduced the influence of the Commission for three reasons but didn't shorten the programming process. To start with, the Regulations were more precise and perspective about the information to be incorporated in the RPD including quantified objectives, an evaluation of environmental impact, more detailed financial tables and specific information to allow additionality to be verified. Also, the independent ex ante appraisal of each development plan submitted by the MS provided an important source of information and analysis in support of the Commission services negotiation position. Secondly, the Commission guidance for the preparation of development plans influenced national thinking in some countries even before the RPDs were submitted. For instance, the guidance to the national authorities in Greece emphasized the importance of certain issues which determined the basic strategic directions of the Greek RPD. Lastly, an assessment of the Commission's influence on programming revealed important changes to the plans put forward by MS in the course of the formal negotiations with the Commission. The programmes for Germany, Italy, Portugal, Spain and the UK showed substantial differences between the RPDs submitted by the MS and the approved CSFs. In some cases, the Commission influenced major changes in the allocation of investment at priority level. In Portugal, the agriculture support share was increased from 12.4 per cent in the RDP to 18.3 per cent in the CSF, at the expense of industry and transport, while the share of infrastructure was reduced in favour of more spending on education. The Commission also influenced the distribution of funding at a more detailed level where allocations often took place. In Italy, the Commission introduced completely new measures of support for local development initiatives, industrial estates and the crafts sector collectively accounting for one third of funding under the industry priority (Bachtler and Mendez 2007, pp.548-550).

2.5.2.4 Additionality

This principle stated that SF had to add to the public expenditure of the member state. While SF were additional to existing or planned domestic investment, they were never a substitute for such expenditures. In other words, member state governments shouldn't have used European funds to replace national funds. In the first years of the ERDF, the governments pocketed resources to replace their own expenditure which was described as the extreme nationalism of regional development policy. The Commission and local authorities found themselves in common cause against the central governments of MS (Mitchell and Mcaleavey 1999, p.184).

According to Heijman (2001, p.168) additionality meant that the programmes which were funded by the SF had to be co financed by the member countries. Here, half of the necessary budget had to be provided by the EU and the other half by the national governments.

The 1988 reform provided an opportunity for the Commission to strengthen its position for securing additionality and it was believed by the Commission that the wide use of programming would have enhanced additionality (George and Bache 2001, p.371).

The Commission insisted on additionality as a priority for structural fund expenditure. By 1988 reforms the Commission made this to be respected more by the MS and obliged them from reducing national expenditure. The Commission fought over the issue, particularly with the UK, but also with some other MS. Many local and regional authorities supported the Commission on this issue and this support was accepted as the proof of the view in which subnational authorities and the Commission were perceived as important participants and partners in the EU policy process. The Commission forced the member governments to account in an open and transparent way for the SF they received and to continue the implementation of national expenditure. Even if, there was a requirement of additionality for member governments and there was a threat of fund limitation for the states which rejected to obey, great problems in monitoring the financial practices of member governments existed. In 1999 reforms, the Commission proposed negotiated additionality, however additionality was hard to verify, especially in Objective 2 and Objective 3 regions. As a result, the responsibility for ensuring additionality passed back to the MS (Allen 2005, p.230).

Britain was the only member state to continue breaching the additionality principle. The problem of additionality occurred in a dispute over the Rechar programme whose purpose was adaptation to industrial change in coal-dependent regions. Because of the way the British government wished to spend Rechar funds, the Commission and the British government came face to face. The dispute was a complex one. The British government had been accused of not providing genuine additionality, but the Treasury maintained that it had contributed to each year’s regional expenditure plans an element to cover expected ERDF funds. Spending in the regions would be less without the ERDF but this excuse wasn’t acceptable for Rechar because the programme had not existed when the British budgetary plans for the Rechar funding were made. After a prolonged struggle between the government and the Commission, the government proposed an intention to introduce new arrangements for implementing additionality (George and Bache 2001, p.375).

2.5.2.5 Partnership

The partnership principle was an attempt to increase the affects of the RP. To do so, actors which were closest to the problems and the priorities of the related regions were involved in policy making. In the management, presentation, financing, monitoring and assessment of structural fund operations partnerships were to be active. These operations could be listed as implementation of the operational problems, preparation of RPD for submission to the Commission and monitoring and assessment measures taken (George and Bache 2001, p.370).

Partnership was believed to reduce disparities, give structure to self-governance, diffuse principles of solidarity, participation and positive regulation and practice multi-level decision making in the 1988 reform. A reform of partnership would therefore have direct implications for EU governance. There were four kinds of justification for partnership. First one had to do with efficiency. Partnership provided a channel for affected interests to identify common problems and pool resources to supply collective goods. The second was that partnership allowed actors to govern themselves by pooling indigenous resources on a voluntary basis and co-coordinating their activities in non-hierarchical fashion. Third justification was that partnership gave weaker subnational actors a stronger voice to demand solidarity. Lastly, partnership was a vehicle for democratization; it was the European supranationalists' response to subsidiarity. The 1988 reform was inspired by concerns about democracy and solidarity, however when time passed by, market efficiency and innovative governance took the lead. Unfortunately, partnership had fallen behind the expectations in each of these respects. An internal Commission document on partnership admitted that although partnership was viewed as an established fact, it hadn't been implemented bit by bit and its objectives varied significantly from one Member State to another. Reports from the CoA, MS, parties and institutions like the EP and the Committee of Regions were also pessimistic (Hooghe 1988, p.469).

The partnership principle was implemented in too many different ways among the MS. National, sub-national and supranational actors had control over different resources in different MS influencing their ability to shape policy implementation in the framework set by EU level agreements. Britain example presented different ways of implementation across regions within a Member State. When the political effects of new arrangements were taken into consideration, considerable success was obtained in centralized MS. Sub-national actors weren't empowered but they were mobilized. Sub-national authorities were placed to take advantage of the opportunities provided by the partnership requirement in more decentralized MS (George and Bache 2001, p.374).

The Commission had been criticized for its choice of partners. The Commission chose regional authorities in some programmes and local authorities and private sector partners in some programmes. Cities strengthened their claims for attention as the overall affluence of many major European cities disguised pockets of extreme poverty, thus the need for programmes designed to enhance social as opposed to territorial cohesion. The partnership principle also brought another tension. If this principle had provided significant subnational participation in the design and management of the SF as the Commission wished, the huge variety across the EU in terms of organization and influence would have led to different regions funding many different solutions to similar problems (Allen 2005, p.232).

Hughes *et al.* (2004, p.531) wrote that the Commission complained about its lack of power in RP in the MS and criticized the weak partnership between central and sub-national authorities in the operation of SF. Even though, the Commission was divided internally by the struggle over competences and in contested visions of RP based on departmental interests, parts of it appropriated the MLG to describe overall mission in RP. These debates over institutional reform within the EU were frame of reference for Commission officials when the drive for enlargement began in the mid-1990s.

The partnership principle was put in the first place in the SF Framework with the new regionalist concepts and policies aiming at the creation of regional networks conductive to co-operation and the diffusion of knowledge. But these were inspired by the economic improvement of certain Western regions attributed to their specific socio-cultural features. The partnership principle wasn't able to contribute to the strengthening of local democracy in CEE countries because it was at odds with their institutional traditions and embedded practices. This brought the conclusion that policy measures such as partnership had to be tailored to specific institutional contexts and to take into consideration local path dependent developments in order to be transferable and widely applicable to various national or regional contexts (Dabrowski 2008, p.246).

2.5.3 Last Twenty Years and Future Expectations

1992 became a special date in the process of integration in Europe following the approval of the SEA which created the Internal Market by 1992 as a fundamental object for the European Community. The most challenging task of the EC by far was the completion of the Internal Market. The ancient fears that the opening of markets might have increased disparities between countries, either by making the poor poorer or by degenerating into very uneven distribution of the gains from the opening of markets came to the agenda. But there were no statistical support for these fears (Mendes 1990, p.17).

Pereira (1997, pp.233-234) suggested according to the simulation results that CSF 1989-1993 provided a crucial improvement in the rate of GDP growth and a permanent improvement in the GDP per capita of the recipient economies. The CSF 1989-1993 produced little sustainable effect on the convergence of the recipient economies to the EU standard, so there was a clear need for continuous inflow of EU SF.

The 1988 reforms took place because of the single market project and the reforms of 1994 were shaped by the single currency project and by the northern enlargement of the EU. The previous five objectives changed a little and a sixth objective was added when Sweden and Finland joined the EU. Objective 1 and Objective 2 remained the same with a little shift. East Germany became an Objective 1 region. The former Objective 3 and the former Objective 4 were united as new Objective 4 whose targets were industrial change and new production systems. Objective 5 was enlarged by including regions with fishing industries and Objective 6 was added. The target of this objective was less populated northern regions. This reform of objective system was again due to political compromise to give each Member State a share of the regional funds. Even the rich northern countries were eligible to receive funds under Objective 6. The financial perspective and the valid regulations of the regional policies ended at the end of 1999 so next planning period between 2000-2006 was decided in late summer 1999. The most important issue here was that the EU planned to enlarge towards East. The Czech

Republic, Estonia, Hungary, Poland, Slovenia and Cyprus were thought to become members of the EU. In Agenda 2000 agreement, the decision made by the EU created the RP dilemma. This dilemma occurred because the EU wanted to handle the next enlargement without any deep reform of its finance system. This decision implied that the EU wouldn't be able to follow the traditional strategy of raising the budget for side-payments to certain MS to get their agreement to further integration or further enlargement. But the candidate countries were relatively poor and they were in need of RP subsidies so in order to handle the eastern enlargement with the same budget mechanism brought the need to reform the existing RP and to reduce the number of regions receiving subsidies to the most in need. Because of the points listed, EU declared to concentrate the funds and make them more efficient in theory, whereas in practice the things listed couldn't be achieved (Van der Beek and Neal 2004, pp.592-593).

Bachtler and Michie (1995, p.750) reflected the latest developments with respect to ex ante appraisal and some of the issues that had emerged from the 1994 appraisal of regional development programmes in their paper. With the appraisal then, there was an increase in the MS' obligations to monitor and evaluate their regional policies. The conditions were a respond to the concerns of the MS and Community institutions, regarding effectiveness of the SF. The inconsistencies in the commitment and approach to evaluation between countries and regions were the main difficulties. The principle of greater assessment of Structural Fund operations was supported by the MS, whereas the extent of detailed reporting to the Commission and evaluation was justified. Some MS objected to the severity with which ex ante appraisal had been undertaken over the 1993-1994 period. The belief in northern EU countries was that the level of evaluation had to be related more to the scale of expenditure and that the requirements for monitoring and evaluation of smaller CSFs and Community Initiatives in Objective 2 and 5b regions had to be reduced. The Commission might have agreed some of these views but there was irony in the same MS complaining about the lack of accountability and verification of impact of Community spending in the Council of Ministers merely then objecting by the time appraisal and evaluation was actually implemented.

