

ONE

Rethinking Regional Development

Well-being is at the forefront of an ongoing debate about economic growth and the distribution of wealth in modern societies. It is widely believed that it is the responsibility of political decision makers to enhance the well-being of citizens. Even in the highly industrialized economies, however, as any careful observer of politics can attest, we face severe shortfalls in well-being. Since the global economic collapse of 2008, deteriorations in well-being in Europe – and how these inflame political conflict – have become increasingly visible and debated. This book argues that problems of well-being, such as income inequality, poverty and unemployment, are transboundary in today's more globalized and interconnected world, and no longer amenable to resolution by national governments acting alone. There is now a clear need to better understand how the EU can help to enhance well-being within its borders.

The EU is currently struggling with a number of progress paradoxes. Despite unprecedented rates of economic growth in the 2000s and then again during the years of recovery from the 2007–12 global financial and economic crisis,¹ we continue to see deep socio-economic divisions. Severe material deprivation leaves many citizens unable to afford basic goods such as a washing machine, to heat their home adequately or to take a one-week holiday away from home. In 2017, one in three Bulgarians and one in five Greek or Romanian citizens was severely materially deprived, as were about one in ten citizens of Croatia, Cyprus, Latvia, Lithuania, Hungary and Italy. Young people are known to have borne the brunt of the

2007–12 crisis (OECD, 2020a). More than 6 million people aged under 25 were not in education, employment or training in 2017, denying them life chances and the prospect of earning a good living. The level of unemployment among young people in 2017 in per cent of the labour force was almost 20 per cent across the EU, but in Italy as many as 35 per cent, in Spain 40 per cent, and in Greece, close to 45 per cent of all young people were unemployed (Eurostat, 2020).

The socio-economic divide is not only evident within households and between states, the two most common units of analysis in well-being research (Fleurbaey and Blanchet, 2013; Busemeyer, 2014; Beckfield, 2019). Important variations also exist between subnational regions in the EU, such as provinces and states, as is shown in the EU's classification of territorial units for statistical purposes (*nomenclature d'unités territoriales statistiques*, NUTS).² Metropolitan regions with more than 250,000 inhabitants, which are home to just over half of the EU population, may have flourished since the 2007–12 crisis, but they are also plagued by higher levels of income inequality than their rural counterparts (Eurostat, 2020). Unemployment rates can vary by more than 15 per cent between regions in the same EU member state. In Belgium, for instance, the level of unemployment is about 4 per cent in the western Flemish region but 15 per cent in Brussels. In Italy, there is about 3 per cent unemployment in Trentino–Alto Adige but 22 per cent in Calabria, while in Spain about 10 per cent of working age people are unemployed in the Basque Country but this rate rises to 26 per cent in Extremadura. The proportion of people with the qualifications gained from secondary education required to study at college or university can vary by as much as 30 percentage points between regions within the same state: from slightly less than 65 per cent in Eastern Macedonia to 90 per cent in Attica, in Greece; from about 40 per cent in the Azores to 65 per cent in Lisbon, in Portugal; and from just under 50 per cent in Extremadura to 80 per cent in the Basque Country, in Spain (OECD, 2018).

In short, the socio-economic divide writ large is about more than comparative rates of income. Household income inequality is a symptom of unequal opportunities to obtain an education, participate in social activities, access high-quality jobs, maintain good health and earn an adequate income (OECD, 2017a, 2017b). The notion of well-being goes beyond gross domestic product (GDP) to understanding citizens' real-world options.

The 2019–20 global coronavirus pandemic (COVID-19) and the resulting global economic downturn has fuelled the debate about well-being and inclusive growth. Like the 2007–12 crisis, we are now witnessing a surge in public debt that could lead to severe cuts in social investments (or 'social spending') and thus have serious repercussions for well-being. The fiscal situation in the EU member states varied greatly before the 2007–12 crisis, but those states with higher levels of public debt and less economic power, such as Ireland and the southern European economies, were forced to make deeper cuts in social spending in the aftermath of the crisis. Economic adjustment programmes agreed by the 'Troika' of the European Commission, the European Central Bank and the IMF required a significant curtailment of public spending and the social security system. Several states took this approach, typically in an attempt to comply with the EU's debt rules (Cylus and Pearson, 2015). More recently, country indicators from 2018 suggest that life is getting better in the EU in terms of labour market outcomes, but that poverty and income inequality are persistent problems that have remained largely similar across rich and poor states (OECD, 2020a).

