

# The EU's Regional Investments After the Financial Crisis

## Paradigm Change or Business as Usual?

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### Introduction

The President of the European Investment Bank (EIB), Werner Hoyer, made a bold statement in 2016. In the preface of an EIB report, Hoyer praised the novelty of European Commission President Juncker's flagship project aimed at rebooting investments in Europe after the global financial crisis (GFC):

Today, the paradigm shift in the use of public funds – away from grants and subsidies, in favour of loans and guarantees –[...] namely the Investment Plan for Europe and its pillars European Fund for Strategic Investments (EFSI) and European Investment Advisory Hub (EIAH), offer us an historical opportunity to go the extra mile and mobilise more private and public sector funding [...] (EIB 2016)

The €500bn Investment Plan for Europe (IPE) was the EU's supra-national answer to the severe credit crunch in the European real economy induced by the GFC. Launched in 2014 by the European Commission (EC), the IPE gave leeway to riskier investment policies and relied on less prominent actors such as the EIB to carry out the investment recovery.

The influential political scientist Peter A. Hall would, however, probably raise an eyebrow at Hoyer's claim. According to Hall, true paradigm shifts go beyond the introduction of new policy instruments. Rather, they alter 'the hierarchy of goals behind a policy' altogether (Hall 1993: 282). To determine how far the introduction of the IPE in 2014 marks a paradigmatic shift, this chapter compares the introduction of the IPE with the evolution of the 'EU's main investment policy tool' (European Commission, n.d. a), namely the European Structural and Investment Funds (ESI Funds). In doing this, it highlights the role of strategic discourses put forth by the advocates of competing policies in stipulating policy change.

According to Walter Deffaa the former Directorate-General for Regional and Urban Policy (DG REGIO), the two funds represent 'different intervention philo-

sophies' (Deffaa 2016: 162). The IPE is a leveraged fund, using small public contributions to crowd-in private capital. Based on loans and guarantees, it can be considered a market-enforcing policy. ESI Funds, on the other hand, are predominantly transfer based, rely on grants and can be considered a market-correction tool for taming regional inequalities in Europe.

This chapter argues that the resistance of the economically strong member states (MS) towards addressing the EU's 'fiscal capacity gap' (Braun/Hübner 2018: 131) in order to promote macro-economic stability amplified the pressure to rely on market-based instruments (such as the IPE) to cope with the credit crunch. Even though the two funds are formally unrelated, the opposition of economically strong MS to a 'Marshall Plan for Europe' or to transforming the Cohesion Policy into a 'major tool for investment, growth and job creation' (Friends of Cohesion 2012), as demanded by the economically weaker MS, created the space for the EC to strengthen innovative financial policies. Thus, contrary to Hoyer, the very absence of a disruptive third-order change after the GFC – away from austerity-based policy frameworks towards expansionary fiscal policies – led to a stronger reliance on 'private funds which look for profits' (Deffaa 2016: 162). The argument is akin to Wolfgang Streeck's insight that the expansion of market principles is the logical consequence of a consolidation state in which government debt reduction takes primacy (2015).

The chapter starts by discussing Hall's theory of policy change (1993) and Streeck's political-economic approach to the EU mode of governance. It highlights the importance of discourse coalitions (Hajer 1993) in stipulating whether policies are changed or maintained. In subsequent sections, the theoretical framework is then applied to examine the development of the ESI Funds and the EFSI and the accompanying discursive struggles. After introducing the functioning and rationale of the ESI Funds, this chapter identifies a redefinition of goals towards fostering competitiveness prior to the crisis. The third section then analyses the intergovernmental negotiations over the 2014–2020 Multiannual Financial Framework (MFF) within the European Council and singles out the discourse of 'better spending' introduced by the net contributors. Fourth, the introduction of the EFSI and the increasing use of financial instruments within the ESI Funds are also examined. These measures were promoted by the EC and the EIB in terms of 'doing more with less', and this chapter identifies a similar efficiency-enhancing discourse in this regard.

## Policy Change and Paradigm Maintenance

Peter Hall's influential theory of policy change and social learning (Hall 1993) distinguishes between three different orders of policy change, where each indicates a different magnitude of alteration. Whereas first-order changes represent incre-

mental, 'routinized decision making' (ibid.: 280), the implementation of new measures constitutes a second-order change and is identified with more 'strategic action' (ibid.). Hall regards both these orders of changes as 'normal policymaking' (ibid.: 279) or adaptations of instruments to attain unchanged policy objectives. He exemplifies this with the occasional adjustment of macro-economic policies under the Keynesian British governments of the 1970s.

