

*Draft*

**Domestic Politics, International Side-Payment,  
and EU Regional Policy**

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**60<sup>th</sup> Political Studies Association Annual Conference  
“Sixty Years of Political Studies: Achievements and Futures”**

Edinburgh, UK, March 29-April 1, 2010

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## **I. Introduction**

The most popular notion among political scientists of EC regional policy in the 1980s and 1990s,<sup>1</sup> the main thrust of which is distribution of Structural Funds, is the one that interprets the developments in the policy area as representing side-payments to poorer member states for their consent to the allegedly more important policy areas, namely, market integration and monetary union. With regard to the linkage between the single market program and the reforms in Structural Funds, for example, Moravcsik (1991, p. 62) argues that “one provision essential to the passage of the internal market program” was “the expansion of structural funds aimed at poorer regions of the EC,” while it was “not a vital element of economic liberalization.” He further notes that regional policies are interpreted as side-payments extended in exchange for other policies “since they are neither significant enough to provide major benefits to the donors, nor widely enough distributed to represent a policy of common interest” (Moravcsik, 1994, p. 52). Garrett (1992, p. 547) also confirms that France and Germany “sweetened” the SEA deal for less developed member countries by doubling the funds for structural assistance to less developed regions, which represents “a significant side-payment.”

The EMU accord and yet another round of reforms in Community regional policy are brought under the same light. Lange (1993, p. 24) argues that the passage of “the entire Maastricht set of reforms and above all, EMU” was possible due to the side-payment linked to “progress toward creation of economic and monetary union” in the form of “increases in the structural funds and creation of the cohesion fund.” Martin (1993, p. 128) also points out that the increase in structural funds and the creation of ‘cohesion fund’ is the wealthier member states’ response to the “explicit” demands from poorer states for financial compensation in exchange for support of EMU.

While the argument that EC Structural Funds were a side-payment is hard to dispute, a question still remains. The provision of side-payment is not always a feasible or desirable option as a bargaining tactic. As Friman (1993, p. 398) notes, trading off issues in international negotiations in the form of side-payments can create winners and losers at

home. Then, domestic resistance to the use of side-payments as a bargaining tool is likely to emerge from those who are to lose, although the tactic could help the government reach the agreement with its negotiation partner. If the resistance by the prospective losers is strong enough, the government's attempt to strike a deal with a negotiation partner would be blocked no matter how lucrative the deal is for the country as a whole. In this light, the provision of side-payment involves a typical instance of domestic constraints on international bargaining.

This paper explores how the preferences of EC member governments with regard to EC regional policy are shaped by domestic politics, focusing on electoral dynamics of member states, especially Germany and Spain. These two countries, respectively, represent the biggest contributor to the EC budget and the main beneficiary of EC Structural Funds. This paper argues that a significant electoral implication involved in the securing of Structural Funds provides the Spanish government with a powerful incentive to seek aggressively for the enhancement of the Funds, while a trivial impact of contributing more money to the Funds on Germany's national economy and the lack of salience of budgetary contribution as an electoral issue allow the German government to make concessions to poor member states on the issue of EC regional policy.

In the following, I will first go on to construct an analytical model to analyze the formation of foreign policy preferences of a government. I will then apply this model to the explanation of the German and Spanish governments' attitudes toward the increase of the Structural Funds.

## **II. Domestic Conditions of International Side-Payment: An Electoral Politics Model**

The approach that will be used in this study is based on the assumption that the governments of member states are primarily interested in prolonging their tenure in office through reelection.<sup>2</sup> It follows from this assumption that national governments, located at the intersection between international and domestic arena, will try to translate international outcomes into domestic political assets. Therefore, they pursue international outcomes that

they believe improve their political fortune in the domestic arena. If an outcome were to have a damaging effect on, say, their electoral prospects, they would resist either the specific outcome or the way the outcome is produced, or both.

Presumably, a national government's foreign policy goal is to maximize "national interests". However, there could be cases where even if making an agreement with negotiation partners is good for a country as a whole, the government may not be willing to strike a deal. This can happen when the electoral power of the governing party is dependent on a domestic faction that objects to the international accord, so that the government comes to represent a factional interest rather than the "national" interest. Therefore, there may well exist tensions between the national interest dimension and the factional interest dimension, producing results that dispute the view that the national interest is the driving motive of a national government's foreign policy.

Although a national government is sensitive to factional interests, it cannot simply accommodate all conflicting interests of various factions. Each faction will try to make the government adopt the policy stance that it prefers by using various lobbying tactics. Since a national government cannot invariably respond to all societal demands, some interests will get the government's backing, while others will be ignored. Then the issue here is to what demands the government bows and what pressures it withstands, and why.

The proposition here is that national governments, keen on being reelected, will favor the interest of those whose electoral significance is greater than others.<sup>3</sup> For example, suppose there are two factions that have sharply diverging interests with regard to the government's foreign trade policy, one favoring open trade and the other favoring protectionism. Friction might occur, depending on the situation, between capital and labor, between the manufacturing sector and the agricultural sector, or between post-Fordist, high-tech, capital intensive industries like telecommunication and traditional, labor intensive, sunset industry like ship-building. Also suppose that the electoral significance of protectionist forces outweighs that of liberalists, whether counted in terms of number of voters or the size of financial contribution for electoral campaigns. Then, *ceteris paribus*, the government party will be tempted to align its policy with the preference of

protectionists in order to capture their vote, even if open trade policy will benefit the country more as a whole. In this light, it can be hypothesized that the more important the protectionist groups' support is for the survival of the government, the harder the government will try to obtain the policy outcomes that would please the protectionists, and the less maneuvering space the government will have to drift away from the protectionists' preferences.