Prompted by the ongoing debate about the transformation of traditional welfare states into active – and 'retrenched' – social investment states, this book puts the concept of well-being front and centre. Beckfield (2019) has underlined the importance of rigorous analyses of the effects of European integration on welfare states and inequality regimes. Busemeyer (2014) has made the case for considering inequalities, institutions and

public attitudes together in a single equation in order to better understand the trajectories of welfare states. Piketty (2014) has called for a greater appreciation of the distribution of wealth in economic theory, and welfare economists have repeatedly emphasized well-being as an important variable for measuring socio-economic development alongside GDP, not least to encourage political thinking about inclusive growth (Fitoussi et al, 2010; Son, 2011; Stiglitz et al, 2018).

The European Structural and Investment Funds, which at about €45 billion per year account for more than a third of the EU budget, are the EU's main instrument to promote inclusive growth.³ These funds undergird an EU regional policy that seeks to promote 'social and economic cohesion' by part-financing domestic social and economic investment. Cohesion is firmly associated with regional performance and has traditionally been understood as GDP differences between regions. Since the 2000s, however, our understanding of cohesion has changed to now include both economic development and social justice within regions as two central goals of EU spending (Begg, 2003; Begg and Bachtler, 2017). In the words of Begg (2009, p. 12), this shift in the understanding of cohesion has put the question of how to resolve 'the balance between "pure" competitiveness-enhancing investments and "pure" solidarity transfers' centre stage.

A large body of economics scholarship has studied the effects of EU spending on economic convergence between regions. A central insight is that EU funding has positive effects on economic growth, especially in a few highly competitive regions (Bouvet, 2010; Farole et al, 2011; Mohl, 2016). However, we know little about the effects of EU spending on one of the crucial outcomes: differences in well-being between citizens within regions. EU spending effects on well-being have yet to be systematically examined.

To enable such an analysis, I have sought to take account of the effects of EU spending on improving regional circumstances that are crucial to shaping individual choices and opportunities

in life. An analysis of EU spending effects on well-being at the subnational regional level has long been hampered by the absence of readily available data. Regional-level data are scant and only available for the past decade or so. This study stands out because I have compiled a set of regional-level well-being indicators for the period from 1994 to 2013, the end of the most recent EU funding period. Annual information on regional payment data for both social and economic purposes are not yet available for most regions for either before 1994 or after 2013. These indicators capture levels of health, income inequality, labour market activity, poverty and social inclusion for 189 regions in 16 countries in West and Eastern Europe (Austria, Belgium, the Czech Republic, Finland, France, Germany, Greece, Hungary, Ireland, Italy, the Netherlands, Poland, Portugal, Spain, Sweden and the UK). The analysis therefore covers regions that were home to 424 million of the EU 27's 504 million inhabitants in June 2013.

The quantitative analysis is buttressed by insights from 31 semi-structured and 156 standardized interviews with local, regional and national policymakers in 15 member states, as well as with EU policymakers, conducted between April 2008 and November 2012 (see Appendix A). I also provide illustrations from official documents, grey literature on EU funding practices and effects, and news articles in the form of daily bulletins from the online archives of Agence Europe and Euractiv. Taken together, the qualitative evidence is used to: (a) analyse the operation of actor discretion in the implementation of EU regional funds; (b) identify challenges during implementation, such as information asymmetries that might benefit more resourceful actors; (c) discuss specific problems of EU funding implementation during the 2007–12 crisis; and (d) illustrate who benefits from EU regional funding.