Third-order changes, on the other hand, alter 'the hierarchy of goals behind a policy' (ibid.: 282), are more political in nature and 'are often preceded by significant shifts in the locus of authority over policy' (ibid.: 280). Third-order changes often follow societal changes and economic crises as the 'accumulation of anomalies' (ibid.) can no longer be explained by the current paradigm.

However, this raises the question of why a third-order change did not occur after the GFC. As Mark Blyth put it 'Indeed, if there was ever a perfect case for a paradigm shift in a Bayesian term surely this was it?' (Blyth 2013: 206). Furthermore, although many governments across the globe implemented stimulus packages (e.g. Germany's car-scrapping premium) and performed massive bank bailouts, the return to fiscal consolidation strategies to deal with the growing debt-to-GDP ratios followed shortly afterwards.

In addition, Blyth highlights the constructivist nature of paradigms in invoking or resisting change, and points to the role of ideas and the shift of authority needed for a policy change to occur. Rather than the anomalies itself, the struggle over their interpretation by competing actors (ibid.: 211) is crucial for third-order changes to come about. Hajer's concept of discourse coalitions can be fruitfully applied to examine how different actors offer interpretations strategically to induce or prevent policy changes. A discourse coalition is an 'ensemble of a set of story lines, the actors that utters these story lines, and the practices that conform to these story lines, all organized around a discourse' (Hajer 1993: 47). Dieter Plehwe adds that discourse coalitions need to be understood as 'social forces acting jointly, though not necessarily in direct interaction in pursuit of a common goal' (2011: 130).

In the context of the GFC, gaps in the institutional architecture of European Monetary Union (EMU), i.e. the inability to revert to currency devaluation coupled with the absence of some form of transfer system or joint liabilities, posed severe obstacles for struggling MS. With external devaluation unavailable for less competitive MS, Streeck sees 'only a financial transfer between rich and poor Member States' (Streeck 2013: 325) as a viable alternative to an internal devaluation (cutting wages and social benefits), possibly 'in form of an active regional-policy [...] in favour of the latter' (ibid.). In the absence of a paradigm shift in economic governance towards a Keynesian, expansionary fiscal framework (Blyth 2013a), Streeck predicts that public investment gaps (e.g. in infrastructure or social housing) must be replaced '[...] with private investment backed by the public' (Streeck 2015: 22). This process of financialisation comprises two distinct developments initiated by the pressure

of growing macro-economic imbalances: The contraction of public, redistributive transfer programs between MS (and hence also of market-correction tools) and the initiation and expansion of market-based alternatives. The conceptual framework of discourse coalitions provides us with fruitful insight into how a struggle over a two-stage process proceeds. It helps us to understand how the discourse formation of EMU, in which MS, market actors, practices and ideas enable and facilitate the expansion of market-based alternatives as the 'viable solution', becomes dominant, opposed to solutions based on joint liabilities or transfer systems.

In order to understand how these discursive strategies are practised, the following section starts by describing the main rationale of the ESI Funds and then traces how the notion of competitiveness led to a reorientation of these funds' policy goals.

## **The Structural Funds: From Redistribution to Increasing Competitiveness**

Since the foundation of the European Economic Community (EEC), the creation and expansion of a single market has been prioritised, strengthening market forces in Europe. At the same time, the EU is committed to social inclusion and cohesion objectives, which provided the reasons for public transfers (agricultural policy, regional and structural funds) According to David Harvey (1982), capitalist production brings about uneven geographical developments due to agglomeration effects and economies of scale, among other factors. This is also true for the EU, and the four rounds of enlargement since the 1980s increased socio-economic differences within the EU, as Greece (1981), Spain and Portugal (1986) and the eleven Central and Eastern European Countries (CEE) entered with much lower levels of GDP than the northern MS. Policy conflicts between the completion of the single market, on the one hand, and social inclusion and cohesion between and within the member states, on the other, have increased as a result.

Social and economic inequalities are acknowledged to have manifold negative effects for societies and are associated with reduced overall life expectancies (Rasella et al. 2013), decreasing social mobility (Kearney/Levine 2014) and higher levels of dissatisfaction with the democratic system (Schäfer 2010). Recently, regional inequalities have been interpreted as a cause of intensified political polarisation and increasing vote shares for Eurosceptic parties (Dijkstra et al. 2018; Manow 2018). Borin, Macchi & Mancini (2018) suggest that adequate compensation within economically disadvantaged regions in the EU has positive effects on approval rates towards the European project.