Molle (2006, pp.7-9) measured the effectiveness of CP with the help of two indicators. When Objective 1 was taken into consideration, one of the indicators was decrease in disparity in wealth. The gap of the GDP per head between Objective 1 regions and the rest of the EU narrowed from 64 percent of the average in 1993 to 69 percent in 2000, indeed the Objective 1 regions' growth rate was significantly higher than the EU average. There was also a positive correlation between GDP growth and the intensity of SF intervention among the Objective 1 regions, this meant that even though there was no causal relation it was at least likely that the policy contributed to overall cohesion. This general convergence evidence hid significant problems such as territorial cohesion. The disparities amongst Objective 1 regions increased and growth concentrated in the core areas of the regions in many countries. Since this was stimulated by the available fund distribution, territorial cohesion didn't get overriding priority. The second indicator was unemployment for the success of EU CP which was related to the social cohesion objective. The success record of this indicator for Objective 1 regions was less positive. During the evaluation period the rate stayed almost stable at 16 percent, above the EU average of 9 percent. When Objective 2, which dealt with the renewal of the industrial base, the decrease of unemployment and preventing decreases in income as a secondary objective was observed, it was seen that the evaluation of the effectiveness of the Objective 2 interventions couldn't be assessed properly. Between 1989-1993 period and between 1994-1999 period 7 to 800,000 jobs were created in new industrial and service activities and some 300,000 SME received assistance in adapting themselves to the new market conditions. There was a decrease in unemployment by some 3 percent against a decline of some 2 percent in the rest of the EU and only 1 percent in the regions of the EU excluding Objective 1 regions during the 1994-1999 planning period. Growth in GDP per head was marginally below the average of the EU as a whole, as a consequence, the index of average GDP per head in Objective 2. Social problem areas which were former Objective 3 and Objective 4 involved unemployment and access to education. The vulnerable specific categories were long term unemployed and youth. Combat against long term employment and the integration into working life of young people and other persons excluded from the labor market. But CP instruments didn't apply to one of the main root causes of unemployment; ill adopted national labor market institutions.

Moss and Fitcher (2003, pp.57-65) explored how 12 Objective 1 and 2 regions met the challenge on methods of promoting sustainability in the context of their SF programmes with pilot projects between 1997 and 1999. The selected regions were from France, Germany, the UK, Sweden and the Netherlands. These regions varied considerably in terms of their size and structural characteristics. Their structural differences, as well as their very different institutional settings, socio-economic needs and environmental qualities had an important bearing on the paths they preferred to integrate sustainable development principles into their SF programmes and management practices. The five challenges to be addressed in promoting sustainable development were building a shared understanding of sustainable development, developing tools for measuring sustainability, building partnership for sustainability, improving programme management procedures to promote sustainable development and linking EU structural funding to other instruments for sustainable regional development. The regions observed, demonstrated that it was possible to translate the concept of sustainable development into practical applications that were compatible with structural funding procedures, relevant to the needs of specific programme areas and acceptable to programme partnerships. Partnerships created to deliver economic development made substantial progress in adapting to the wider demands of sustainable development. Sustainability was conceived as a learning process towards a new development paradigm which had to be built on existing practices and which had reflected a region's specific needs and circumstances, thus many regions managed to avoid the negative image of sustainability.

The Agenda 2000 stated that the previous six objectives were reduced to three. The aim of Objective 1 was to support regions whose development was lagging behind, Objective 2 aimed at the economic and social conversion of areas facing structural difficulties and Objective 3 took the mission of adaptation and modernization of policies and systems of education, training and employment. The eligible Objective 1 regions were again the ones which had GDP per capita less than 75 percent of Community average. Finnish and Swedish regions with an extremely low population density were eligible Objective 2 regions and Objective 3 regions were remote regions like French overseas departments, the Canary Islands, the Azores and Maderia. Annual expenditure between 2000-2006 on European CP amounted to 40 billion euro. This was

40-41 percent of the total EU budget or 0.35 percent of GDP in the EU, whereas back in the early 1990s annual expenditure was only 14 billion (Nahuis 2001, p.365).

Ziegler (2003, pp.307-308) conveyed us the information that The Second Cohesion Report of 2001 opened the debate on the form and structure of future CP. The Commission had prepared the MS for the idea of change and CP after 2006 changed considerably to the advantage of the new MS and to the disadvantage of the old MS. The results of the negotiations amongst the MS determined to what extent this took place. The concentration of European SF on the neediest regions according to the previous criteria of Objective 1 remained the same but the new Objective 2 programme remained unclear in the new CP. In addition, there was also a lack of concrete statements and perspectives on the employment policy objectives of the European SF, Objective 3, the Community Initiatives with the exception of cross-border cooperation and support for urban problem areas and basic principles of European SF like partnership, programme planning, additional responsibility and efficiency.

Beugelsdijk and Eijffinger (2005, p.50) identified the effect of SF and tested the convergence of the current EU Member Countries for the period 1995-2001. They quoted that SF had had a positive impact and poorer countries like Greece to get closer to the richer countries so, in this respect, the SF were crucial. They also worked on the moral hazard and the substitution effect problems. In some cases, the receivers of SF were illegible; therefore they used the funds inefficiently. Their study indicated that the corrupt countries of the current 15 European Countries didn't gain less economic growth from the SF. Since the hypothesis that SF contributed to fewer interregional disparities within the current 15 European Countries couldn't be rejected, the continuation of the structural policy was to be encouraged. What's more, their study didn't indicate that the more corrupt countries used their SF in a more in efficient way.

The second progress report on economic and social cohesion was presented in 2003 in which the current situation in the EU and the main challenges posed to EU CP by enlargement were analyzed. MS, the EP, the CoR and the ESC gave a response to the proposals of the European Commission. A report by the president of the European Commission was also presented made by a high level group of economic experts whose leader was Belgian economist, Andre Sapir. This report, which is known as Sapir report, wasn't only about CP, it also offered a wider proposal to stimulate the growth of the EU, dealing with issues such as the completion of Internal Market and the Growth and Stability Pact (Stahl and Lluna 2003, p.295).

During this period there was a broad agreement on the need to reform the existing EU CP. There were two approaches for the reform of the CP. The first approach was cohesion approach which stated that there was a need for a CP at EU level, rejecting any renationalization. The CoR shared this approach and stressed that the CP should continue as a community policy. CP was seen as an essential element of solidarity in the EU and an indispensable instrument for achieving cohesion among the regions in the EU. According to this vision, the EU CP should be placed on actions regarding the least developed regions, actions outside the least developed regions and regional cooperation. The second approach was the convergence approach that based on the assumption that the best way to deal with the regional disparities problems was not an action at EU level but, according to the principle of subsidiarity, the devolution of this task to the MS. EU CP had to concentrate on helping the new MS to converge with the EU average, leaving the burden of dealing with regional differences to the level of the national state according to this view. The Sapir Report showed some similarities with this view because it also stated that the EU budget had to be reformed and reoriented. In order to achieve this, the structure of the EU budget had to be composed of three funds which were a growth fund, a convergence fund and a restructuring fund. These two approaches had quite different proposals for EU CP but this policy was a complementary balance of the Single Market and the Economic and Monetary Union. Thus, CP was accepted as an instrument for the deeper integration of the EU, a Union that was not only an economic project but also a social, cultural and political one. The question was finding a consensus for a European model of society based on economic growth, competitiveness and solidarity at the same time (Stahl and Lluna 2003, pp.298-301).

The European Institutions, MS and regional and sectoral interest groups had extensive and open debate on the way to the Third Cohesion Report (TCR). Most of the existing and new MS produced position papers which focused on the budgetary resources to be allocated to EU CP and the preferred models for allocating and implementing the resources. Net contributor countries, the Netherlands, UK, Denmark and Sweden advocated a rationalization or renationalization of spending and en exclusive focus of structural and cohesion Funds on the poorest parts of the EU. They wished the eligibility to be determined on the basis of national disparities in GDP per head. The Netherlands argued that richer countries had to deal with their own regional problems and the UK proposed a similar approach by which the EU had to establish overall policy objectives but the MS, outside Objective 1, had to be responsible for resourcing and implementing policy responses. The federal Germany shared some of the views and wanted the EU RP budget to be reduced. The approach which provided a considerable simplification of regulations and implementation procedure was supported the most among MS and European institutions. Here, the focus was on Objective 1 regions where two-thirds and three quarters of resources were allocated whereas a sizeable share of funding, minimum of 25 percent of resources on Objective 2/3 interventions and interregional, cross-border and transnational support were also allocated. Apart fro these issues, there was another difficulty then, defining the least-developed parts of the EU in order to spend Structural and Cohesion Funds. Most MS considered that Objective 1 areas had to be designated on the basis of GDP per capita but several preferred other criteria to be used also. Finland, for example preferred the low population density and permanent disadvantages criteria and Spain preferred unemployment criteria. Some old and new MS argued for a higher percentage of spending to be allocates to Objective 1 (Bachtler 2003, pp.303-304).

While it was true that the long-standing objective of European RP had been primarily concerned with reducing economic and social disparities, it could also be argued that the SF had contributed to increased territorial cohesion with the EU. The awareness of territorial cohesion issues began to be evident in the 1997-1999 generation of Objective 2 programmes and more generally in the planning process for the 2000-2006 programmes, undertaken at the end of 1990s. There were two types of approach towards territorial cohesion. There was “unintentional” integration of territorial cohesion in EU RP where programmes pursued economic and social priorities that happened to coincide with territorial cohesion objectives on one hand and there was “institutional” integration with a voluntary targeting of aims related to territorial cohesion without a clear concept and apparent understanding of territorial implications. TCR didn’t give a clear-cut definition of what territorial cohesion was or should have been or what level this aim had to be achieved. Since territorial cohesion was an undefined political objective, it was likely to have evident implications for policy design and implementation with respect to the explicit targeting of territorial cohesion through future Structural Fund support. The efficient response to this aim was possible if the concept of territorial cohesion was made transparent in policy documents and if it was clear how this objective could have been operationalized (Polverari and Bachtler 2005, pp.29-40).