However, we can think of a situation where the opposition party is traditionally so close an ally to protectionists that the protectionist bloc would not cast their votes to the governing party in the next election even if it occasionally carries out a trade policy to their liking. In this case, policy maneuvering by the government would not be able to lure protectionist votes to its side. On the contrary, there may also be cases in which the government, traditionally a close ally to liberalists, adopts some protectionist measure without much fearing the defection of liberalist voters. This could happen if the governing party is convinced that its ties with the liberal bloc are so secure that liberals would not desert the governing party even if it tries some unpopular policies. The point here is that there are occasions when the impact of political parties' individual policy proposals on the voting behavior of constituencies is quite limited. Therefore, the question of when and why the government responds differently to different societal demands largely comes down to: first, where does the electoral power base of the government party lie?; and second, how much would a certain policy affect the electoral pattern of voters?

As to the first question, there are two dimensions to be considered: location and the extent of concentration of party support. Location here pertains to whether the support for the party comes from, for example, left or right, protectionists or liberalists, capital or labor, agricultural sector or industrial sector, and so on. Concentration refers to the range of electorates from which a party can summon support. In some country, for example, the electoral support that a social democratic party can mobilize is largely limited to blue collar working class, but in others it can extend to white collar (or "pink" collar) working class or even to the agricultural sector, as Esping-Andersen's study of Scandinavian countries shows (1985).<sup>4</sup>

The second question concerns the volatility in voting patterns. The degree of volatility, I suggest, depends largely on the availability of ‘exit’ option for electorates.<sup>5</sup> The ‘exit’ option would include voting for another party, or abstaining from voting in the protest to the government policy with the result that the relative size of votes for the opposition party is swollen. If ‘exit’ is a viable option for electorates, the volatility of voters would be high. If exit options are unavailable for electorates, the volatility of voting behavior would be low. Even if the government is exclusively dependent on the support of a particular faction, there can be cases where the government still can afford some maneuvering in making policy choices.

How do the location of the governing party’s power base, the degree of concentration of its power base and the extent of volatility of voting behavior affect government preferences as to foreign-policy making? My expectation is, first, that if core constituencies are likely to be affected by a certain government policy, the intensity of government preference will be quite high, and the maneuvering space for the government quite small. But if those who are affected by the same government policy does not constitute a part of the governing party’s power base, then the government will have more breathing room in making policy choices. I also expect, second, other things being equal, the more concentrated the power base of the governing party, the smaller the government’s maneuvering space tends to be. The concentrated power base of a governing party will thus be accompanied by a hard-line approach in foreign policy making, because the loss of votes resulting from the implementation of policy unpopular to the core constituency will be a fatal blow to the prospect of reelection. Finally, other things being equal, the more volatile the voting behavior of constituents, the higher the preference intensity of the government. If the government tries to implement a policy that deviates from the preferences of its constituents, volatile electorates will quickly move their loyalty to other parties. And the prospect of a quick switch will exclude the policy alternatives unpopular to its constituents from the governing party’s policy options, narrowing down the range of available choices and hardening the government’s bargaining position.

### III. EC Regional Policy and Electoral Politics in Spain and Germany

The reforms in EC regional policy in the 1980s and 1990s has been an outcome of acrimonious bargaining between recipients and donors. EC regional policy, from the start, has been characterized as measures that “transfer resources from some member countries to others” (Nevin, 1990, p. 292). Consequently, EC regional policy was, if considered in purely budgetary terms, “a burden” on rich countries like Germany (Karsten, 1990, p. 100) and “El Dorado found in the jungles of Brussels” for poor member states like Spain (*Economist*, April 27, 1991, p. 54). Member states’ preferences with regard to EC regional policy diverged, therefore, according to whether one was a recipient or a donor. And the battle between the two camps was mainly fought by Spain, the biggest beneficiary of EC regional aid, and Germany, the *de facto* “paymaster of the EC” (Bulmer, 1993, p. 83).

The Spanish government’s aggressiveness, which amounted to “brinkmanship diplomacy,” is well documented. Inside Spain, Prime Minister Felipe González has sold the “cohesion” demand as Madrid’s *sine qua non* for economic and monetary union and political union (*Financial Times*, 10 December, 1991, p. 2). Later, Spain’s minister for Europe, Carlos Westendorp, hinted the possibility that unless the EC agrees on a budget plan that guarantees Spain a big increase in regional aid, the Spanish parliament may not approve the Maastricht treaty (*Economist*, 4 April, 1992, p. 64). At the Edinburgh Summit in December 1992, González was even described by his European partners as a “selfish cynical nationalist politician who only looks after his own interests as avidly as Mrs. Thatcher” (*El País*, 13 December, 1992, p. 4).

Why did the Spanish government try so hard to secure a favorable regional policy deal? The motive of the Spanish government to pursue EC money is understandable, in that no government would be unwilling to receive money from external sources. But why so hard? On the other hand, why did the rich countries like Germany give in to Spain’s demands and agree to pay the cost of regional policy? Would the increase in the contribution to the EC coffer have not negatively affected the German economy or the operation of the German government? Would it not have also made a dent on the

government party's popularity, with possible electoral implications?

In this part, I will first examine how the electoral calculation of the Socialist Party of Spain affects the Spanish government's approach to the reforms in EC regional policy. I will then explore the effect of electoral politics on the German government's attitude toward the issue of EC regional policy. The question is the extent to which dynamics of electoral politics intensify the Spanish and German governments' preference for the growth of the Structural Funds.