The good news: Income inequality in the EU has decreased slightly in recent years, at least when GDP levels between MS are compared (Dauderstädt 2019: 3).

This results mostly from the strong catch-up processes of the CEEs. Yet, average income levels between MS such as Bulgaria and Luxembourg remain very high, and inter-regional inequalities within member states have been rising since the 1980s (Hadjimichalis 2011: 257; Rosés/Wolf, 2018; Dauderstädt 2019: 3).

To counteract unequal regional living standards, the European Community saw early on the need for a regional transfer policy and introduced the Cohesion Policy with the Single European Act in 1985. This is reflected in the Act's goal to 'promote its overall harmonious development', (Article 174, TFEU) especially by 'reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions' (ibid.).

Until the European financial crisis, the budget share allocated to the ESI Funds had grown steadily and is currently equal to one-third of the total EU budget. The funds are invested locally and can be described as an 'active form of EU solidarity' (Europa.eu n.d.) Jointly administered by the EU and the MS, the ESI Funds are usually based on a co-financing system in which contributions by the EU are matched by the receiving regions. Table 1 displays the main ESI Funds for the current funding period (2014–2020). The funds themselves consist of programmes that are intended to achieve the ESI Funds' overall goals and policy objectives. Table 2 shows the funds' growth between 1989 and 2020. Organised along core-periphery logics, funding is secured through MS allocating around one percent of their Gross National Income (GNI), which is often interpreted as a rather modest contribution. The budget is redistributed along certain eligibility criteria for regions, which automatically creates net contributors and net beneficiaries. This funding is vital for certain less developed regions, as it can make up for four percent of their GDP (Krieger-Boden 2018: 10), especially through the Cohesion Fund, which targets regions with a GNI per capita average below 90 percent of the EU average.

Table 1: The European Structural and Investment Funds

Funds (2014-2020 MFF period)	Rationale
European Regional Development Fund ( <b>ERDF</b> )	corrects imbalances between regions and fosters cohesion in social and economic terms
European Social Fund ( <b>ESF</b> )	Investments in human-capita, promotes employment
Cohesion Fund ( <b>CF</b> )	Environment & infrastructure projects in countries where GNI per capita is below 90% of EU average
European Agricultural Fund for Rural Development ( <b>EAFRD</b> )	targets the challenges for rural areas
European Maritime and Fisheries Fund ( <b>EMFF</b> )	focuses on EU coastal regions and fishery-industry

Table 2: ESIF Funding in Million Euros from 1989 to 2020 (five funding periods)

Funding period	1989-1993	1994-1999	2000-2006	2007-2013	2014-2020
ERDF	28 640		122 012	180 547	199 237
ESF	Not available	Not available	66 003	71 000	83 924
CF	-	18 078	30 619	66 186	63 297
YEI	-	-	-	-	8 847
EAGGF / EAFRD	923	17 905	22 200	86 107	100 079
<b>Total</b>	<b>29 564</b>	<b>113 719</b>	<b>240 834</b>	<b>403 841</b>	<b>461 117</b>

Sources: The amounts for the different funds can be found on the Commission's website: <https://cohesiondata.ec.europa.eu>

The budget size, the overall goals and the regional eligibility criteria for funding are shaped by recurring negotiations between the MS and the supra-national institutions (especially the EC). The most encompassing policy change can be observed with the introduction of the Lisbon Strategy in 2000. The strategy's intention to turn the EU into 'the most competitive and dynamic knowledge-based economy in the world' (European Council 2000) altered the Cohesion Policy towards targeting competitiveness and growth as additional policy objectives. Thus, next to market-correction objectives, it also introduced market-enhancing ones.

However, achieving cohesion by increasing regional competitiveness and growth is contested. Trade-offs exist between enhancing regional equality and economic productivity, as economic growth generally does not spread out equally within a country. Rather it is based on cluster effects. These entail geographical investment concentrations (Krieger-Boden 2018: 11), as productive regions possess advantages, e.g. more developed infrastructures, skilled labour, and specialised service providers, which create economies of scale (Pauli 2019). In this context, Giordano and Dubois (2018) speak of 'territorial tensions' (*ibid.*: 2) that have emerged (especially within the ERDF) since the 2007 funding period.