When the 2000-2006 area designation frameworks with reference to the formulation and implementation were studied it was seen that the EU's Competition and Cohesion Policies had experienced increasing European influence on the operation of policy in the MS, with differing degrees of compulsion in different policy phases. Under CP, the approach adopted was agreed at the EU level using mainly EU criteria. The lengthy phase-out provisions meant that it was not until 2006 that the population cutbacks impacted on MS. At the policy formulation stage, MS could potentially condition future EU policy impacts through uploading strategies. The SF regulation was jointly negotiated with the Commission in fine detail under the decision made of unanimity (Mendes *et al*. 2006, pp.600-601).

Rivolin (2005, p.104) argued that the institution of a community planning competence was not the necessary objective of a possible European law to apply territorial cohesion. It was the means of conferring institutional recognition of practices of good territorial governance which were experimented but was destined to be great expectations or remembered as good intentions. Unless, the inclusion of territorial cohesion had been a mistake committed by the makers of the European Constitution exceptions and good intentions were no longer sufficient.

Faludi (2007, pp.580-581) indicated that territorial CP was in the need of a visionary element. The visions had to conceive of towns and cities and regions, in deed of the territory of the EU as a whole, as more than places of production. People had to attach themselves to territories and this was possible with the European territories' being able to attract and keep high-quality jobs that Europe depended on. Quality of life issues also played a prominent part in territorial CP.

2004 was to be seen as a turning point for the EU's CP because the adaptation and implementation of 2004-2006 economic and social development programmes for the ten new MS took its place in the agenda and the structure of post-enlargement CP for the 2007-2013 was outlined by the Commission. A new instrument, the European Grouping of Cross-border Co-operation (EGCC) was also proposed this year. Ireland was no longer eligible for support under the Cohesion Fund. Spain, Greece, Italy, Portugal and Germany were the major recipients of Objective 1 funding, even though Germany surpassed Portugal in total commitments. Poland, with € 1.9 billion of commitments under Objective 1, took sixth place. These six MS received approximately 90 per cent of total Objective 1 funding. The major beneficiaries of Objective 2 funding were France, the UK, Germany, Italy and Spain and the major beneficiaries of Objective 3 were Germany, the UK, France, Italy and Spain. The same order was also valid for 2003. Over half of the commitments under the Cohesion Fund went to Spain and Poland totaling € 5,620,718,220 respectively 30 and 25 per cent (Howarth 2005, pp.72-73)

The Fourth Cohesion Report addressed the evaluation of the impact of SF on EU regional economies. The empirical evidence on which the report established its conclusions was obtained from three different macro-economic models. These models demonstrated a significant positive impact of SF, with Cohesion Funds, on the growth of lagging regions and states. This meant that convergence was promoted. In fact, evidence provided by HERMIN, QUEST and EcoMod models based on simulations rather than econometric estimations of the impact so they were unable to show much whether growth convergence actually occurred over a long period of time and whether such a process had been fostered by structural policies. While macro-economic models were designed to fully represent the impact of policies on both the demand and supply sided of the economy and both the short-run and the longer-run impacts but the real interest in growth empirics was only those supply side impacts that produced the permanent effects on growth performances. As a result, a correct evaluation in this respect should be performed over a long enough period of time, more than one programming period and approaches targeting long-term and persistent effects on the supply side of regional economics should be preferred (Esposti 2008, p.15).

The Fourth Cohesion Report also identified regional divergence within many MS as a continuing difficulty. The disparities between the most and least prosperous regions had been widening, for instance in Slovakia, the GDP per head of the capital region jumped from 116 percent of the EU 27 average in 2001 to 148 percent in 2005. But the percentage increased only from 40 percent to 43 percent in the least prosperous region. What's more, while gains from rapid productivity increases were seen in regions such as Landesmann and Romish due to the new MS, it was impossible to talk about a decrease in unemployment. R&D expenditures were high in favored regions like the three Nordic Countries, Southern Germany along with the capital regions of the UK, France, the Czech Republic and Austria, whereas in the southern and eastern periphery of the EU R&D expenditures were low (Begg 2008, p.5).

Begg (2008, pp.4-6) wrote that the focus of structural policy in the Lisbon agenda was different. The 24 integrated guidelines for the Lisbon strategy compromised six with macroeconomic objectives, ten aimed at structural policies and 8 covering employment. The cohesion expression was invisible in the focusing of the Lisbon strategy and didn't appear in the text of the guidelines, re-affirmed by the European Council in March 2008. The priorities here were investments in people, modernization of labor markets, unlocking the business potential, investing in knowledge and innovation and developing energy policy.

EU CP for 2007-2013 aims at thematic and geographic concentration, convergence, regional competitiveness and employment, European territorial cooperation and better governance and industrial capacity. A regional, local or municipality government should be aware of the networks around the nations in which its city or region is involved and should have the ability to position itself for achieving growth and competitive power in order to move forwards in EU CP. The multi-level governmental bodies should establish cooperation, should be able to use policy tools effectively and should attain sustainable development. Decreasing regional inequalities, being more productive and reliable as an institution and being able to use the policy tools to enhance productive spatial units under a theme are crucial issues to be taken into consideration (Erkut 2008, p.4).

3. COHESION POLICY AND IRELAND

The index which is used to give a rank to countries by level of human development was developed in 1990, by a Pakistani economist. This index, which is named as the Human Development Index (HDI), states whether a country is a developed, developing or underdeveloped country. That's to say, HDI basically measures a country's development. As a standard means of measuring human development, according to the United Nations Development Program (UNDP), normalized measures of life expectancy, literacy and GDP per capita for countries worldwide is used by HDI.

When HDI of Ireland, between 1990 and 2008 in Table 3.1 below, is observed in detail, it can be seen that Ireland is a success story. Since 1990, Ireland has been moving upwards in HDI ranking against some small back tracking in several years. The adult literacy rate is close to a hundred percent for eighteen years, what is more, life expectancy at birth has been increasing steadily from 74 years to 78.4 years. Lastly GDP per capita has increased from $ 8.566 to $ 38.505 in eighteen years. All these improvements, especially the gigantic increase in GDP per capita is no way by chance. This is the success of Republic of Ireland in organizing and implementing many different projects and policies in accordance with the domestic and international structures like, especially the EU and its Cohesion or Regional Policy.

Table 3.1 : Human development index of Ireland between 1990-2008

Year	HDI Rank	Human development index	Life expectancy at birth (years)	Adult literacy rate (%)	Real GDP per capita (PPP $)
1990	14	0.961	74	99	8.566
1991	23	0.945	74.6	99	7.020
1992	22	0.921	74.6	99	7.481
1993	21	0.925	74.6	99	10.589
1994	21	0.892	75	99	11.430
1995	19	0.915	75.3	99	12.830
1996	19	0.919	75.4	99	15.120
1997	17	0.929	76.3	99	16.061
1998	17	0.930	76.4	99	17.590
1999	20	0.900	76.3	99	20.710
2000	18	0.907	76.6	99	21.482
2001	18	0.916	76.4	.. [1]	25.918
2002	18	0.925	76.6	.. [1]	29.866
2003	12	0.930	76.7	.. [1]	32.410

Year	HDI Rank	Human development index	Life expectancy at birth (years)	Adult literacy rate (%)	Real GDP per capita (PPP $)
2004	10	0.936	76.9	.. [1]	36.360
2005	8	0.946	77.7	.. [1]	37.738
2006	4	0.956	77.9	.. [1]	38.827
2007/2008	5	0.959	78.4	.. [1]	38.505

[1] For purposes of calculating the HDI a value of 99.0% was applied.

Source: http://hdr.undp.org/en/statistics/

This chapter aims at finding out the role of CP in the development process of Ireland. In order to test Ireland's success it is crucial to know the situation in that country before and after the EU membership so first section is on this issue. CP is not only an economical distribution action; it also involves some administrative changes as well. So, a section to find out the Irish administrative changes takes place in this chapter. Last two sections of this chapter try to identify the contribution of SEM, FDI and SF to Ireland's success story.

3.1 IRELAND BEFORE THE ACCESSION IN 1973 AND THE EARLY YEARS OF ACCESSION

The change in national economic policy taken in 1958 motivated Ireland for the European Community membership. There were protective barriers which became apparent during the economic crises of the 1950s, because of these, attempts for industrialization failed. The remedy for that illness was an outward oriented policy focusing on export-led growth through the development of manufacturing and the enticement of foreign-owned multi-national companies into Ireland. Ireland needed to accept the challenge of free trade and gain access to European markets. Subsequently, policy emphasis changed, reflecting a keener interest in new technologies and product innovation. Irish governments began to place a renewed emphasis on the development of the indigenous sector and the development and promotion of small and medium sized enterprises. Meanwhile, Ireland tried to create an export-led growth that carried them to the international economy. Ireland’s decision to join the EC presented a critical condition in terms of institutional development (Adshead 2005, p.170).

In the 1950s, much of Western Europe was experiencing remarkable economic growth but Ireland was suffering from an unstable agricultural economy, high emigration, declining wages and high unemployment. The Irish State had a protectionist economic policy and unequal economic relationship with neighboring Great Britain so the Republic wasn’t able to fix its economic deficiencies. In response, the dominant force at that time connected Ireland’s national interests with those of the EEC. Their argument was that Ireland’s economic situation remained static behind a tariff wall so there was a need for improvement by means of the EEC to rebuild its economy and control its own economic destiny. The opposition to membership in the EEC relied heavily on appeals to cultural nationalism and more pure and inflexible understanding of sovereignty and this early opposition to Irish membership in the EEC occupied a marginalized public space by the burden of mass appeal. This Irish opposition to European integration was a marginal force within Irish politics. Pro-Europeans described Ireland’s European future in laudatory and forward-thinking terms, promising full employment, economic growth and unheralded prosperity, whereas, anti-Europeans had a traditionalist argument involving economic dislocation, loss of political freedom and sovereignty and the repudiation of Ireland’s heritage. Early opposition to European integration had an unorganized character. Before 1969, EEC opponents had no focused point of origin or titular body to organize and spread their message; they only worked in an individual nature. As a result of this deficiency, their effectiveness in distributing their ideas and arguments weakened. During the 1960s, there were also high levels of ambivalence towards the EEC issue and Europe in general. In addition to that, the general broad support for EEC membership held a considerable place on the public debate and gave opposition arguments a less political space. Later on, the 1972 referendum campaign led to specific anti-EEC pressure groups being squeezed for space in the debate. Irish poll on the EEC in 1961 indicated that more than 75 percent of polled approved of Irish membership in the EEC which showed that the political environment was against the opponents of European integration. The conflicted responses to Ireland’s rapid modernization in the 1960s were also reflected as anti-EEC arguments because of their disruptive effects on traditional Ireland. According to these anti-EEC arguments related to rapid modernization, the EEC represented a political tradition wholly at odds with the European revolutionary tradition with which Ireland had more affinity, namely a tradition of the common people fro the common good. The EEC was seen as the next attempt at a German-dominated European empire, where German mark and German monopolies had power on the executive bureaucracy on whom there was no final control. The colonial experience of Ireland also affected the EEC membership in a negative way. EEC was a new domineering and colonial entity seeking to replace Britain as Ireland's political and economic master. Ireland needed to rejoin the struggle for social justice and equality throughout the world. Even though, such arguments were discussed over the years, Ireland became a member of the EEC in 1973 (Devenney 2008, pp.15-23).