## 1. Structural Funds and Electoral Politics in Spain

### (1) Main beneficiaries of the Structural Funds in Spain

Admittedly, the total amount of money transferred from the EC to Spain under the title of the Structural Funds was too small to be consequential for the Spanish economy as a whole. As the Spanish Prime Minister Felipe González himself once said, the cohesion method of the community would not be "the solution to our problems" (*España* 92. August/September 1992, No. 224, p. 2).<sup>6</sup> Though the Structural Funds were not able to, and in fact were not meant to, relieve the entire Spanish economy from the stress resulting from the EMU, if concentrated, it could certainly shield a part of the Spanish economy from the shock waves emanating from the 'convergence' requirement. Since economic vitality is an important determinant of government popularity, EC Structural Funds could enable the Spanish government party to avoid a decline of popularity in these parts of the country and mitigate the negative electoral consequences of the EMU deal.

In fact, EC regional aid does seem to have had a quite significant implication for economic development in the Objective 1 regions of Spain.<sup>7</sup> For example, in 1993, the amount of the ERDF allocated to Spain accounted for 1.2 percent of GDP of the Objective 1 regions within Spain. Further, the ERDF expenditure in Spain accounted for 3.0 percent of investment activity in the Objective 1 regions of Spain in 1993 (see Table 1).

[Table 1 about here]

Traditionally, the bastion of Socialist power in Spain was in the southern, poor regions of the country (See Table 2 and 4). Four autonomous regions - Andalucía, Castilla-La Mancha, Murcia, and Extremadura - had continuously demonstrated strong support for the Socialist Party (PSOE).<sup>8</sup> These regions, comprising core constituents of the Spanish governing party at the time of Maastricht and Edinburgh Summits, also happened to be a part of Objective 1 region and the main beneficiaries of EC regional funds.

[Table 2, Table 3 about here]

For example, of seventeen autonomous communities of Spain, according to a Commission report, Andalucía was the one that benefits most from the ERDF resources (CEC, 1992a, pp. 25). [Table 4] confirms the fact that Andalucía was the biggest beneficiary of EC Structural Funds. For the span of five years from 1987 to 1991, Andalucía absorbed 25% of ERDF money received by Spain. The share of four southern regions including Andalucía for the same period amounted to 42.7% of total ERDF transfers to Spain.

[Table 4 about here]

EC Structural Funds provided Andalucía with financial resources for major construction projects. Examples include: the Autovia del 92, which links Seville, Granada and Baza; the Seville-Madrid motorway project which runs parallel with the high-speed rail link; the Seville ringroad (*Ibid.*, pp. 25-26), and several sections of a high-speed rail system on the Madrid-Seville line, which was regarded as a priority with the 1992 Universal Exhibition in mind (*Ibid.*, p. 33).

There was a controversy over the economic rationale of such major investment in infrastructure that connected the capital of Andalucía—Seville—and the national capital—

Madrid. The Madrid-Seville rail project was widely seen as a waste of money among many Spaniards at the time. The decision to construct a high-speed line between these two cities was considered a result of home-town favoritism by two powerful politicians from Seville: Felipe González and his former deputy Prime Minister Alfonso Guerra.<sup>9</sup> The decision was viewed as entirely political, because the economic case for a high-speed line linking Madrid and Barcelona to France was far stronger (*Economist*, 25 April, 1992, Survey, p. 8).

## (2) The Power Base of Spanish Socialist Party (PSOE)

Throughout the post-Franco era, the Socialist Party had collected more votes from the four southern regions than from other regions. As Table 3 shows, the percentage of total valid votes the PSOE won in these regions has consistently exceeded the national average. Especially, the PSOE musters overwhelming support in Andalucía, which was regarded as home to the Socialists, for the important leaders of the PSOE including the Prime Minister González and the once Deputy Prime Minister Guerra are from Seville, the capital of Andalucía (Maxwell and Spiegel, 1994, p. 78 & p. 115 n97; Gillespie, 1990, p. 49; and Cotarelo and Nieto, 1988, p. 85). In addition to the relative strength of the PSOE in southern regions, the absolute level of support for the Socialist Party in these regions also had been remarkably consistent. This contrasted with the gradual erosion of other regions' support for the Socialist Party since 1982. Furthermore, the significance of these four regions was accentuated by the number of seats allocated to these regions. These four regions account for about 30 % of total seats (103 out of 350) in the Congress (with 63 seats being allocated to Andalucía alone) of which the Socialist Party consistently took over 65 seats. That is, while it may not be fair to say that the power base of the Socialist Party of Spain had been exclusively concentrated in southern regions, it would be safe to say that these regions, especially Andalucía, had constituted a stable and significant part of the Socialists' power base.

If the power base of the PSOE were so diffuse over a wide range of the electorate that those who are affected by the outcome of the Structural Funds negotiation represent

only a negligible part of its constituents, the PSOE would not have cared too much about the possibility of this part of its constituents voting for opposition party. In this event, the PSOE could hardly find a reason for aggressive pursuit of greater Structural Funds. But because the power base of the PSOE was concentrated in the constituents who are likely to be affected by the outcome of the Structural Funds negotiation and their support is indispensable for the survival of the government in the next election, the range of choice for the Spanish government was reduced to the hot pursuit of EC money.