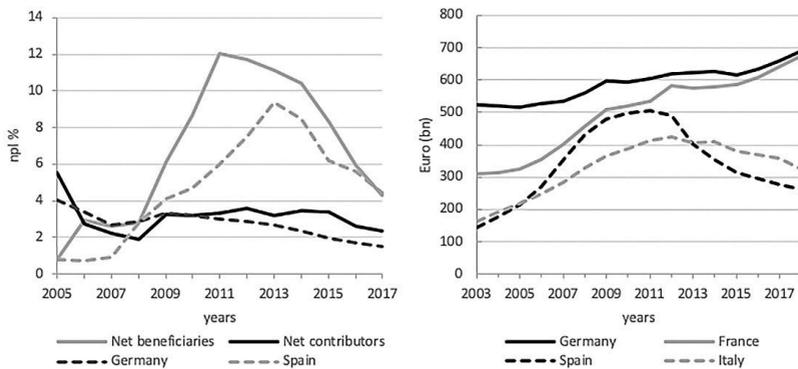
Besides the reorientation of goals, the 2007-2013 period also broadened the eligibility criteria for regions to receive funding. Whereas Objective 2 of the Cohesion Policy was previously only available to former industrial areas, it is now accessible to all regions to promote competitiveness and innovation (Bodirsky 2015). This was the second change in the ESI Funds to decrease the redistributive nature of the policy, since regions that are already productive can now gain funding.

These policy restructuring measures were accompanied by changes in discourse, too, as competitiveness became the catchphrase of the day. These discursive shifts have been embedded within the general rise of 'new regionalism' since the 1990s, which confers the notion of corporate competitiveness onto regions. According to this concept of interlocational competition between regions at a global level, governments should compete in attempting to provide the most business-friendly environments in a competition over the location of businesses themselves. Greater regional competitiveness is expected to bring about jobs and economic growth. It seems uncertain how far this approach can decrease regional disparities if unevenly developed regions are competing more directly over resources. Bradanini (2009) places the increasing focus on competitiveness and efficiency gains in the broader context of the development of EU institutions and policies to show how market logics were given more and more precedence over social concerns. Introducing competitiveness, innovation and growth as a remedy for decreasing regional disparities can be interpreted as a third-order policy change, as overall objectives have changed fundamentally. These policy changes, however, need to be analysed in the context of political struggles between different coalitions and actors within the EU's multilevel governance system to enhance our understanding of how policy changes are pushed through. Thus, the following section examines the negotiations over the reinterpretation of the Cohesion Policy in more detail, focusing especially on the notion of 'better spending' by net-contributing countries within the EU.

## Political Conflict Lines After the Financial Crisis: The 2014–2020 Budget Negotiations

The GFC pushed the European banking system and the real economy to the brink of collapse. For about twelve months, stimulus packages (Blyth 2013) and massive bank bailouts were introduced by governments worldwide to counteract the deteriorating economic situation. Anxious that the consequence of growing government debt-to-GDP ratios would destabilise the Eurozone as a whole, the (relatively) unshaken Northern MS soon started to demand that the Eastern and Southern MS impose strong fiscal consolidation measures. Thus, the negotiations held in 2012 over the ESI Funds in the 2014–2020 MFF were ill-fated from the start. In this respect, the negotiations over the Cohesion Policy in 2011 provide an important entry point. The Commission's legislative proposal to restructure the Cohesion Policy in 2011 was soon taken over by the net contributors, who acted as the drivers of policy change. Comparing the economic developments of the net-contributor countries and the net beneficiaries shows that the latter were affected more severely. At the time of negotiation in 2012, loan defaults by (non-financial) companies had increased to over ten percent (median) within the beneficiary countries and remained relatively stable in the net-contributor countries (see Figure 1). Figure 2 below shows the growing spread between France, Germany, Spain and Italy in terms of the ability of their banking sectors to contract loans with non-financial companies. Especially for the beneficiaries, this caused additional political pressure to stabilise the economy through governmental investments.

Figure 1: Bank non-performing loans (npl) to total gross loans (%) in the EU, Figure 2: loans to non-financial companies by banks (stock) (%) in the EU (in billions)



Source: data.worldbank.org The chart displays the median for the net-beneficiaries and the net-contributors, \*Source: European Central Bank (Statistical Data Warehouse)

Politically, the 'tortuous battles' (Kölling/Serrano Leal 2012) over the 2014–2020 MFF intensified against the background of the Eurozone crisis. The hardened fronts were represented by two groups of member states in the European Council: The net beneficiaries (Friends of Cohesion) and the net contributors (Friends of Better Spending) to the ESI Funds (see table three below). They represented opposing discourse coalitions. Whereas the Friends of Better Spending demanded strong contribution cuts and stronger conditionalities, the Friends of Cohesion stressed the necessity of redistributive policies and aimed at expanding the Cohesion Policy.