On accession, Ireland had a large agricultural sector but a small and poorly developed manufacturing and services sector. Over 80 percent of exports were towards British market which meant heavy dependence on trade with Britain so Ireland joined the European Community along with its major trading partner. If Ireland had chosen not to join, the future trade with Britain would have been subject to the imposition of the EC's common external tariff. Prior to 1973, Britain and Ireland shared a Free Trade Area which meant Anglo-Irish commercial transactions were subject to duty-free status. Ireland joined the EU with disparities in regional development and with low levels of economic development. Inflation and high unemployment levels were visible and there was high emigration. The national per capita in the country was below the average for the EU as a whole because regional disparities in both income and output levels were being experienced. This gap between the national level and the EU, together with the regional disparities provided the basis for eligibility under the SF, the EU's principle instrument for regional distribution (Farrell 2004, p.928).

The quality of government decisions and strategies considerably increased by the experience of participation in the EU decision-making which also had a positive effect on the political system. What's more, the accession proved a strong impetus towards the improvement of a more clear-cut strategic direction across the policy spectrum, including economic and social affairs. Public policy was shaped by the shifting priorities of the EU by taking the national priorities and strategies for development into consideration. The 1980s was a decade of severe economic and political crisis so the government wasn’t able to find solutions to the unemployment, low growth and persistent emigration problems. The economy was characterized by a mix of indigenous industry and a growing presence of foreign-owned firms. There were significant differences between the two economic groups. Small firms in traditional manufacturing and service activities oriented towards domestic markets with low technological intensity dominated indigenous industry. And on the contrary, the foreign- owned sector was characterized by multinational in the high-tech sector, notably pharmaceuticals and informatics-technology oriented to the export market (Farrell 2004, p.933).

Mcaleese and Matthews (1987, pp. 41-46) analyzed the economic consequences of EC membership around market access, safeguards, transfers and economic sovereignty. Three major sectors, agriculture, domestic industry and foreign investment had a different relevance with the access theme. EC membership was the key to break out of dependence on the low-price UK market. The expected benefits of high guaranteed farm prices were a plus near the advantages of improved market access. Things were less certain with domestic industry. The increased competition was an issue to be faced with by Irish manufacturers against EC and European Free Trade Association (EFTA) markets accession. The attractiveness of Ireland as a location for foreign investment was the major industrial benefit to be expected. After EC accession, a considerable diversification of export markets from UK towards the rest of the EC took place. This reorientation of trade was brought about by the inflow of foreign, particularly American investment. Some safeguards were placed in the accession negotiations by the authorities because of the realization of the weak position of indigenous Irish industry, although EC membership played a positive role in export opportunities. Special treatment was negotiated for sensitive motor industry and the availability of the anti-dumping provisions and competition rules of the Rome Treaty as a protection against dumped imports from MS and third countries was also stressed. More importantly, industrial incentives package including the schemes of export profits tax relief and capital grants took place. But, it was doubtful if any of these safeguards had much long-run impact. Third main theme, in the debate was transfers. In 1985, net budgetary transfers from the Community to Ireland amounted to 6.5 percent of GNP. Net Community transfers and loans equaled in that year. The role of the CAP was important in this context. The combined budgetary and trade benefits from the CAP increased but, while the Regional Fund was a useful source of transfers, its size increased slowly and it was a disappointment to those who saw it developing into a major catalyst of change. Ireland did well unusually in terms of its allocation from the ESF. Lastly, the economic sovereignty was the most diffuse of the themes identified. There was a fear that membership would have constrained the Irish government's ability to take the economic decisions it might have wished to take, in its own national interest. But the Community was sensitive to the concern of its weaker partners and membership strengthened sovereignty in so far as it provided Ireland with a voice in the shaping of its external environment and in influencing policy in a way which took account of its interests. To summarize, the economic effects of membership worked as expected. The wrong things with the Irish economy resulted from the fault of domestic policy and developments in the world economy rather than integration in the Community.

O'Leary (1997, pp.44-45) stated that the homogeneity of GDP per capita average among the original six member countries wasn't violated by the entry of three new countries namely Ireland, the UK and Denmark in 1973. The UK and Denmark had income levels close to the overall average and while Ireland's income level was only three-fifth of the EU average, its population was a tiny fraction of the total. The accession of Greece in 1981 and Portugal and Spain in 1986 added to the degree of income dispersion among EU members. Table 3.2 shows a comparison of the relative GDP per capita in these four EU countries. Between 1960 and 1973, Ireland was the only country that failed to demonstrate convergence on the average. But between 1973 and 1985 Ireland was the only country that exhibited convergence, following that from 1985 to 1990 Ireland was demonstrating convergence with the EU average again. So, Ireland became a country that was converging slowly than the other relatively poor EU countries.

Table 3.2 : Relative GDP per capita in poorer EU countries 1960-1990

	1960	1973	1985	1990
Ireland	61	59	65	69
Spain	60	79	73	78
Greece	39	57	57	53

	1960	1973	1985	1990
Portugal	39	56	52	56

Source : Adopted from O'Leary (1997, p.45)

Based on GDP per worker, Ireland seemed to have made significant progress. But there were some doubts about this progress; it was suggested that Irish GDP was artificially inflated to a significant degree by transferring on the part of multinationals. Instead of using GDP, GNP was a preferable measure because it was a better means of income measure. According to this adjustment, there was no evidence that the living standards converged over the 30 year period. One measure or the other, Ireland's convergence performance was clearly more impressive for aggregate labor productivity than for living standards. This was due to two reasons. To start with, the percentage of the population at work in Ireland was relatively small due to the unique demographic structure of the country and then, the Irish economy was unsuccessful in translating productivity gains into increased employment (O'Leary 1997, p.45).

Smith and Hay (2008, pp.374-376) presented in their article, which was based on the results of an attitudinal survey whose target was parliamentarians and civil servants from Ireland, that European integration was a net positive rather than a negative process. Predictably, the process being considered as positive was the idea of Irish policy makers in great proportion. In 88.3 percent, it was agreed or strongly agreed that the benefits of European integration outweighed the costs for the country. The impacts of European integration on Irish economic prosperity, employment, quality of life and international profile were all considered positive. Ireland policy makers were also more likely that the firms of the country benefited from the European integration. European integration wasn't seen as a threat to social justice in their country, nor a threat to democracy, national identity and nor to national security. Whereas, European integration was regarded as a threat to the domestic policy makers' autonomy, as Table 3.3 shows. Irish respondents defined European integration as a source of convergence in labor market policy, monetary policy, immigration policy and corporate taxation. These suggested that European integration might have been seen as a more external pressure on policy.

Table 3.3 : European integration undermines the autonomy of Ireland's policy makers

	Strongly agree %	Agree %	Neither %	Disagree %	Strongly disagree %
Irish civil servants	11.3	52.8	10.4	22.2	3.3
Irish parliamentarians	10.9	45.3	17.2	17.2	7.8
Fianna Fail	16.7	33.3	16.7	25.0	8.3
Fine Gael	6.7	53.3	6.7	26.7	6.7
Labor	0.0	27.3	45.5	9.1	18.2

Source: Adapted from Smith and Hay (2008, p.376)

3.2 CHANGES OF PATTERNS OF GOVERNANCE IN IRELAND

Adshead (2005, pp.163-173) evaluated the impact of Europeanization on the institutional changes under four headings. The first one was formal institutional structures. The formal governmental structures remained largely unchanged with Ireland's membership of the EU. EU business was grafted onto the pre-existing pattern of public policy making in Ireland through a process that could be called as internalization. This term referred to the Irish system of European administration where the majority of EU associated business was carried out by the relevant national departments in any given policy area. The Departments of Foreign Affairs, Department of Finance and Head of Government Office had the responsibility for the coordination of policy across different areas. It was maybe related to the territorial administration of Ireland that the EU contributed to significant institutional change in relation to the imposition of a highly contested regional tier of government. Irish state had two tiers of government, one of them was central and the other was local. Public life was dominated by the central government and local government was extremely weak. Since the reform of the EC's SF in 1988, the availability of the EU aid contributed to the strong centralized character of the Irish state. Ireland's classification as a single region by the EU postponed the development of political, representative and administrative structures for regional development. Despite the lack of any significant re-organization of sub-national government, the need to develop policy delivery mechanisms over time led to the creation of several types of organization operating at sub-national level. Later on, a complex web of regional bodies, boards and authorities came into agenda. The direct and indirect responsibilities of these bodies prevented the emergence of agreed regional boundaries not only for regional development initiatives but also for regional government. To finish with, in relation to the impact of Europeanization over processes of regionalization, the national government of Ireland was determined to resist unwanted domestic outcomes from developments at EU level.

Secondly, when the impact of Europeanization on processes and procedures was practiced, the shifts upon the Irish state and the civil servants were considerable. Opportunities for foreign travel and interchange with other public servants in continental Europe provided a significant organizational and cultural shift as a result, Irish civil service changed to a much modern and outward-looking organization. EU business permeated the work of almost all line departments, the Department of Enterprise, Trade and Employment; Agriculture, Food and Rural Development and Justice, Equality and Law Reform had key EU responsibilities. All ministries were responsible for those areas of EU policy that fell their remit, while the economic division of the Department of Foreign Affairs kept a watching brief over the flow of proposals through the EU Council system in all policy areas and directed the flow of information to and from the permanent representation. The European Communities Committee which predated EU membership was the main institutional device for formulating national positions and resolving inter-departmental conflict. The structure of the Irish administrative system remained broadly the same apart from the shift of responsibilities from the Department of Foreign Affairs to the Office of the Government (Adshead 2005, pp.163-173).