A key finding of this book is that EU social investments have only partially helped to alleviate the pervasive well-being problems faced in Europe's regions. My analysis reveals that EU social investments improve labour market outcomes in the more

prosperous regions but exacerbate economic inequality within poorer regions. This paradox stems in part from the excess financial support that benefits already well-off metropolitan areas and groups. The economic investment that is typically allocated to regional authorities and businesses in the form of capital subsidies has no well-being effects. By implication, it is my contention that Europe's mixed performance in promoting well-being is an unambiguous source of public discontent about the EU.

The gap

There is a long tradition in welfare economics that suggests that GDP performs well as a proxy for well-being as a physical, material and social proposition (cf Stewart, 2005). The existing political-economic literature on the effects of EU spending on regional development follows in the footsteps of this intellectual tradition. Regional development is typically understood in terms of reducing regional inequalities as measured by GDP differences between regions. A central research interest lies in estimating and examining regional convergence (or the extent to which regions become more similar) in terms of GDP per capita over time (Barro and Sala-i-Martin, 1991; Boldrin and Canova, 2001; Dall'erba and Le Gallo, 2008; Becker et al, 2010; Maynou et al, 2016). Between 1950 and 1980, there was demonstrable economic convergence between EU member states, mainly as a result of the relatively poor southern states joining the EU in the 1980s, but not within states, where economic growth in many regions had at best come to a standstill (Beugelsdijk and Eijffinger, 2005). Later, intra-state inequalities continued to increase while inter-state inequalities continued to decline (Heidenreich and Wunder, 2008; Farole et al, 2011; Beckfield, 2019).

Isolating the effects of EU funding on economic growth, however, has been a notoriously difficult endeavour, and in any case the usefulness of growth as a developmental indicator

has clear limits. GDP does not take account of the distribution of well-being across the population (Amin and Tomaney, 1995, p. 13; Mahler and Ramos, 2019). It also ignores the many other social and economic changes that individuals may experience and that, in the aggregate, shape collective regional well-being (Fitoussi et al, 2010; Adler and Fleurbaey, 2016). Nonetheless, the previous literature on regional inequalities typically continued to use GDP as an indicator of regional welfare (Heidenreich and Wunder, 2008; Bouvet, 2010). Two notable exceptions are isolated studies on the determinants of intra-regional employment (Mohl, 2016) and income inequality (Castells-Quintana et al, 2015).

Most of the debate about the effects of EU spending on growth has been preoccupied with the effects of domestic institutions and factor endowment. Firmly anchored in macroeconomics, the factor of production most responsible for fostering a growth effect from EU spending is widely held to be human capital. It is also seen as a proxy indicator of the absorptive capacity of a region. It is skills that will shape the linkage between EU funding and growth, and there must be a minimum average skill level in a regional economy to enable that region to absorb or use EU funds effectively (Bähr, 2008). Moreover, the positive effects of EU funding on growth are shown to increase with the quality of government institutions and decline with the level of corruption – and high-quality governance and low levels of corruption are the hallmarks of Europe's richer regions (Ederveen et al, 2006; see also Charron et al, 2013).

These EU findings dovetail well with macro-economic theories that suggest that human capital (Becker et al, 2011) and quality of government (Acemoglu et al, 2005) are central determinants of the development and adoption of new technology, both of which are pro-growth factors. These findings are also in line with broader theories in development economics, which suggest that international development aid – such as the funds provided by the World Bank – is put to

more productive use when absorptive capacity in the recipient country is high (Burnside and Dollar, 2000).

Technological development also has a central place in the debate. Based on insights from ‘new growth theory’, technological advancement crucially depends on investment in education, and research and development (Romer, 1994). From this vantage point, high-quality intra-regional government makes it more likely that new technologies will be made available, especially in less economically developed regions. In turn, technological opportunities can facilitate a structural transition from an agricultural regional economy to an industrial one (Fagerberg and Verspagen, 1996) and increase the likelihood that EU funds will be efficiently absorbed (Becker et al, 2012). However, technologies are not public goods. Technology gap theory contends that innovation will be unequally distributed across regions, stimulating economic growth and slowing economic convergence in some regions, but not in others (Fagerberg, 1987). Growth-inhibiting technology gaps can be exacerbated by a heavy reliance on agriculture (Fagerberg and Verspagen, 1996) and by high levels of regional unemployment. The higher the rate of unemployment, the lower the inflows of risk capital and the number of qualified prospective employees, which in turn will increase the outflow of investment (Fagerberg et al, 1997) and the level of skills depreciation in the workforce (Cappelen et al, 2003) – all of which are growth-impeding factors.