### (3) Volatility of Voting Behavior

As noted earlier, the southern region's support for the Socialist Party had been consistent throughout the post-Franco era. However, it does not mean that there existed no sign of volatility in voting behavior. For example, in the 1979 general election, one of the notable trends was the increase in the strength of the nationalist/regional parties. This trend was observed not only in Basque country and Catalonia, where nationalist sentiment has been an important feature of political life, but also in Andalucía. The growth of regional nationalism was considered to harm the PSOE, particularly in Andalucía where the Socialist party of Andalucía (PSA) took an important share of the potential Socialist vote (Maravall, 1985, p. 141). In the 1979 general election, the PSA won five seats by collecting 325,842 votes including 101,601 in Madrid (Gillespie, 1989, p. 339n). This trend was repeated in the local elections, again with negative effects on the PSOE. The PSOE lost still more support in Andalucía, and the PSOE's losses were the PSA's gains. The PSA drained 188,125 votes away from the PSOE, 17.3 percent of the regional total (Maravall, 1985, p. 143). Since then, the strength of the nationalist party in Andalucía has subsided. However, the specter lingered.

The nationalist element in Andalucía strongly reasserted its presence in the 1990 regional election and in the 1991 local election. In these years, the name of the nationalist party of Andalucía was the PA (*Partido Andalucista*), standing for Andalusian Party.<sup>10</sup> While the PA collected only 5.8% in regional elections in 1986 and 6.2% in the general

election in 1989, it summoned 12.3% in the 1990 regional election (*El País*, 17 June, 1990, p. 14). Further, in the 1991 municipal election, the PA almost doubled its share since 1987. It took up 87 seats in 1991, compared to 45 in the municipal election in 1987 (*El País*, 27 May, 1991, p. 20). Notably, the PSOE lost the mayoralty in Seville, the home to the Spanish socialists, to the PA. The loss in Seville had a particularly significant symbolic meaning because Seville was the site of upcoming Expo '92. Socialists expected the event to be a socialist feast, with a socialist mayor standing alongside a socialist prime minister and the king at the opening ceremony. But the leader of the PA took the stand, spoiling the show.

A study on Spaniards' voting patterns reveals that economic prosperity had a lot to do with the voters' support for the governing party (McDonough and Barnes, 1994). Another study found that when the economy declines, the tendency of regionalist voting emerges. This study concludes that “[i]ndividual economic difficulties, coupled with a belief that national economic policies are inadequate, push voters toward a regional vote preference” (Lancaster and Lewis-Beck, 1989, p. 40). Then, in order to rein in the resurgence of nationalist voting behavior, the regions that had the possibility of a nationalist tendency should be kept economically prosperous. In this regard, if the PSOE was to preserve its power base in Andalucía, it had to make sure the economy of Andalucía was in good shape. In order to sustain economic prosperity, capital inflow was essential. And the EC Structural Funds were certainly an attractive source of capital for this purpose.

The Socialist government may have found in the EC regional funds an attractive source of resources for the development of the regions that consist of its key constituents. This is not to suggest that the Socialist government illegally manipulated the allocation of EC money within Spain. Without orchestrating any clandestine operation, the EC money was destined to go to regions like the four poor autonomous communities in southern Spain, as long as it was decided at the EC level that the bulk of money goes to the Objective 1 areas (lagging regions). The opportunity to bring benefits to its core constituents was there in the form of EC Structural Funds, and the Socialist government seized it. Once it was known that its core constituents will be the biggest beneficiaries of EC regional funding, the Socialist government would put its utmost effort to secure as much money from the

EC.<sup>11</sup>

## 2. Structural Funds and Electoral Politics in Germany

As early as in 1973, the German government became concerned that it was becoming the *de facto* “paymaster of the EC.” As such, Germany has always been wary of proposals to create a more expensive fund (Anderson, 1990, p. 426). This occasionally led to reluctance on the part of Germany, otherwise a “model country pressing for the ideal of European integration” (Bulmer and Paterson, 1987, p. 202), to contemplate new EC policies with significant expenditure components. The drag on the agreement to establish the European Regional Development Fund in 1975, for example, can be attributed to the German government’s unwillingness to assume a greater financial burden.

Germany’s financial contribution to the EC budget continued to swell in the 1980’s, and by the 1990s German concerns about the EC budget had become anxieties. During the 1980’s, Germany consistently contributed over 28 per cent of the EC’s budget (Feldman, 1994, p. 29). As [Table 6] shows, Germany has not only remained all along the single biggest net contributor to the budget, but the amount of its contribution also has increased dramatically. Between 1980 and 1990, the amount of Germany’s net contribution to the EC more than tripled, and in 1988 it had almost quadrupled compared to the figure of 1980.

[Table 5 about here]

In addition, one can point to the disproportionate public attention attracted to the spectacle of the clash between the member governments over budgetary contributions. Provided that a significant symbolic value was involved in the outcomes of the budgetary disputes, the possibility existed that the modest economic implications of EC Structural Funds could entail tremendous political ramifications due to its relevance for the electoral prospects of member governments. If this were the case, the German government’s attitude toward the issue of EC regional policy would have been much more inflexible, and the

outcome of regional policy deal, and maybe the whole Maastricht accord and Edinburgh agreement, would have been much different.

Visible as it may have been, the politics of EC budget does not seem to have affected German electoral politics in any meaningful way. This is because there did not exist any domestic actors with electoral significance who rigorously opposed the provision of side-payments in the form of the Structural Funds. Above all, the salience of European integration in general, and EC regional policy in particular, was very low on Germany's electoral agenda at the time. In fact, the issue of European integration was well recognized among the German public and was considered as an important issue. But it lacked electoral relevance because all major parties displayed a similar posture toward the question of European integration. If there were any domestic actors who saw a negative aspect in EC integration and made an issue of European integration in making their voting decisions, they were neither core constituents of the governing coalition nor an important part of the power base of other major parties. In short, no electorally significant coalition of opponents of the Structural Funds has formed because the issue of European integration and that of the Structural Funds were not electorally salient issues in Germany.