Thirdly, codes and guidelines were affected by the Europeanization. The developments in the Irish economy were the primary catalyst for changes to the conventions of public policy-making in Ireland. Firstly, the EU changed the policy emphasis which represented a move from protectionist and insular approaches to economic management. Then, the EU influence promoted changes to the customs and practice of economic management. Together the changes were so profound that they had significant political implications for Irish governance, paving the way for the institutionalization of Ireland's system of government by partnership. From 1988, the National Development

Plans combining EU SF assistance with national exchequer funds and outlining the strategic integration of a variety of policy initiatives including private, public and voluntary institutions were important key stones in the organization of public administration and governance in Ireland. The institutional mosaic at ground level remained complex but the design and direction of their activities began to change. A change in the governing style was seen due to the renewed emphasis on negotiation, partnership and subsidiarity in the organization of public policy. The Irish system of government by partnership was not a direct consequence of European integration but was nationally conceived and developed. Ireland was able to develop its form of economic management by the back-drop and context of European integration but it didn't introduce a partnership government (Adshead 2005, pp.163-173).

Lastly, the impact of Europeanization upon the cultural dimension was crucial. Irish conservatism was challenged by Europeanization. Many traditional attitudes, for example women and work, were challenged as a consequence of the immediate applicability of EU law. EU membership and economic development brought opportunities for wider travel and continental influence, thus insularity of the state and its people decreased. EU law laid down new codes and guidelines relating to sex discrimination, but the experiences gained by closer connection with continental European and modernizing influences were the basis for a broader cultural shift in attitudes and lifestyles (Adshead 2005, pp.163-173).

Laffan and O'Mahony (2007, pp.178-179) stated that committees at different levels in the hierarchy played a central role in the inter-ministerial or horizontal coordination of EU affairs in the MS. The devices for formal horizontal co-ordination were represented by them. The institutional fluidity and malleability was the key characteristic of the Irish Committee system, till 2001. A chronology of the different committee devices can be seen in Table 3.4. In the Irish system, the cabinet was the centre of political decision making, which processed EU issues according to the same standard operating procedures and rules that governed the processing of domestic issues. The sub-structure of the Irish Cabinet had been strengthened by the establishment of a series of Cabinet sub-committees, including an EU Committee even though it was under-institutionalized by continental standards. The key ministers holding an EU brief, ministerial advisors and senior civil servants attended this committee.

3.4 : European Union committees in the Irish system

Period	Committee	Chair
Pre-Accession	European Communities Committee	Department of Finance
1973-84	European Communities Committee	Department of Foreign Affairs
1985-87	No meetings of the committee	
1987-90	European Communities Committee	Minister of State
1988-90	Ministers and Secretaries Group	Government Head Office
1989-90	Ministerial Group on the Presidency	Government Head Office
1992-94	European Communities Committee	Minister of State
1994-97	European Communities Committee	Minister of State
1994-99	Ministers and Secretaries Group	Government Head Office
1994-98	Senior Officials Group	Government Head Office
1998-99	Expert Technical Group	Government Head Office
1998-	Cabinet Sub-committee	Government Head Office
1998-2002	Senior Officials Group	Government Head Office
2002-2004	Interdepartmental Coordinating Committee on European Union Affairs	Minister of State
2004-	Interdepartmental Coordinating Committee on European Union Affairs	Minister of State

Source: Laffan and O'Mahony (2007, p.179)

The Irish approach to the management of EU businesses was gradual and incremental. In 1973, structures and processes were managed by the Department of Foreign Affairs. This system included strong departmental autonomy, weak processes of inter-departmental coordination and a weakly institutionalized committee system. The Irish officials responsible for managing the EU-domestic interface were in small number and had a pragmatic, cohesive and collegial style of doing business. The number of staff of Department of Foreign Affairs over the years can be seen in Table 3.5 (Laffan and O'Mahony 2007, p.185).

Table 3.5 : Department of Foreign Affairs staffing

Year	Total number in DFA	Total number in economic/EU division
1967	40	6
1971	51	11
1974	87	31
1979	114	27
1982	130	30

Year	Total number in DFA	Total number in economic/EU division
1986	136	29
1988	125	24
1992	123	15
1995	126	19
2000	175	19

Source: Laffan and O'Mahony (2007, p.176)

These characteristics remained unchanged until the resurgence of EU integration in the late 1980s with the enhancement of Department of Head of Government's coordination role. But, Nice Treaty which was rejected by the electorates was the first considerable shock encountered by the Irish political and administrative system and led to significant systematic change. The critical juncture created by the Nice brought increased formalization of the structures and processes that were in place in order to manage EU business. Until Nice I, Irish ministers and civil servants were able to engage with the EU system in the context of a broad domestic consensus and within an enabling political environment. Europe was not a contentious issue. The Irish government and politicians generally miscalculated and took this positive support for granted in the first Nice referendum. The rejection to Nice, showed the weakness of EU knowledge among the Irish people, a degree of disinterest given the low level of turn-out and the emergence of information gap between the government and Irish people. There were a variety of views about the EU in political parties, the Cabinet and the wider civil society in place of consensus, after Nice. Additionally, the core executive management of EU business saw that the system needed to re-engage with the EU. So, a national Forum on Europe was established. This included representatives from political parties, interest groups, non-governmental organizations and individual citizens. The Forum travelled throughout the country conducting public meetings and debates on EU issues, helped to highlight the issues at stake among the people in advance of the second Nice referendum and contributed to the positive vote in Nice II. The core executive also re-engaged with Europe, with the formalization of EU coordination processes and the improvement of parliamentary-executive relations. Thus, the Irish core executive was on top, showing itself to be successful in positioning Ireland in the EU system and responding to domestic challenges (Laffan and O'Mahony 2007, p.186).

Even the Irish economy was greatly open, performance was in need of an interaction between the international economic forces, the structural characteristics of the Irish economy and society and domestic and EU policy. This interaction was described as central to a balanced assessment of Community membership and this interaction between international and indigenous factors was also identified relevant in explaining Ireland's long-run development. At an international level, according to interactive vision, the effect of global economic factors was contingent on the indigenous economic, social and political structures and policies. All countries required effective policies across a wide range, in Ireland's position it was possible to structure this idea in a way which simplified the problem and highlighted the most important issues. The need for policies which achieved structural adjustment and promoted economic and business development and the identification of the procedures and institutions which were most effective in policy-making and implementation was the issue. The main policy requirements were formulated by the National Economic and Social Council (NESC). In its report, NESC presented the requirement for a consistent framework in small, open, European democracies. Such a consistent policy framework had three elements. First the economy had to have a macro-economic policy approach which guaranteed low inflation and a steady growth of aggregate demand. Second strand had to be the evolution of incomes which ensured continued improvement in competitiveness and an income determination system which handled distributional conflicts in a way which didn't disrupt the functioning of the economy. Third, especially in open economies there had to be a set of complementary policies which facilitated and promoted structural adjustment in order improve competitiveness (O'Donnell 1997, pp.547-549).

The small, open economy Ireland was in need of a consistent set of macro-economic, distributional and structural policies. Ireland had made significant progress towards achieving the macro-economic and the distributional elements. The sheet anchor of the macro-economic approach and national agreements on pay, taxation, social welfare and social provision and determined distribution was provided by the membership of the European Monetary System (EMS). As a result of this combination, low and predictable inflation and steadily increasing international competitiveness were realized, but in a difficult way. Many years passed for Ireland to converge to German inflation and interest rates and Ireland's adherence to the EMS narrow-band was occasionally threatened by devaluation of sterling. The whole European Exchange Rate Mechanism (ERM) was loosened in 1993, when exchange rate speculation undermined the narrow-band parties. Because of the widening of the ERM narrow-band, Ireland was argued to continue to adopt a credible, non-accommodating, exchange rate policy. This was a continuation of the same fundamental exchange rate and macro-economic strategy in new circumstances. With that strategy and the combined social partnership agreements covering pay and other policies, Ireland experienced improvements in economic management and performance. Consensus on this long-run strategy took the exchange rate and therefore inflation, outside the party political competition and industrial relations conflicts. Ireland couldn't manage to improve policies for development and structural adjustment so NESC made the structural reforms in tax reform, social welfare, housing, health, education, the management of public enterprises, industrial policy, structural policy in agriculture and special measures to reduce long-term unemployment. There were considerable uncertainties in industrial policy, education policy and measures to reduce long-term unemployment. Actually, industrial policy encompassed all supply-side policies which aimed to enhance competitiveness. Management of enterprises was crucial in the policy-making and implementation in these areas. Later on, it was seen that particular procedures and institutions, and particular relationships between the state and private interests including companies were the necessities of an effective public policy in these areas (O'Donnell 1997, pp.547-549).

3.3 THE EFFECTS OF SINGLE EUROPEAN MARKET AND IMPACT OF FOREIGN DIRECT INVESTMENT

Barry *et* al (2001, pp.539-541) explained us that the processes underlying the development of the small open economies of the EU periphery might have been different from those underlying the development of the core EU economies. The effects of trade liberalization might have varied in peripheral and core economies. If trade liberalization had led to the countries losing their increasing-returns or R&D-intensive sectors, it couldn't have been guaranteed to be beneficial to the periphery. Single market converted non-tradable to tradable and the industries of some countries became successful and some became unsuccessful in newly tradable sectors. In Ireland conditions, some sectors did well but some didn't, in addition, some sectors were strongly affected by the SEM and some were less. By 1987, Ireland was doing well and strongly represented in favored than in threatened sectors which weren't doing well. The former one, favored had 62,000 jobs and the latter one, threatened had 23,000 only, what's more, Ireland was the only one of the four EU cohesion countries for which this finding emerged. This finding was true for indigenous industry with 27,000 jobs in favored sectors compared to 14,000 in threatened industries as well as for the foreign-owned segment of manufacturing. Between 1987 and 1996, favored sectors provided positive employment growth and, on the contrary employment of threatened sectors decreased. There was an expansion in the favored sectors and decrease in the threatened ones as far as indigenous and foreign industries were considered. Favored sectors were in foreign owned firms in office and data processing equipment, telecommunications, pharmaceuticals and medical and surgical equipment as seen in Table 3.6 and the big losses in the threatened sectors were in clothing, in both indigenous and foreign firms. This sector had been highly protected by country-specific quotas of the Multi-fiber Agreement and was subject to a strong threat from the SEM. While, it was possible to conclude that indigenous industry suffered from the SEM and SEM accounted for almost all the increase in foreign manufacturing in Ireland; it would be wrong to conclude that way. Because, these sectoral effects came on top of the expansionary effects of the increase in EU GDP, secondly, the decline seen in both indigenous and foreign employment, in clothing sector was seen a continuation of the long-term trend for the clothing sector and lastly, Ireland's success in quadrupling its share of the US investment in the EU, which developed the single market, couldn't be ascribed to this alone. The real conclusion was the industrial restructuring that the single market brought was of net profit to the Irish economy.