It is known that most of the economic growth over the past 30 years occurred in a relatively small number of highly competitive regions, underlining the mixed usefulness of EU funding for growth (Heidenreich and Wunder, 2008; Farole et al, 2011; Beckfield, 2019). Inspired by this puzzle, several political-economic studies have attempted to explain the allocation of EU regional funds. GDP is clearly the most powerful determinant of how EU funds are allocated, but there is also evidence that electoral politics can distort needs-based allocations (Kemmerling and Bodenstern, 2006; Bouvet and

Dall’erba, 2010; Dellmuth and Stoffel, 2012; Chalmers, 2013; Schraff, 2014; Dellmuth et al, 2017). Such distortions should be minor, however, and therefore not severely undermine EU spending effects, given that EU fund allocations remain mostly needs-based. In addition, while there is evidence that EU funds tend to crowd out national investment in regions (Mohl, 2016), this dynamic has been shown to be behind only a fraction of the decline in public investment (Alegre, 2012).

Taken together, the literature is rich in evidence on growth effects of EU funding but does not systematically study well-being effects. What is more, EU rules and their incentives for regional and national governments who devise regional investment strategies together with the Commission and select investment projects, and the resulting consequences for the socio-economic effects of EU spending, remain understudied.

The argument

Examining the linkages between EU funds and GDP growth is important but provides an insufficient understanding of regional development. Unless opportunities are provided to enhance well-being, enormous human potential will continue to be lost. A focus on well-being has the distinct advantage of being complex and multifaceted and providing a wide-angle perspective on the socio-economic problems that confront the EU. Regional well-being encompasses a number of vital aspects of human life, such as patterns and levels of employment, good health, income and social inclusion. Foregrounding this concept provides a clearer window on the larger picture that can be measured and empirically studied (see also Stiglitz et al, 2018), allowing for nuanced analysis of key components of the regional context in which social and economic life occurs.

Specifically, I propose to use the concept of *regional well-being* to capture regional inequalities. Chapter Three defines regional well-being as a condition of distributive justice in a region

through which poor and otherwise vulnerable people are provided with the capabilities to achieve a good quality of life. I write in the tradition of welfare economics and well-being research that focuses on objective well-being as a standard of living or a set of individual achievements (for example, Rawls, 1971; Sen, 1985; Son, 2011; Stiglitz et al, 2018). This approach pertains to a long line of reflection going back to Aristotle, John Stuart Mill and John Hicks, among others, that argues that well-being should be conceived in terms of functionings and capabilities, instead of resources (Alkire, 2016). The reason is that a focus on resources excludes consideration of the variability in individuals' actual capabilities to convert resources into valuable outcomes (Sen, 1985, p. 200). *Capability* refers to the real opportunity that we have to accomplish what we value; *functionings* are beings and doings that people value and have good reasons to value.

This approach to well-being places this book squarely in the tradition of theories of 'objective well-being', which are concerned with how an individual's circumstances promote their well-being, as opposed to 'subjective well-being' theories, which foreground the individual's personal experience of well-being and typically define well-being as happiness and life satisfaction.

To the notion of regional well-being as distributive justice, I add those of social and economic investment. The distinction between social and economic funding is central to the arguments in this book. Economic funds seek to improve competition in the context of increasing Europeanization and market globalization, mainly through capital subsidies to business, energy, food, healthcare and transport infrastructure – or, in other words, 'efficiency'. By contrast, social funds correspond to 'social investments' intended to support citizens throughout their life course, mainly through investments in education and skills – and thus promote equity. While efficiency is about reductions in *inter*-regional disparities in welfare, equity is about diminishing *intra*-regional disparities. Using this distinction,

I argue that EU spending will enhance regional well-being if appropriate reforms are undertaken to maintain and expand social investments in the capabilities and skills of the poorest and most vulnerable.