#### (1) Salience of the Issue

Despite the visibility of EC budgetary disputes among member states, the issue of the German contribution to the EC Structural Funds did not become an important electoral issue. According to an analysis of Eurobarometer data prepared by the ZEUS institute and reported to the DG XVI of the Commission, the salience of regional policy has been consistently below the EC average in Germany (CEC, 1992b, p. 85).<sup>12</sup> As a matter of fact, not only the issue of the Structural Funds, but also the topic of European integration in general has not had much electoral relevance in Germany in the early 1990s.

Admittedly, according to the public opinion polls conducted by RAND in 1992, European integration topped all other issues in the German public's mind as the most important foreign policy issue facing the country (see Table 7). The survey data furnished

by Rattinger roughly confirm this trend. His study shows that the question of Eastern Europe was considered the most important foreign policy issue, closely followed by the topic of European integration and the scope of *Bundeswehr* operations. However, despite the relatively high ranking on the list of foreign policy issues, the topic of European integration played only a very minor role in shaping voting behavior. In total, just over 5 per cent of the sample chose this item from a list as the first or second most important reason for their voting decisions (Rattinger, 1994, p. 528). These survey data are consistent with the observation that the major concerns of the German public consisted of such domestic issues as right-wing extremism, economic reconstruction, and DM stability (Asmus, 1994, p. 15). In the ballot box, pressing domestic issues heavily outweighed European issues.

[Table 6 about here]

Why was the salience of the issue of EC regional policy so low? First of all, the issue of European integration in general was hardly a divisive issue among major parties of Germany. For an issue to become salient during an election period, clearly contrasting views must be presented by competing political parties vying for the voters' attention. If there exists a general agreement among major parties on how to handle a certain issue, the issue will not figure as prominently on the electoral agenda (Verdier, 1994, p. 12). Parties will put more emphasis on the divisive issues to differentiate themselves from each other, and will try to promote their policy alternative in order to convince as many voters as possible that their governing ability is superior to that of competitors.

But the issue of European integration in German politics was hardly a divisive one. All major parties - CDU/CSU, SPD, and FDP - maintained a pro-European stance. As Conradt notes, "European issues have had little partisan impact" (Conradt, 1993, p. 216).<sup>13</sup> Given the lack of divisiveness, political parties of Germany could hardly find reason to devote their resources to promote their position with regard to the issue of European integration. As a result, the European issue did not have a chance to become salient on

electoral agenda.

Secondly, to the degree that there was any divisiveness with regard to the European issues, it was over Economic and Monetary Union, not the Structural Funds. Of the European agenda, the German government was more concerned about the final form of the EMU than anything else at Maastricht, because the issue of a common currency and European central bank which would acquire the function and authority of the Bundesbank was much more controversial within Germany. Because of the potentially damaging effect of the EMU issue on the governing coalition, the German government was willing to make sacrifices in other issue areas in return for a preferred outcome on the EMU negotiation. Eclipsed by the issue of the EMU, the problem of an expansion of the budgetary contribution to the EC Structural Funds was relegated to the status of a minor issue in German politics.

Thirdly, given the nature of the burden imposed on Germany by increases in the Structural Funds, it is understandable that the issue of the financial contribution to the EC did not figure high on the electoral agenda. As Lange points out, the costs to citizens of regional policy were highly diffuse and hidden (Lange, 1992, p. 238). The burden was shared by all taxpayers through the general systems of national taxation, and was not concentrated on any particular economic actors. The costs were further concealed by the complex payments schemes through which national governments made financial contribution to the Community. In this regard, it was very unlikely that domestic resistance would have build for net-contributor countries like Germany to make budgetary concession in Brussels. Each member government may have its own reason for trying to keep down its contributions to the EC coffer. But as long as it was the governments of member states who directly bear the costs of regional policy, Lange argues, it was not likely that regional policy was prone to causing domestic pressure on national governments in donor countries (ibid.). This view was confirmed by Eichenberg and Dalton's study of European public support for European integration. Their study found that Europeans did not vary their support according to their countries' shares of the Brussels budget (Eichenberg and Dalton, 1993).<sup>14</sup> Especially, they noted that "the Germans remain supportive of the community despite the

fact that the Federal Republic consistently has been the largest net contributor to community finances” (Ibid., p. 524).

For these reasons, in terms of issue salience, the EC Structural Funds and Germany’s financial contribution to the EC budget do not seem to have stood out as an important topic. As a result, no significant electoral cluster has been formed to make a voting issue of European integration and the Structural Funds. Therefore, it is doubtful that there existed any sizable voting bloc that is opposed to the Structural Funds.

## (2) Opponents of European Integration

In Germany, the majority of citizens were in favor of European integration. More importantly, the supporters of “old” parties - CDU/CSU, SPD and FDP - were the ones who most frequently showed positive sentiments toward the EC. Further, according to a survey, the respondents who identified themselves with the CDU/CSU - the party in power at the time as a main partner - were most supportive of speedier introduction of a common European government (Rattinger, 1994, p. 528).

Only among supporters of the Greens and the extreme right party was strong anti-European sentiment present (Ibid., p. 527), and not surprisingly, these parties publicly expressed their opposition to the idea of European integration. Espousing strong nationalism, for example, the *Republikaner* (or the REPS) opposed the strengthening of the European Community at the expense of weakened German sovereignty (Braunthal, 1993, p. 100). In the case of the Greens, according to Bulmer, “[their] anti-bureaucratic, anti-growth, pro-environmental, participatory ethos leads them to take a much more critical view of the EC than the other parties represented in the Bundestag” (Bulmer, 1987, p. 140).