Table 3.6 : Performance of favored sectors i.e. those Irish sectors deemed likely to be affected positively by the single market

	NACE[1]	Sector	Employment Growth between 1987 and 1996 Indigenous Companies	Foreign Companies
F1[2]	330	Office and DP machinery	587	5530
	344	Telecommunications equipment	679	5508
	341	Insulated wires and cables	–540	28
	421	Cocoa, chocolate	74	209
	372	Medical and surgical equipment	380	2578
F2[3]	251	Basic industrial chemicals	–118	–294
	257	Pharmaceuticals	571	4519
	345	Radios, TVs etc.	3	1329
	346	Domestic electrical appliances	438	–512
	351	Motor vehicles	–119	–28
	428	Soft drinks	77	–145
	325	Plant for mines, steel	10	194
	364	Aerospace equipment	235	396
	413	Dairy products	–1851	–171
	427	Brewing, malting	15	–1400
	247	Glass and glassware	–637	–13
	322	Machine tools	377	–9
	323	Textile machinery	–17	0
	324	Food, chemicals, machinery	197	–130
	326	Transmission equipment	1	17
	327	Other machinery	96	–32
	432	Cotton industry	–42	–693
	481	Rubber products	66	–155
	491	Jewellery	–293	115
	494	Toys and sports goods	–23	326
		Total employment change in favored sectors	166	17423
		of which F1	1180	14109
		F2	–1014	331

Initial Employment: 27231 (indigenous), 34621 (foreign), 61852 (total)

Source: Barry et al. (2001, p.541)

In the 1980s, flows relative to GDP into Ireland were below the EU level and since 1992, as the table 3.7 shows, these flows accelerated equivalent to twice the rate for the EU overall. Since the completion of the SEM, Ireland became a relatively more attractive base for extra-EU FDI. This investment was mirrored in the extent of manufacturing employment accounted for by multinational firms. Since 1973,

[1] NACE Nomenclature générale des Activitiés économiques dans les Communantés Européenes.
[2] F1 Favored Sectors, strongly affected by the Single Market.
[3] F2 Favored Sectors, less strongly affected by the Single Market.

employment in multinational firms had risen from 33 percent of total employment to 48 percent in 1998 (Görg and Ruane 2002, p.408).

Table 3.7 : FDI inflows as percentage of gross domestic product annual average rates

	1985-91 %	1992-94 %	1995-96 %
Ireland	0.9	2.2	2.8
EU	1.1	1.1	1.2

Source: Görg and Ruane (2000, p.408)

US investment didn't increase significantly in any of the peripheral countries, namely Greece, Portugal and Spain since 1992. Spain attracted a higher share of US manufacturing investment than Greece or Ireland did, before its entry into the European Community in 1986. The large size of Spain which provided reasonable domestic demand for the products of the multinational company might have been a reason for this. Any development either following EU membership or in the aftermath of European integration wasn't seen in Greece and Portugal as US investment share was taken into consideration. These countries couldn't also increase substantially their share of US investment in the electronics sector particularly so there were other forces to explain the relative attractiveness of Ireland compared to other EU countries for US investment. While, economic integration was one of a number of necessary conditions for a peripheral country to be able to attract foreign investment, it wasn't itself a sufficient condition (Görg and Ruane 2002, pp.415-418).

There were some differences between Ireland and the other three peripheral countries. To start with, the usage of English language, in Ireland gave an advantage over other non-English-speaking peripheral countries in attracting investment from the US. Transaction costs were reduced by the use of a common language not only for multinationals from other English-speaking countries but also for Multinational Companies (MNC) since English was the language used in the transaction of international businesses. What's more, Ireland and the US shared a similar culture, which made Ireland a more familiar environment for US investors than other continental European countries. The advantage of being English-speaking and sharing a common culture wasn't confined to the production of weightless goods and wasn't enough to explain Ireland's apparent particular attractiveness for US MNCs in the electronics industry. The important impact of Irish industrial policy and the emergence of industrial agglomerations in the electronics sector in Ireland were the two aspects to explain this attractiveness. Agglomerations in Ireland formed in electronics and pharmaceuticals because; Irish policy played a major role in creating the agglomerations in these two sectors. Secondly, firms in sectors with high transport costs found it more profitable in a core country because of the high transportation costs in other manufacturing sectors acted as an impediment to their successful agglomeration in the periphery. Lastly, Ireland was an attractive location for electronics and pharmaceuticals in the 1980s and was able to attract some of the key players which allowed it to capitalize on their presence. Ireland developed its agglomerations and demonstration effects when a key player decided to make an investment in another EU country (Görg and Ruane 2002, pp.415-418).

Garcimartin *et al* (2008, p.427) presented a demand-side-oriented approach to account for Irish growth in the 1960-2000 period because it was based on the balance-of-payment constrained growth theory. Irish economy had been balance-of-payments constrained rather than resource constrained to account for growth, there was a need for the measurement of the contribution of demand variables, rather than supply variables to the expansion of output. Relative prices didn't in fact play an important role in growth, mainly because price elasticity was either very low or non-significant. The sequence of causality in the Irish economy went from tax policy to income growth through FDI and exports. Tax reductions, particularly with regard to corporation tax were the primary single factor behind the Irish miracle. Due to such reductions, Ireland managed to attract considerable foreign investment which increased the export capacity of the country in turn. Over 1.200 multinationals were currently operating in the country, accounting for about 69 percent of output, 45 percent of employment, and 88 percent of industrial exports. Ireland attracted FDI by tax incentives and financial subsidies and established Ireland Development Agency (IDA) and Enterprise Ireland (EI) to promote FDI. The first tax incentive was a corporation tax rate of 10 percent which was below that of most EU countries. Ireland developed a subsidy policy implemented by the IDA. Subsidies were aimed at export-oriented industrial projects and in recent years, at projects, focused on industries with particular potential for market growth.

Prasad (1987, pp.201-202) reported the findings of a research project in which foreign investors were asked about their motives for investing in Ireland in his article. This research based on data obtained from a survey of 50 US and 50 non-US firms. A questionnaire was sent requesting information on company plans for the future for the period 1985-1989. Sixty-nine of the firms provided information and two of them were incomplete so they weren't used. The findings of the survey conducted in 1984-1985 were around two questions only. One of them was about the perceptions of respondent firms about their experience with the Irish workforce and the second one was the intended strategy of respondent firms whether to expand or curtail in Ireland. As seen in Table 3.8, a substantial majority of the participating firms were established in Ireland after 1960 or during the past 25 years in which the IDA played an important role in inducing inward foreign investment in Ireland.

Table 3.8 : Participating foreign firms and the year of their operation in Ireland

Year	Number of Foreign Firms
1929-1959	9
1960-1964	7
1965-1969	8
1970-1974	15
1975-1979	17
1980-1984	11

Source: Prasad (1987, p.202)

The experience of the firms that had an Irish workforce for more than five years is presented in Table 3.9. The firms expressed their satisfaction with the Irish workforce or considered their experience over the years had been good, made the following comments. The workforce was very workmanlike, reliable, loyal, willing to learn, had excellent skills and was well educated. Those who stated that they had bad experience stated that the workforce was lack of experience with modern industry, required longer training, required high degree of management, was clamish and unreliable. Based upon a simple framework, the data obtained from sixty-seven foreign firms operating during

1984-1985 revealed that about half of them were likely to continue their presence in the Irish Republic (Prasad 1987, p.202).

Table 3.9 : Experience of foreign firms operating in Ireland in relation to the workforce

Experience	Number of Firms
Considered Good	32
Considered Average	26
Considered Bad	9
Total	67

Source : Prasad (1987, p.202)

Organizational transformation had had a significant impact on the Irish case; three factors were the key drivers behind the economic boom of the 1990s. These were the people, the government and Europe. Ireland suffered from high unemployment rates in the 1980s so the country had an abundance of relatively cheap labor. This coincided with the maturation of the education policies put in place in the 1960s, that left Ireland with a young and well-educated cheap labor force. The key incentive for MNC to locate in Ireland was the high-skilled low cost characteristic of the Irish workforce. A comparative advantage in terms of its labor force had been realized by Ireland with an average hourly wage compensation of $ 10 per hour in 1994. Ireland also became a competitive location for inward investment. This competitiveness could be traced back to wage agreements achieved under the program for National Recovery in 1987. Some national agreements followed this in which workers agreed lower wage increases in return for tax cuts that provided a significant increase in take-home pay. This was beneficial for both the employers and the workers. Some 65 percent of the population aged between five and twenty-nine were enrolled in various levels of education while the number of students in the third level education had quadrupled since 1970. Third level courses related to engineering and technology had risen by 36 percent in the ten years up to 2000 and the subject areas were more tailored to the type of sectors that Irish industrial agencies had targeted. Ireland dedicated the largest percentage of public monies to education compared to its EU neighbors in the last two years of the 1990s and gave importance on tertiary education which accounted for 4 percent of expenditure.

Because of heavy state investment along with sturdy wage restraint Ireland began to benefit from its advantage in a competitively priced well-educated English-speaking workforce. It wasn't only the education policies that the government had influence in attracting FDI. By the help of industrial development agencies with an industrial policy that had some targets, the state was instrumental in creating an attractive space for foreign investment. The national state agencies were central in the attraction of FDI. The place of Ireland in Europe also served the creation of Ireland as a destination for foreign investment, particularly US investment. In 1990s, by the help of SF of the EU, the transport and communications infrastructure of Ireland was developed. By the mid 1990s over 75 percent of users were connected to digital exchanges and a direct fiber-optic link to the US was established. Roads, ports and airports were redesigned for the demand of export-oriented manufacturers (Collins 2007, pp.69-71).