To cut straight to the heart of the matter, under the current legal framework domestic social investment practices using EU funds will continue to benefit already highly skilled and wealthy regions and groups. As I show in this book, especially since 2000 EU regional policy has claimed to regard the fight against poverty and social exclusion as paramount in the determination of spending targets. EU spending seeks to advance domestic investment in growth and active labour market policies, as well as tackling poverty and social inclusion – all of which are highly relevant to many of the underlying processes associated with inequality.

Thus, EU regional policy has been influenced by a broader trend in intellectual and political thinking about how to transform existing passive welfare states into social investment states. The ability of nation states to create equal societies using traditional approaches that combine growth-enhancing investments with palliative social welfare policies has been increasingly questioned over the past 20 years (Esping-Andersen, 2002; Hemerijck, 2013). The basic idea behind the social investment state is that social investments rather than passive social transfers could be the key to modernizing European welfare states. From this vantage point, investing in citizens' skills rather than compensating them after the event for income and job losses could increase the prospects of empowering individuals while also contributing to economic growth (Morel et al, 2012; Busemeyer et al, 2018).

While EU regional funding has long been based on a belief that reducing *inter*-regional disparities should be the end goal (Rumford, 2000), the social goal of investing in lifelong education and building human capital to alleviate poverty and inequalities in the form of *intra*-regional disparities has become increasingly mainstream in the regulatory framework governing

EU regional funding. Since 2000 in particular, the EU has emphasized social goals in its employment policies (Scharpf, 2002; de la Porte and Natali, 2018), and social investments are now an integral part of EU regional spending policies (Chapter Two).

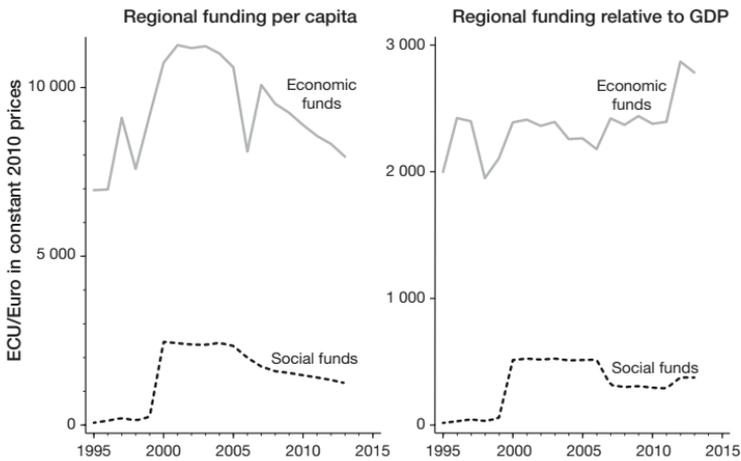
Given that the EU budget is very small compared to domestic budgets and has never exceeded 1 per cent of EU GDP, why does any of this matter? Consider that government spending in a typical Western European economy is equivalent to about 50 per cent of GDP (IMF, 2021). There are three main reasons. First, a conditionality attached to the EU funds requires domestic public or private sector co-funding. In poorer regions, co-funding rates are typically around 20 per cent of the EU funds received, while in richer regions this rises to about 50 per cent. Thus, EU funding promotes additional domestic spending beyond existing programmes and has an important steering function.

Second, for many citizens, EU regional funds have become tangible resources, which means that the EU can take credit for the funding. Around 30–45 per cent of citizens across all EU member states are aware of the EU support provided to their city or region. This is a considerable proportion and reflects a more general trend of growing public awareness of and debate about EU institutions and policies (Hooghe and Marks, 2009; de Wilde and Zürn, 2012). Flash Eurobarometer (FEB) polls from 2008, 2010, 2013 and 2015 suggest that, on balance, citizens are aware of ‘EU regional policy’ and ‘EU co-financed projects’. More than one third of respondents indicated some knowledge of these policies in a given year. These polls also show a consistent link between awareness of the spending measures and receipt of funding. For instance, awareness tends to be much higher among individuals living in regions ‘that have been eligible for funds in previous years’ (FEB, 2008) or are ‘eligible for support under the Convergence objective’ (FEB, 2010, 2013, 2015), which constitutes a majority of EU funding.