If the supporters of these parties held significant electoral leverage, then their position might have been reflected in the Kohl government’s European policy. However, they hardly provided the government with an incentive to tamper with its position toward the issue of European integration. That was because the votes from the supporters of these parties were either unobtainable or dispensable (and undesirable).

First of all, it is inconceivable that the supporters of the Greens would have changed their minds and voted for the CDU/CSU if the government moderated its European policy. Although Europe was an important issue for the supporters of the Greens, it was not the most important issue for many of them. And even if one cannot rule out the possibility that some of them might have cast their votes for the CDU/CSU, their number would have been too small for the government to risk its international reputation and the support from its original constituents, given the government's commitment to Europe and wide support for that commitment domestically and internationally. After all, if supporters of the Greens were to change their voting pattern, the SPD would have been their likely first choice, not the CDU/CSU.

Second, what the governing parties should do as to the *Republikaner* was to distance themselves from the image that it promoted, not to be associated with it in any way. Already having had the neighbor countries raise their eyebrows with the initial display of reluctance to recognize the *Oder-Neisse* line as the legitimate border between the unified Germany and Poland, the Kohl government could no longer afford to act in a way that could be construed as nationalistic. Besides, after briefly enjoying a surge in electoral support in 1990 by exploiting anti-immigrant sentiment in the wake of unification and the collapse of communist regimes in Eastern European countries, the support for the extreme rightist parties has rapidly dwindled. Given the shrinking number of the supporters of extreme rightist parties, their electoral significance has decreased simultaneously. Thus, the governing parties of Germany did not need to gain the electoral support of the Greens and the extreme rightists.

In addition to the lack of salience, the fact that those who made an issue of European integration were largely irrelevant in terms of electoral consequences allowed the governing parties of Germany to pursue their European policy without much hesitation. As a result, the German government did not face any serious challenge from domestic actors against its intention to provide side-payments in order to secure the deals on the tighter institutionalization of European integration. The domestic situation at the time allowed the German government to pursue European policy relatively freely without worrying much

about its electoral implications.

#### **IV. Conclusion**

For donor states to provide side-payments, resources should be mobilized, in many cases, within their domestic boundary. In this process, the governments of donor states might face domestic opposition to the provision of side-payments from those who are to shoulder the burden of the side-payment. The possibility of side-payment is thus determined by the extent to which the governments of donor states are able to overcome, neglect, or bypass this domestic opposition. Only when domestic opposition does not pose a serious challenge to the government, the provision of side-payment would be possible. On the other hand, side-payments are not always greeted by the governments of recipient states with open arms. Recipient governments could have their own specific preferences with regard to both qualitative and quantitative nature of side-payments. The value of side-payments for recipients depends on the utility of the side-payments for the governments of recipients. If the resources brought into the recipient countries by side-payment arrangement do not help increase the political capital of their governments, they would have not much incentive to pursue the side-payments. Therefore, as long as side-payment offer is on the table, recipient governments will prefer the side-payments with higher utility potential.

With the assumption that the main interests of member governments lie in prolonging their tenure in office through reelection, this study illuminates how governing parties' electoral calculation affects member governments' positions with regard to EC regional policy. Focusing on the cases of Germany and Spain, this study suggests that the electoral dynamics was an important ingredient in the formation of member governments' preferences and hence plays an important role in shaping the outcomes of EC negotiations.

Different domestic situations led the governments of EC member states to have conflicting preferences for EC regional policy. Domestic factors, in particular the electoral calculations of governing parties, led to divergence among member states not only in policy

preferences but also in the intensity of their preferences. When clashes took place between member governments at the EC negotiation table, the outcome of the clashes often had a lot to do with variation in the intensity of their preferences. Some member governments pursued certain policies enthusiastically, but others supported the introduction of the policies only lukewarmly. Some member governments campaigned against some policies aggressively, but others, while opposing them in principle, were ready to accept them, though grudgingly. When confrontation takes place between an enthusiastic proponent and a passive opponent, the outcome is likely to reflect the preferences of the former. When a halfhearted supporter encounters a fierce opponent, the latter is likely to win out. The galloping pace of enhancement of the Structural Funds in the heyday of revived European integration in the late 1980s and early 1990s was the result of such dynamics.

**[Table 1]** ERDF commitments to the four poor member states as a percentage of investment in the whole country and in Objective 1 regions, 1989 and 1993 (*Source*: CEC, 1991, p. 63 and 99).

Country	ERDF expenditure as % of					
	Total investment (GFCF)		Investment in Objective 1 regions*		GDP of Objective 1 regions*	
	1989	1993	1989	1993	1989	1993
Greece	6.8	7.8	6.8	7.8	2.3	2.9
Spain	1.5	1.6	2.5	3.0	1.1	1.2
Ireland	5.8	6.3	5.8	6.3	2.2	2.7
Portugal	4.9	6.0	4.9	6.0	2.7	3.7

\* Objective 1 regions cover the entire countries of Greece, Ireland, and Portugal. In the case of Spain, 76% of the territory and 58% of the population are affected by Objective 1 assistance, in ten of the seventeen regions in the country (CEC, 1992a, p. 13).

[Table 2] PSOE support in southern regions, general election, 1977-1989.