Table 3: "Friends of Better Spending" and "Friends of Cohesion"

<b>Friends of Better Spending</b>	<b>Friends of Cohesion</b>
Germany, France, Finland, Austria, Sweden and the Netherlands	Bulgaria, the Czech Republic, Estonia, Greece, Latvia, Lithuania, Malta, Portugal, Slovakia, Slovenia and Spain

The Friends of Cohesion were not the only actors that argued for an expansion of grant-based transfers. To revive economic activity and stabilise the EMU, social-democratic and progressive actors such as the German Federation of Trade Unions (DGB) called for a 'Marshall Plan for Europe' (DGB 2012), demanding much higher transfers between core and periphery countries, with a base calculation of €260bn annually. For the same purpose, the Friends of Cohesion saw the need to improve the 'conditions for sustainable growth and jobs' (Friends of Cohesion 2012). They argued that 'the European budget, and the Cohesion Policy in particular, should play a strong role in this regard' (ibid.) and conceived the ESI Funds as the toolkit for an anti-cyclical approach 'to invest out of the crisis' (ibid.) as well as to utilize the Cohesion Policy for this as it 'remains a key investment tool for our countries' (ibid.).

The Friends of Better Spending constituted the discourse coalition at the other end of the spectrum. Germany's resistance to setting up shared liabilities (e.g. Eurobonds) and its demand for growth-friendly consolidation has been widely studied (Blyth 2013a; 2013b; Moravcsik 2012; Plehwe 2018). In terms of overall funding, the Friends of Better Spending called for a €100bn cut in the Cohesion Policy (of €1 trillion in planned spending) within the period 2014–2020 (Sweden demanded even stronger cuts). Spearheaded by Merkel and Sarkozy, the Friends of Better Spending stuck to the discourse of enhancing growth and competition discussed in the previous section: 'Structural and cohesion funds should be used to support essential reforms to enhance economic growth and competitiveness in the Euro Area' (Merkel/Sarkozy, 2011). In addition, they suggested placing the ESI Funds under

the fiscal consolidation rules so that ‘In the future, payments from structural and cohesion funds should be suspended in Euro Area countries not complying with recommendations under the excessive deficit procedure’ (ibid.). Additional proposals were put forward to revise the eligibility criteria so that certain amounts would safely go to transitioning regions of the more developed MS. The notion of ‘better spending’ was thereby utilised to frame the Cohesion Policy as inefficient, to legitimise a restructuring of funding and to reduce overall funding. Through this efficiency-enhancing ‘storyline’, the better spenders achieved a reduction in overall spending within the Cohesion Policy and the introduction of conditionalities via the linkage to the European Semester.

Yet, this could not do away with the credit crunch. Streeck’s insight that the logical consequence of budget consolidation is to engender a stronger reliance on private capital is observable in European regional investment as well. In their joint declaration, the Friends of Better Spending also called for stronger involvement of the European Investment Bank (Friends of Better Spending 2012: 2), which previously had a role in advocating public-private partnerships (Liebe/Howarth 2019). The following section analyses how the EIB became involved in two market-enhancing developments. By first carrying out the Juncker Plan and second promoting the usage of financial instruments within the ESI Funds, the EIB played a crucial part in buttressing a new understanding of regional development policy. Both the Commission and the EIB relied on a similar efficiency-enhancing discursive frame as deployed by the better spenders to gain support for their ambitions.

## The Return of Keynes or ‘Juncker-Voodoo’?

To undo the Gordian Knot of investing in the real economy while being prevented from investing in the real economy, the newly elected Commissioner Jean-Claude Juncker proposed an Investment Plan for Europe in 2014. Based on three pillars, the Commission set up the European Fund for Strategic Investments (EFSI), initiated the European Investment Advisory Hub to support investment and sought to remove regulatory investment barriers. The EFSI’s initial size of €315bn to invest in innovation, infrastructure and SMEs was extended to €500bn in 2016. But what seems like a strong response to the credit crunch and exceeds the Structural Funds’ volume (€450bn in 2014–2020) needs to be put in perspective.