Third, several features of the institutional environment in the EU multilevel polity prevent EU funds from benefiting the poor and otherwise disadvantaged. Part of the problem is that the amount of social spending has historically been low. [Figure 1.1](#) illustrates that most EU regional funding – about 70 per cent – is in the form of economic funding or capital subsidies rather than social funding or investment in human capital. For the purposes of this book, I have coded these two types of funding according to how the funding targets are labelled in the information contained in the spreadsheets provided by the Commission’s Directorate-General for Regional and Urban Policy (DG Regio) and the annual reports on the structural funds. For example, the purchase of capital goods or the construction of warehouses is economic funding, whereas financial support for vocational training programmes or civil society projects linked to labour market integration and migrants constitutes social funding (see Appendix B). Social funding is mostly but not exclusively allocated through the ESF.⁴

[Figure 1.1](#) shows that social investments in people’s skills and abilities to escape poverty and social exclusion have declined since 2008, while economic investments have been rising. Since then, intra-regional well-being problems have increased and levels of inequality have risen, in richer regions in particular. Economic investments made have steadily increased in real terms since 1995, but social funds stopped increasing in 2007 and then began to decline. This is true of both overall spending shown on the left and spending in relation to national economic activity in terms of GDP shown on the right. All the EU member states apart from the Czech Republic and Germany experienced a decrease in EU social investment receipts in the period 2007–13, in part due to capacity problems to absorb all earmarked EU funds. Interestingly, domestic social spending did not compensate for this decline, as many member states also cut their social spending after the crisis (OECD, [2020b](#)). As EU spending

Figure 1.1: EU regional economic and social funding



Notes: Inflation-adjusted payment data in constant 2010 prices. Inductive coding of spending data (see Appendix B).

co-funds and therefore influences domestic investment, a declining amount of EU social investment can be expected to have an effect on well-being.

Crucially, EU social spending has remained at less than one fifth of total EU regional spending since the beginning of the 1990s. It is true that lifelong learning has been emphasized as an explicit goal since 2000 and funded through the European Structural and Investment Funds. In addition, under the current 2014–20 multiannual financial framework (MFF), €31.3 billion has been earmarked to invest in lifelong learning and about €20.4 billion is set aside for promoting social inclusion and poverty reduction, especially by improving public services. However, these amounts are just 10 and 6 per cent of the European Structural and Investment Funds, respectively.⁵ Chapter Two shows how the budgetary framework for 2014–20 led to social policy initiatives such as the European Pillar of Social Rights, which drove social investments to combat inequalities of opportunity, skills gaps and poverty (de la

Porte and Natali, 2018), but that, even so, social spending has stubbornly remained at about one fifth of the total regional funds budget for the past 25 years.

In terms of governance, regional and national governments are responsible for drawing up regional multiannual funding plans and selecting social investment projects in line with the EU's social goals. Social goals are mainstreamed into the regulatory framework but are undermined during domestic fund implementation. The EU's institutional framework does not provide enough incentives to nudge governments into systematically selecting projects in ways that enhance well-being. Relatively resource-rich municipalities and private sector actors are popular project partners due to their reliability in being able to absorb earmarked funds and manage them well, but investing in them tends to benefit an already wealthy group of citizens rather than the poorest. At the same time, the Commission lacks both the capacity and the incentives to push more forcefully for member states to promote social goals. As I argue throughout [Chapter Two](#) and [Chapter Three](#), these incentives increase the likelihood of 'Matthew effects', meaning that those who are already better off benefit the most from social investments. Matthew effects are known to have adverse effects on economic inequality, especially in corporatist-type welfare states (Cantillon, 2011).

To be clear, I am not arguing that GDP is insignificant in the study of EU spending. My position is that a better understanding of the effects of EU spending on intra-regional socio-economic inequalities between citizens is essential if well-informed decisions are to be made about the future.