<i>Regions</i>	<i>1977</i>		<i>1979</i>		<i>1982</i>		<i>1986</i>		<i>1989</i>	
	%	Seats	%	Seats	%	Seats	%	Seats	%	Seats
Andalucía	35.7	27	33.5	23	60.6	45	57.8	43	51.7	44
Castilla la Mancha	29.8	8	34.6	8	49.4	13	48.1	12	47.5	12
Extremadura	31.0	4	37.6	5	55.6	9	56.2	7	53.5	7
Murcia	35.0	4	39.4	4	50.9	5	49.1	5	45.7	5
Total	34.0	43	34.7	40	57.2	72	55.9	67	49.1	68
National Average	29.3		30.5		48.5		45.4		38.8	

[Table 3] PSOE support in Spanish regions, general elections in 1977-1989 (*Sources*: Penniman and Mujal-León, eds., 1985, pp. 319-334, Appendix A, B and C; *El País*, June 24, 1986 and October 31, 1989).  
(% of total valid votes)

<i>Regions</i>	<i>1977</i>		<i>1979</i>		<i>1982</i>		<i>1986</i>		<i>1989</i>	
	%	Seats	%	Seats	%	Seats	%	Seats	%	Seats
Andalucía	35.7	27	33.5	23	60.6	45	57.8	43	51.7	44
Aragón	25.0	5	28.4	5	49.7	9	43.7	8	39.1	7
Asturias	31.7	4	37.4	4	55.1	6	45.9	5	40.0	4
Baleares	23.1	2	29.5	2	40.7	3	40.6	3	34.1	3
Canarias	16.8	3	17.9	3	36.8	7	36.5	6	35.7	7
Cantabria	26.4	1	30.4	2	45.3	3	44.7	3	39.6	3
Castilla la Mancha	29.8	8	34.6	8	49.4	13	48.1	12	47.5	12
Castilla y León	23.6	8	25.9	10	42.7	18	48.7	16	35.1	14
Cataluña	28.7	15	29.8	17	46.0	25	42.8	21	35.3	20
Comunidad Valenciana	36.4	13	37.4	13	53.2	19	47.7	18	41.2	16
Extremadura	31.0	4	37.6	5	55.6	9	56.2	7	53.5	7
Galicia	15.8	3	16.9	6	33.1	9	36.0	11	34.0	12
La Rioja	26.5	1	29.3	1	43.8	2	44.3	2	39.3	2
Madrid	31.8	11	33.4	12	52.8	18	41.2	15	33.4	12
Murcia	35.0	4	39.4	4	50.9	5	49.1	5	45.7	5
Navarra	21.3	2	22.0	1	37.9	3	35.7	2	31.6	2
País Vasco	26.1	7	19.1	5	29.3	8	26.4	7	20.9	6
Total	29.3	118	30.5	121	48.5	202	45.4	184	38.8	176

**[Table 4]** ERDF transfers to Spanish regions (*Source:* Ramón Cuadrado, et al. 1993, p. 277).  
(million pesetas)

	1987	1988	1989	1990	1991	Total
Andalucía	1,778.1	8,102.6	12,589.3	10,507.9	10,604.1	43,582.0
Aragón	157.0	393.5	601.4	254.1	555.9	1,961.9
Asturias	969.2	1,271.2	1,540.8	410.6	7,875.5	12,067.3
Baleares	-	-	-	-	-	-
Canarias	1,534.1	2,131.7	300.8	3,153.6	7,646.8	14,767.0
Cantabria	-	-	126.0	225.8	1,129.6	1,481.4
Castilla-León	1,443.6	1,457.5	2,980.0	2,168.9	8,776.8	16,826.8
Castilla-La Mancha	-	1,401.8	2,656.4	4,186.8	2,639.0	10,884.0
Comunidad Valenciana	-	-	3,286.3	561.1	8,183.4	12,030.8
Cataluña	-	1,728.4	1,406.5	6,983.7	3,509.3	12,727.9
Extremadura*	855.6	1,764.9	3,882.0	978.2	7,171.5	14,652.2
Galicia	1,751.6	3,748.7	4,256.0	6,443.7	3,242.5	19,442.5
Madrid	-	-	1,136.2	7.2	986.1	2,129.5
Murcia	101.9	455.1	866.7	972.7	2,921.1	5,317.5
Navarra	-	-	174.6	271.3	365.6	811.5
País Vasco	-	-	1,570.3	2,988.2	1,035.1	5,593.6
La Rioja*	-	-	-	-	517.1	517.1
<b>Total</b>	<b>8,591.1</b>	<b>22,455.4</b>	<b>37,373.3</b>	<b>40,113.8</b>	<b>67,159.3</b>	<b>174,493.0</b>

[Table 5] Net Transfers from EC Budget, 1980-1990 (Source: Tsoukalis 1993, p. 271)

(Receipts minus contributions expressed in Million ECU)

	1980	1982	1984	1986	1988	1990
Belgium	-273.4	-499.0	-398.2	-283.9	-995.0	-773.9
Denmark	333.9	228.3	487.2	421.1	350.9	422.5
Germany	-1670.0	-3171.7	-3033.1	-3741.8	-6107.1	-5550.4
Greece	--	604.3	1008.2	1272.7	1491.6	2470.2
Spain	--	--	--	94.9	1334.3	1711.3
France	380.4	-827.3	-459.8	-561.5	-1780.9	-1804.9
Ireland	687.2	671.5	924.1	1230.3	1159.3	1892.5
Italy	681.2	911.4	1519.0	-130.3	124.2	-416.7
Luxembourg	-5.1	-24.3	-40.1	-59.3	-67.4	-60.0
Netherlands	394.5	86.9	434.8	167.5	1150.0	368.4
Portugal	--	--	--	219.0	514.9	600.8
UK	-1364.6	-1193.6	-1337.0	-1438.4	-2070.0	-3386.9

[Table 6] Most important foreign policy issues facing Germany, a public opinion (Source: Asmus 1994, p. 14).