According to O'Malley and O'Gorman (2001, pp.303-304) most of the growth of industry in the Republic of Ireland had been a result of investment by export-oriented foreign-owned transnational corporations TNCs. In 1996, foreign-owned firms accounted for 47 percent of manufacturing employment, 66 percent of manufacturing output and 84 percent of manufacturing exports. The motivation for such FDI in Ireland had been attributed to some factors such low corporation tax as well as grant incentives, access to large European markets together with competitive labor costs by most Western European standards, an English-speaking labor force and the availability of skills required by rapidly growing high-technology industries. Since 1970s, FDI growth had occurred particularly in the high-technology sectors such as machinery and computers, pharmaceuticals and instrument engineering. Relatively high growth rates among Irish-owned or indigenous firms in the same sectors also took place by the growth of FDI. Indigenous growth was from a very small base, so indigenous firms played only minor roles in the development of these sectors. By 1996, Irish indigenous companies accounted for less than 20 percent employment and less than 10 percent of output in each of the three sectors, office machinery and computers, pharmaceuticals and instrument engineering. Since the mid 1980s, Ireland experienced a wave of FDI in the software industry. Ireland became a major European center for software production and the world's second largest exporter of software products following the US. These achievements were the result of the scale of FDI in highly export-oriented production by many of the world's largest software companies.

The major contribution to industrial growth in the 1960s and 1970s was made by the export-oriented foreign-owned firms in Ireland. The employment rate which was at top in foreign-owned manufacturing in 1980 declined over the period 1980-1987. Issues such as limited purchasing linkages and withdrawals of profits from the country led to the conclusion that the dependence on foreign-owned firms wasn't an adequate strategy for industrial development. In the 1960s and 1970s, native Irish-owned or indigenous industry didn't benefit from the industrial growth, couldn't develop exports and was losing domestic market share to competing imports due to the protectionist measures. So, between the mid-1960s and the end of the 1970s, indigenous industry didn't present an employment growth. As time went by, as a consequence of continuing heavy independence on domestic market, a continuing rise in competing imports and a much weaker trend in domestic trend, its employment fell sharply by 22 percent in the period 1980-1988. Under the free trade conditions, until the mid-1980s, indigenous industry had a competitive record. Official policy documents began to focus explicitly on the development of Irish indigenous industry without neglecting foreign-owned industry during the 1980s. Policy on indigenous industry was determined to be more selective, in the sense of aiming to develop larger and stronger firms by building on those with a reasonable track record, rather than assisting a great many firms indiscriminately, since the 1984, White Paper on Industrial Policy. State supports and incentives were intended to concentrate more on correcting common specific weakness areas in indigenous firms, such as technological capability, export marketing and management skills. Another notable theme after the early 1980s was strengthening the degree of integration of foreign-owned enterprises into the Irish economy. Since 1987, industry in Ireland had had a strong growth performance, the rapid growth rate of the Irish economy was 10 percent per year after 1987 and the substantial increase in foreign direct investment was a large part of the reason for this. But, Irish indigenous sector also presented development. Since 1987, the growth rate of output of indigenous industry averaged about 4 percent per year, which was approximately twice as high as the industrial growth rate of the EU or Organization for Economic Co-operation and Development (OECD). Since 1988, employment in indigenous industry had been a rising trend, while manufacturing employment had been declining significantly in the EU and in most other major OECD economies. The exports of indigenous industry grew faster than the manufacturing exports of the EU or OECD. With some other features, it was confirmed that Ireland reached a genuinely strong competitive performance rather than responding to favorable demand conditions in its rapidly growing economy. The growth of indigenous Irish industry spread across a wide range of sectors with employment growth occurring in about three-quarters of all sectors. While a number of favorable influences contributed to this relatively strong performance, the policies introduced since the mid-1980s gave a new impetus to the development of the indigenous sector. In other words, policies applied were successful (Clancy *et al.* 2001, pp.8-9).

Ireland was in need of a vigorous aggressive industrial policy so for decades it played the trump card of a 10 percent corporate tax. This was the only way to attract businesses for the Irish Republic because of the confusion created by the unrest in Northern Ireland. Ireland opted for low corporate taxes and pay restraints in order to provide 10 percent growth and 4.1 percent unemployment rate. It also counted on a free education system, a hospitable industrial policy, grants and free trade. But Ireland would be a passing trend or a special case because of the times or its geographic location (Berube 2001, p.7).

The CEE enlargement process of the EU was an issue to be taken into consideration as far as Ireland was concerned because of the expansion of trade relations between these countries and Ireland. The CEE countries share of Irish exports had grown fivefold since transition began with export sales expanding in all sectors. The country's foreign dominated export sectors, principally the chemicals and computer equipment ones had experienced the most substantial gains. A further doubling of exports was possible even at current income levels. Food and textiles, clothing and footwear sectors of the EU 15 were predicted to face the greatest threats of enlargement-induced disruption. The latter sector was relatively small in the Irish case. Even this sector was believed to hold its own in the EU 15 with an upgrade as CEE countries produced lower-quality and lower-value products. Even in the case of food processing which was the most important industry in Ireland, the prognosis was positive. This was because of the fact that Irish agricultural output consisted of beef and diary products which were relatively unimportant in the CEE countries. Production of capital goods, a sector to be believed to boom, was relatively unimportant in Ireland as well. Irish multinational firms acquired companies in central and Eastern Europe and particularly in Poland in the search for FDI opportunities in areas such as construction, print, paper and packaging. The main worry for Ireland with respect to enlargement was that some of the FDI which was a crucial driver of growth then could flow to the more successful accession states. There was a basis for these fears because previous enlargements expanded the pool of FDI to be shared by the old and new MS. However, the country remained an important European location for the computer hardware and software industries and CEE states attracted pharma-chem FDI. The leading CEE economies contributed to the further development of EU-wide production networks but didn't draw substantial FDI flows away from Ireland (Barry 2004, pp.849-850).

3.4 STRUCTURAL FUNDS AND IRELAND

Irish performance around the mid to late 1980s was different from the three cohesion economies, namely Greece, Spain and Portugal which were termed that way because of their low levels of income per head over most of the post-war period. In the 1980s, the country experienced more or less concurrent beneficial shocks which created a virtuous circle for the economy. Airline deregulation of 1986 facilitated a more than doubling of tourist numbers over the following decade and the stemming of the fiscal crisis through public expenditure cut-backs in 1987 provided room for future tax reductions that bolstered wage moderation via the newly-constructed social partnership agreements. Ireland had been the dramatic success story from the year 1987. Unemployment decreased from 17 percent in the late 1980s to around 4 percent in the early years of the new millennium, while there was an increase of more than 50 percent in the numbers at work. The contribution of this increase in the employment rate made to growth in incomes per head, both directly and through attracting immigrants of working age is clear from Table 3.10 (Barry 2003, pp.908-909).

Table 3.10 : Components of growth in income per head 1987-2000

1987-2000	Greece	Spain	Ireland	Portugal	EU 15
Growth in income per head	1.7	3.0	5.6	3.6	1.8
Components:					
(Growth in labor productivity)	1.5	1.2	3.0	2.6	1.7
(Growth in employment rate)	-0.4	0.5	1.0	0.4	0.1
(Growth in labor supply as % of population)	0.6	1.3	1.5	0.6	-0.1

Source: Barry (2003, p.908)

The EU SF doubled at the same time protected necessary infrastructural projects from the cutbacks, while the improvement in competitiveness had important complications throughout the economy. For instance, the employment in cost-sensitive services-sector expanded, the trend in indigenous-industry employment moved upwards and the Irish-economy backward linkages on the part of both indigenous and foreign firms expanded. To finish with, the large increase in FDI inflows by the single market brought Ireland a big share from this amount. The Irish boom is apparent when the components of per capita income growth over the period 1994-2000 in Table 3.11 are observed (Barry 2003, p. 909).

Table 3.11 : Components of growth in income per head 1994-2000

1994-2000	Greece	Spain	Ireland	Portugal	EU 15
Growth in income per head	2.8	3.1	7.1	3.1	2.4
Components:					
(Growth in labor productivity)	2.2	1.1	2.9	2.3	1.6
(Growth in employment rate)	-0.4	1.2	1.8	0.2	0.4
(Growth in labor supply as % of population)	0.9	0.8	2.4	0.5	0.4

Source: Barry (2003, p.909)

The substantial boost in regional aid package and the setting up of the cohesion fund in the wake of the 1992 Maastricht Treaty aimed to accelerate economic convergence and assist peripheral countries in their adjustment to EMU. The three target areas of the aid were the lagging ones in periphery countries and the ones with microeconomic grounds for public intervention like physical infrastructure, human resources and industrial development like Ireland. But was it successful? To start with, while EU funded investments in transport infrastructure in particular had been substantial, the Commission reported that while investment in peripheral regions improved accessibility, it had accompanied by similar investment in neighboring regions and more central ones that counteracted any relative gain. That's why; EU finding might have prevented further divergence in infrastructural levels. Secondly, human resources were the major target area. In the 1960s, there was a huge gap between core and periphery as far as the educational attainment was concerned. With the assistance of the SF, the relative position of the periphery improved by the end of the 1990s. Last major target area was in terms of industrial development. When research & development activities are searched they provide one measure by which the level of development of firms and businesses in a region can be charted as in Table 3.12. According to this evidence, structural funding promoted some degree of convergence, particularly in the case of Ireland where EU aid expenditures were integrated with the country's FDI-driven development strategy (Barry 2003, pp.913-914).

Table 3.12 : Business enterprise expenditure on R&D as a percentage of domestic product of industry relative to the EU average

	1981	1989	1991	1997
Ireland/EU	0.29	0.35	0.50	0.87
Greece/EU	0.07	0.06	0.13	0.13
Spain/EU	0.14	0.29	0.38	0.33
Portugal/EU	0.07	0.12	0.13	0.13

Source: Barry (2003, p.915)

Delhey (2001, pp.215-220) analyzed the degree to which EU integration facilitated catching up by looking at the cohesion countries. Ireland qualified for Objective 1 with its entire territory and benefited most from the EU's RP as one of the cohesion countries. GDP per capita adjusted for purchasing power parties indicating average living conditions in material terms, social security spending in relation to GDP indicating the level of social protection and peoples' satisfaction with life in general as a comprehensive subjective measure of living conditions were the three indicators used to analyze the outcomes of RP. When, the level of living was observed as a starting point, with the exception of Greece, the cohesion countries managed to catch up after acquiring EU membership and Ireland even overtook the EU national average. Ireland implemented a national pact to keep down unit wage costs in 1987 and offered massive state subsidies to attract foreign investment in high productivity branches. And Ireland received more assistance per capita from Brussels than any other member country and used the subsidies not only to co-finance infrastructure and economic restructuring but also to finance tax dumping. As a result, the EU money was efficiently employed to create favorable conditions for growth. Then in the field of social protection, the cohesion countries made considerable headway in converging with the standards of the core EU countries. During the 1970s and 1980s, social protection improved considerably in all cohesion countries. Ireland joined the EU with a social spending ratio of around 13 percent GDP, a level far below the respective EU average, but the gap narrowed substantially. Since 1985, social expenditure ratios declined but this was a reflection of economic success than of a failure in social policy. During the 1990s, social spending increased in per capita terms and was higher than other cohesion countries. Table 3.13 presents comparison of the development of social spending ratios between Ireland the EU 12 and EU 15. Third indicator was life satisfaction. Life satisfaction could be seen as an assessment of personal living conditions, dependent upon life circumstances, whereas also upon aspiration levels, preferences and opportunities for comparison. Did life satisfaction change in the cohesion countries in the course of membership? The answer appeared to be ‘not much’. In 1999, people were slightly more satisfied than they were before entering the community. Ireland was in the group where people reported an upper-medium level of satisfaction but was about to jump to the top cluster of the most satisfied EU nations, the Scandinavian countries, the Netherlands and Luxembourg with a share of 90 percent and more of the population feeling satisfied with their life.