The empirical context: EU regional policy

EU regional policy revolves around a range of what are nowadays known as the European Structural and Investment Funds. The oldest were the European Social Fund (ESF) and

the European Agricultural Guidance and Guarantee Fund – Guidance Section (EAGGF-Guidance). The ESF dates back to the Treaty of Rome of 1958 and the EAGGF-Guidance was established in 1962. The European Regional Development Fund (ERDF) was created in 1975 and is commonly seen as the origin of the EU’s current regional policy. In 1993, the Financial Instrument for Fisheries Guidance (FIG) became the main pillar of the Common Fisheries Policy, and a Cohesion Fund was created aimed at the poorest member states. Member states may also avail themselves of a reformed and simplified European Agricultural Fund for Rural Development (EAFRD) and a European Maritime and Fisheries Fund (EMFF). All of these have, since 2007, been collectively referred to as the European Structural and Investment Funds. When I refer to EU regional policy, I mean the set of EU policies pursued through all the discussed funds.

Since a major reform in 1992, about a third of the EU budget has been set aside for EU regional funding, allocated with several objectives in mind, and with a set of conditions attached with which the Commission and the member states must comply (see [Chapter Two](#)). Historically, EU regional policy was intended to mitigate socio-economic divisions between EU regions caused by a range of national and global factors, most notably post-war deindustrialization, technological specialization and external economic shocks. Ever since the Treaty of Rome, EU regional policy has pursued a goal of reducing economic inequalities between regions. The Single European Act of 1986 introduced the objective of ‘social and economic cohesion’ and considerably increased the financial resources available, making regional funds the second-largest expenditure item behind the Common Agricultural Policy.

Thus, for a long time, cohesion has become associated by default with differences in regional performance (Begg, 2003), not between citizens within regions. Over time, however, the understanding of what cohesion entails has gradually changed and now increasingly includes inequalities between

citizens. **Chapter Two** sets out in detail how social goals have become increasingly mainstream in EU regional policy and describes the multistage funds implementation process across final beneficiaries within regions. To briefly front-load some of the main features of the implementation process, it rests on several principles. The two most important principles are ‘concentration’ and ‘additionality’. According to the principle of ‘concentration’, EU funding is to be mainly allocated in Europe’s poorer regions. For this purpose, the EU makes a key distinction between Objective 1 or Convergence regions, which have GDP levels below 75 per cent of the EU average (‘poorer regions’), and the more prosperous regions which fall outside of Objective 1 (‘richer regions’). According to the principle of ‘additionality’, EU funds should leverage and not replace domestic funding. The idea is that EU funding should promote additional domestic spending beyond pre-existing domestic spending programmes.

How are social investment projects selected and payments made? **Chapter Two** shows how EU regional policy operates under the auspices of the MFFs, which are multiannual budget plans agreed by heads of state or government in meetings of the European Council following consultation by the Commission with representatives of private sector entities and the regions. These frameworks serve as hard budgetary constraints on annual spending decisions that must be made in line with the Operational Programmes (OPs). Funds can be allocated by way of cash transfers, equity financing, guarantees or loans (Pes and Porretta, 2015). Among the many different actors involved are the final beneficiaries – typically businesses, civil society organizations, government authorities at the local, regional and national levels and universities – which propose projects in cooperation with regional management authorities and in line with EU goals. Finally, the regional authorities approve project funding for their OPs and are later reimbursed by the Commission in batches of payments, typically about two or three times a year.

In principle, fund management is the responsibility of the member states, and my interviews suggest that the Commission is perceived and perceives itself as a repository of innovative ideas and provider of technical assistance, rather than a guardian of EU funding goals. Government autonomy is firmly practised and an essential precondition for achieving consensus on EU regional policy at the EU level, as governments, being suspicious of the Commission potentially encroaching on national sovereignty in the area of social policy, expect to retain and do retain substantial discretion over the use of EU funds (Pierson, 1996). Government autonomy is a politically sensitive topic, and the Commission has neither the incentives nor the resources to place demands on how member states use earmarked EU funds (Pollack, 2003).