Policy issue	1992	1993
European unification	26	21
Eastern Europe	12	20
Role of Bundeswehr	--	20
Détente, arms control	10	17
Germany's world image	14	12
War in ex-Yugoslavia	16	11
Immigration	13	7



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[NOTES]

<sup>1</sup> Regional policy means the measures that aim at "reducing disparities between the various regions and the backwardness of the least-favored regions" by means of which "economic and social cohesion" in the European Community is achieved (SEA 1986, article 130a). Examples of EC regional policy are: the European Regional Development Fund, the European Social Fund, the Guidance Section of the Agricultural Guidance and Guarantee Fund, and the Cohesion Fund, the last one being added to the scheme of EC regional policy upon the insistence of poorer member states under Spanish leadership at the Maastricht Summit. While the Community has since its early days enacted and implemented various policies that had significant regional implications, it is the creation of the European Regional Development Fund in 1975 that marks the beginning of EC regional policy. See Nevin, 1990, chap. 24.

<sup>2</sup> The incentive to stay in office may stem from the desire to accumulate power for the sake of power, or from the desire to use power for achieving something else. Whether power is conceived as a goal itself or as an instrument for other purposes, it is hard to dispute that governments are primarily interested in extending their incumbency as long as possible.

<sup>3</sup> Electoral significance does not always mean the size of a faction in terms of either membership or financial prowess. Even if a faction is superior to the other in terms of both membership size and financial capability, its electoral significance may not be great if its members are so apathetic to election or so hostile to the governing party and loyal to the opposition party that it is not likely that they will vote for the governing party no matter what policy the governing party promises.

<sup>4</sup> The extent of concentration can fluctuate. For example, the Labor party of Britain is said to have drifted toward the extreme left in the early 1980s, only to move back more than

ever toward the strategy of capturing the ideological and social center ground since its 1989 Policy Review, *Make the Change, Meet the Challenge*. See Crewe, 1991, especially pp. 42-46.

<sup>5</sup> About the notion of 'exit', see Hirschman, 1970.

<sup>6</sup> This is indeed the case although Spain gets the largest share of the fund. Over the period 1989-1993, Spain received 20.2 percent of ESF, 27 percent of ERDF, and 21.8 percent of EAGGF. See Galy, Pastor, and Pujol, 1993, p. 11.

<sup>7</sup> In 1988 reform of regional policy, five priority objectives were adopted in an effort to improve the effectiveness of EC action in the regional policy area. These objectives are: (1) promoting development in regions with a per capita gross domestic product less than 75 percent of the EC average; (2) converting regions seriously affected by industrial decline; (3) combating long-term unemployment; (4) increasing employment opportunities for young people; (5a) speeding up the adjustment of agricultural structures to accompany the reform of EC agricultural policy; and (5b) promoting the development of rural areas.

<sup>8</sup> In the 1990s, however, the support for the PSOE has been rapidly fading away even in these regions due to the revelation of numerous corruption scandal and the emergence of evidence of Government misconduct in the fight against Basque terrorism (*New York Times*, February 9, 1995, p. A4).

<sup>9</sup> Maybe not coincidentally, Andalucía has been the largest recipient of government assistance over the last decade. Andalucía also has benefited from a large inflow of foreign direct investment, which has contributed to the creation of a dynamic economy. It is the third-largest recipient of foreign direct investment, averaging 9 percent of total foreign direct investment between 1986 and 1989 (Maxwell and Spiegel, 1994, p. 80). Apparently, the inflow of foreign direct investment was encouraged by the favorable investment environment formed by the government's active involvement in economic development in this region.

<sup>10</sup> The PA changed its name to *Poder Andaluz*, meaning Andalusian Power, for the 1994 regional election. The change was intended to convey more nationalist flavor in its name.

<sup>11</sup> This argument can be interpreted as saying that if the spending of EC Structural Funds was going to be concentrated in the Objective 2 regions (declining industrial zones), the Spanish government may not have taken such a hard-line approach. The main beneficiary of the funding for the Objective 2 areas in Spain would be northern Spain including Basque country, Asturias, and Cantabria. These three autonomous communities, combined, are called 'the Cantabrian Cornice' which once played a leading role in prominent episodes of Spanish industrialization, but now represents a main declining zone (Cuadrado, 1991, pp. 195-197). These three autonomous communities account for only 30 seats in the Congress, of which just 13 seats went to the Socialist Party in 1989 (Table 3). In other words, these declining industrial zones are electorally insignificant either because of their size (Asturias and Cantabria), or because of the strong presence of nationalist political forces (Basque country). Therefore, the Spanish government's efforts to secure the regional fund would have been less strong if the focus of Structural Funds was the Objective 2 regions where the Socialist Party did not have particularly keen electoral interests.

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<sup>12</sup> The Saliency was the lowest in the Netherlands, and was also below average in Denmark, Belgium and Luxembourg. France, Britain and Ireland were about average, and Italy was the highest among the original six members. In the three southern member states, the saliency was by far highest of all member states. See CEC, 1992b, p. 85.

<sup>13</sup> Hrbek also notes that the EC did not play a greater role in party politics in Germany. He attributes this to the general agreement among publics about the positive effect of the EC on Germany. He further points out that even the elections to European parliament have been used for the German parties' domestic goals and the European dimension was highly neglected in those elections (Hrbek, 1990, p. 177).

<sup>14</sup> According to their study, Europeans evaluate the European Community according to its economic performance, political saliency, and role in international relations (Eichenberg and Dalton, 1993).