Table 3.13 : The development of social spending ratios between 1970-1997 for Ireland, EU 12 and EU 15

Year	Ireland Ratio	Ireland EU 12=100	EU 12	EU 15
1970	13.2	69	19.0	n.a.
1980	20.6	85	24.1	n.a.
1985	23.6	91	25.9	n.a.
1988	21.2	90	23.6	n.a.
1989	19.4	83	23.3	n.a.
1990	19.1	76	25.2	25.4
1991	20.2	80	25.1	26.6
1992	20.8	80	25.9	27.9
1993	20.8	77	27.1	29.0
1994	20.3	76	26.8	28.7
1995	19.9	75	26.6	28.5
1996	18.9	71	26.7	28.7
1997	17.5	67	26.1	28.2

Source: Adopted from Delhey (2001, p.219)

The EU structural fund process had both a direct and an indirect effect on the economy. The expenditure of the EU funds increased demand in the years in which it occurred and where it was invested, it increased the output potential of the economy in the long term. But, the structural fund process also had an important impact through encouraging changes in the administrative and political system. The CSF funded expenditure affected the economy both through its impact on domestic demand for goods and services and also through the permanent impact on the production capacity of the economy. The initial impact of the CSF on the Irish economy occurred as the funds were spent on buying goods and services. The very substantial volume of expenditure financed by the CSF meant that there was a considerable domestic impact. There were some channels through which the CSF had impact on the economy. They involved an important effect on the Irish economy's long-run supply potential. First channel was human capital. The supply side impact of the human resource investment funded by the EU affected the economy in a number of different ways. It increased the productivity of the labor force and then it improved the labor market participation of certain groups like women, the long-term unemployed and the disabled. It also affected the labor market prospects of new labor force entrants and it had an effect, through migration on labor supply. People with human capital didn't remain unemployed in Ireland, they either got employment or they emigrated. For people who lacked a good education, the employment prospects outside Ireland were as bleak as they were in Ireland and they remained in Ireland unemployed. By helping shift part of the labor force from the ranks of the unskilled to the ranks of the skilled, the CSF investment contributed to the reduction of numbers of unemployed in Ireland. Second channel was infrastructural investment with a number of different forms which first affected the economy through an increased demand for building services. The effects of infrastructural investment on the economy was implemented through a change in the cost of production of the industrial sector, a reduction in the cost of production in Ireland increased competitiveness leading to increased output and employment on a long-term basis. The reduction of transport costs also reduced the costs of imports but since there was a very high level of import penetration in Ireland, this didn't have a major effect on the volume of imports. Third channel was aids to the private sector which took on a wide range of forms. Private sector was given assistance in the form of grant or subsidy to undertake certain investments which were highly desirable or of strategic importance. The form of incentives was to expand or develop new industries. By means of these measures the firms undertook the desired investment expenditures by benefiting from the grants or subsidies (Fitz Gerald 1998, pp.683-68).

4. CONCLUSION

CP is serving the European solidarity in first row, rather than serving European economical interests, as the continuation of free trade area. The two sentences by Barnier (2004), "The EU is not a supermarket, and it stands for solidarity. Weak institutions produce weak policies." describe the crucial role of the CP as providing solidarity. In the past, the very first aim to form a gathering in Europe was making war impossible between the members of that gathering; then, members of the gathering asked for political integration, which was in need of an economical integration. Economical integration requires the improvement of the economical indicators like GDP per capita, unemployment percentages and scale of production. CP, by the transfer of resources between member states of the EU, assists economical integration. CP is also a support for development. The support for development seen here does not only mean a sole financial one, but also it means exchange of experience, cooperation with others and dialogue between different levels of administration. The listed meanings of support for development are the keystones for solidarity as well. CP provided solidarity and continuance with the principles which monitor and guide these supports. For instance, by means of partnership principle, the voice of very small administrative institutions in the decisions was heard and by the help of concentration principle, the targets of the allocations were pinpointed. As a result, solidarity and continuance were secured. It is this solidarity that makes CP strong and it is the CP that brings new practical joint solutions to the everyday problems of citizens of the EU and that strengthens EU as an institution.

Some fundamental changes have been taking place in the EU by the process of broadening and deepening. With expanding borders, the cultural and economic potential of the Union have increased, as well as its population and number of regions. In order to assist the regions, experiencing difficulty because of economic integration, globalization and some other reasons, EU Regional or CP is the key instrument (http://ec.europa.eu 2009).

CP has been formed to reduce economic and social disparities between territories and citizens; old disparities still exist, so it can be claimed that this policy has failed. On the contrary, so many regions have been assisted by this policy and these have improved themselves in huge amount, in addition to that, there is a wide range of other achievements that the policy managed to realize.

For example, when the data on Objective 1 regions were taken into consideration, the policy or at least the socio-economic and market context in which the policy was activated, contributed a lot to the convergence of under-developed regions in the EU in terms of GDP per capita, rates of annual economic growth, employment levels and unemployment. Then, the policy put emphasis on multilevel governance that allowed the entry of some new actors to the policy implementation such as sub-national governments and socio-economic partners which were outside the decision-making process in national RP making. Lastly, it aimed at creating a cohesive Union and mutual solidarity between Europe's wealthier and poorer regions. Along with the introduction of multilevel governance as a new method for the formulation and implementation of policies at the European level, mutual solidarity and cohesion of Union climbed to a high level (Leonardi 2006, pp.164-165).

CP is necessary because of the fact that differences in the level of key economic and social indicators still exist between regions, even in wealthy countries. When 275 NUTS 2 regions in 2006 are considered, GDP in 72 regions was less than 75 percent of the EU 27 average but GDP in 43 regions was greater than 125 percent of the EU average. In 2006, the largest regional differences were in United Kingdom where there was a factor of 4.3 between the highest and the lowest values (Eurostat 2009, pp.50-59).

There will be a need for CP in the future due to the expansion and increase in global challenges. The candidate countries waiting for EU membership would create new disparities and the policy will be necessary to find solutions to these disparities in the future as well. Secondly, Europe is facing new challenges than the ones when the policy was introduced. Some of them can be listed as the renewed Lisbon strategy, focusing on jobs and growth, fight against climate change and increasing fuel prices against which CP will be used as a solution (www.cor.europa.eu 2008).

As CP is one of the most important policies of the EU and there is a great need for such a mechanism to provide welfare and solidarity all around the EU, as stated above, Republic of Ireland case, since it was mentioned as a success story in many sources, was used as a sample in this thesis to test the policy.

Republic of Ireland is an independent state in north-western Europe. This independent state occupies all the island of Ireland, except from Northern Ireland as partitioned in 1921. Ireland became a republic and left the British Commonwealth in 1949. 1973 was the year when Ireland joined the EU, former European Community.

Through the SF of the CP, the Irish economy transformed and Irish living standards reached to the average EU level. The contribution of the SF was one of casual factors that were mutually reinforcing. Ireland improved its international competitiveness by budgetary consolidation, tax and fiscal reform and wage moderation through social partnership. Thus, the economy became attractive for foreign direct investment. Some structural measures were also introduced for the complementation purposes, such as improving the education and training areas, reforming tax and social protection systems that ensured the availability of skilled labor (www.iro.ie 2009).

Strong economic policies and one of the world's most pro-business environments including a low tax have helped to make Ireland one of the EU's success stories. But, low tax rate is not the only attraction force that Ireland has offered.

Ireland has made investments on correct priorities like human resources, education and training. Only one cohesion country, namely Portugal has allocated slightly more amount than Ireland has allocated for education and training between 2007-2013 period. The sum allocated for education and training was 23.5 percent in Ireland and 24 percent in Portugal in total EU funds allocation. But with the support to double the number of PhD graduates in mainly technology institutes under the R&D and innovation priority, the financial investment of Ireland in education and training has exceeded other cohesion countries. Low tax rate definitely provided a huge amount of foreign direct investment inflow to Ireland but the English speaking and well-qualified work force also changed so many foreign investors' mind on Ireland's side, while they were looking for investment opportunities (http://ec.europa.eu/regional_policy 2009).

The instruments of CP, the SF affected the Irish governance and public administration in a positive way in monitoring and evaluation, multi-annual programming and social and regional partnership areas.

Ireland has a governance tradition which is called neo-corporatist governance. This type of governance involves policy frameworks to be agreed on by the government and social partners such as trade unions and employer and farmers' associations. This Irish tradition is close to MLG which is vital for the CP (www.sgi-network.org 2009).

To conclude with, Republic of Ireland was transformed from one of the poorest countries in Western Europe to one of the wealthiest, this process was possible with the EU aid, industrial policies, low tax rate and geography and demographics. While the location of Ireland was important for foreign investors, they preferred Ireland because of the low tax rate, whereas, low tax rate wasn't only enough for foreign investment. Foreign direct investment provided employment, thus development in economical sense. But, without making the necessary investments as far as human capital and infrastructure are concerned, it was impossible to talk about any kind of investments taking place mostly in Ireland.

These investments were possible with the CP of the EU from which Ireland received financial support. Ireland is not the only country that has received these funds but it is a country which improved itself the most. Between 1989-1993, this country achieved the highest growth rate averaging 5 percent annually as compared with an EC average of 1.7 and it had 7 percent growth in 1994-1999 period. In the period 2000-2006, annual average GDP growth of EU 25 was 2.1 percent, Germany had the worst growth performance with 1.3 percent but Ireland's GDP growth was 6 percent (Breuss 2006, p.5).

This brings us to the fact that, CP is a very good instrument for convergence of the EU, if is applied correctly. In addition to this, Ireland is a good example and a success story in the application of CP of the EU.

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