The structure of the book

Chapter Two sets the stage by describing the multistage and multilevel process of implementing EU funding, and by asking how and to what extent social goals have been integrated into EU regional policy historically, and in what context. It considers EU regional policy reform from a historical perspective, and analyses EU funding programmes (or ‘objectives’, in EU speak) and the amounts of funding allocated to social and other goals over time. It finds that social goals have been increasingly mainstreamed into the regulatory framework and to a lesser extent in regional funding practices.

Chapter Three explicates the concept of regional well-being used in this study. Regional well-being is conceptualized as distributive justice, which strengthens people’s capabilities to achieve the good things for which human beings strive. I argue that both domestic and European authorities are responsible for fostering conditions that are central to enhancing the well-being of citizens. The bulk of the chapter is dedicated to a discussion of the mechanisms EU social investments use to

enhance regional well-being, drawing from previous insights on distributive justice, welfare economics and welfare state research. The chapter sets out an intricate argument about the conditions that would increase the likelihood of EU spending effects on regional well-being.

Chapter Four assesses existing measures of well-being and describes the data collection strategy and operationalization of regional well-being put in place for this research. This novel data set collates annual observations at the regional level for the period 1994–2013, the end of the most recent EU multiannual funding period for which payment data are available. Well-being indicators capture patterns of employment, unemployment, youth education and employment activity, health, poverty and income inequality for 189 regions in 16 EU member states from the eastern, northern, southern and western parts of the EU. The descriptive mapping of regional well-being since the early 1990s yields two main findings. First, richer regions tend to perform better on all well-being indicators. Richer urban centres are the motors of economic development and job creation in Europe, but are plagued by inert levels of poverty. Second, levels of poverty and income inequality have not significantly declined since the 1990s in either rich or poor regions. This poverty and inequality standstill is alarming and calls into question the usefulness of the concept of regional development as ‘economic and employment growth’, which is still central to EU regional policy.

Chapter Five proceeds with an explanatory analysis of the effects of EU spending on regional well-being. It makes the case for using a quantitative approach, which is uniquely suitable for estimating EU spending effects on regional well-being because it takes into account potential endogenous effects, temporal factors and structural breaks. Drawing on the quantitative dataset introduced in **Chapter** Four, this chapter presents and discusses the statistical results in two steps. The

first key result is that EU social spending enhances employment and unemployment outcomes, but only in the rich regions. By contrast, there is no robust evidence of social spending effects on youth activity or public health. The second main finding is that EU social investments exacerbate income inequality in poor regions.

Chapter Six analyses the reasons for the weak and adverse effects of EU funding on regional well-being found in **Chapter Five**. Drawing from news media and interview evidence, this qualitative inquiry highlights the high levels of skills and infrastructure in urbanized areas, which tend to receive the bulk of social investment. Five main barriers are identified that crucially prevent the benefits from EU spending from reaching poor and otherwise disadvantaged groups: (a) social and economic investments remain largely siloed; (b) social funding amounts continue to be small; (c) small amounts of EU funding are spread thinly and to richer areas; (d) severe information asymmetries work to the disadvantage of potential beneficiaries that may have otherwise been able to put forward suitable projects that benefit the poor, and (e) shortfalls in administrative capacity contribute to exacerbating adverse EU funding effects on income inequality in poor regions.

The concluding chapter summarizes the book's major findings and considers the broader implications of the EU's mixed performance on well-being for the future of inclusive growth and legitimacy in the EU. In common with all types of political institutions, the EU is more likely to operate effectively if it enjoys legitimacy. As previous literature has firmly established, however, the EU's legitimacy is being eroded, partially because of economic divides across societal groups (Foster and Frieden, 2017) and across the urban–rural divide (Rodríguez-Pose, 2018). Related to this, economic anxiety and distributional struggles among specific social groups, exacerbated by market integration, generate a base

for nationalist populism (Rodrik, 2018). The findings of this book suggest that reforming EU spending to buttress regional well-being should be part and parcel of work to counteract adverse spending effects on well-being in poor regions, and to strengthen citizens' beliefs in the legitimacy of the EU.