The EFSI does not comprise fresh public money but uses an initial sum of €21bn partly drawn from the existing EU budget<sup>1</sup> to provide guarantees for private investments. It aims to mobilise private capital by securing against potential investment

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1 €8bn was taken from the Horizon 2020 budget, €8bn was provided in forms of EU guarantees and another €5bn was provided by the EIB.

defaults and thereby to leverage the limited public resources at a ratio of 1:15. Mertens and Thiemann have termed this initiative, which is connected to the Capital Markets Union (CMU), an extension of market-based finance (Mertens/Thiemann 2018), yet it is state led, and has revived the 'securitization markets' (ibid.: 3). Against the backdrop of the GFC, in which asset-backed securities (especially on mortgages [MBS]) in combination with high leverage ratios caused a financial meltdown, it seems surprising that the Commission relied on such instruments to regain macro-economic stability (Braun/Hübner 2018: 118).

Through the EFSI, the Commission created the supranational institutional structures for an active state-led investment policy that could potentially be equipped with higher levels of public funds in the future, while current state-aid rules and market-failure provisions could be relaxed (Mertens 2019). However, although the Commission has already declared the Juncker Plan a success story, critics have pointed to various problems. First, progressive proponents of a real Marshall Plan for Europe regarded the Commission's initiative as insignificant (0.4 percent of EU-wide GDP) to turn the tide in the real economy. Second, the EFSI entails large-scale investment in public-private partnerships (PPP)<sup>2</sup> and fosters the blending of public and private funds (Counter Balance 2017). PPPs turn public goods into commodities and are often more expensive for the public in the long run due to higher interest rates, among other factors (Whiteside 2011; 2017). By means of guarantees from the MFF and by installing investment platforms, the EIB shares investment risks with investors and covers the riskier tranches. 'In this way, EFSI works as a guarantee facility and a giant PPP for a variety of projects ranging from transport, R&D and housing to the energy sector' (Mertens/Thiemann 2018: 194). Third, the EIB did not earmark investments for regions that were particularly exposed to the crisis. Pauli has argued that a 'strategic' plan, should especially address the growing disparities between EU regions that have been 'left behind' and the more prosperous ones (Pauli 2019). In this regard, the European Court of Auditors criticised the fact that investments 'went to a few larger EU 15 Member States with well-established national promotional banks' (European Court of Auditors 2019: 62).

It would be misleading to describe the Juncker Plan as a replacement for the grant-based system of ESI Funds. Both fulfil different purposes and represent 'different intervention philosophies', according to Walter Deffaa (2016: 162), the former head of DG REGIO. Yet, financial instruments, which the EFSI is based on, have been gradually introduced within the ESI Funds, too. Mertens and Thiemann have traced the growing relevance of the EIB in promoting financial instruments within

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2 This is managed by the European PPP Expertise Centre (EPEC) which 'support[s] the public sector across Europe in delivering better public-private partnerships (PPPs)'.

the ESI Funds since the end of the 1980s (Mertens/Thiemann 2019).<sup>3</sup> Faced with limited public spending, the Commission argued that ‘grants [...] can be efficiently complemented by financial instruments, which have a leverage effect and are closer to the market’ (European Commission n.d.b). The Commission encouraged MS to double the amount of FIs within the ESI Funds funded projects (European Commission 2015). By the end of 2018, the amount invested via financial instruments had already exceeded the total amount invested in the previous funding period (European Commission 2018).

Most importantly, links have been established to utilise ESI Funds within the realm of the EFSI. Both the Commission and the EIB have advocated this on different occasions. In 2016, Walter Deffaa stated that ‘ESIF are expected to play a key role in helping to ensure the delivery of the IPE under all three pillars’ (Deffaa 2016: 162). The advisory centre for PPP projects within the EIB established guidelines on how to better combine financial instruments and ESI grants by relying Public-Private-Partnership structure.

To convince member states, the EC and the EIB utilised a similar efficiency-enhancing ‘storyline’ (Hajer 1993: 47) as the Friends of Better Spending, promoting financial instruments to ‘do more with less’. Whereas the Friends of Better Spending aimed at decreasing redistribution and grant payments, the EIB sought to expand market-based finance. ‘Doing more with less’ even amplifies the notion of better spending, as it more directly advocates efficiency gains. In 2018, the EIB organised the ‘doing more with less’ conference (EIB 2018), with high-ranking EU officials and a special panel on ‘Financial Instruments in Cohesion Policy’ (ibid.). The connection to the notion of ‘better spending’ was acknowledged by the German Ministry of Finance, too, which regards the EFSI as ‘a continuation of the “Better-Spending”-concept for the EU budget’ (German Ministry of Finance 2015). In an Interview, EIB President Hoyer offered the same interpretation, stating that the EFSI ‘is logical and is consistent with the commission’s policy of “better spending”’ (Berschens 2016).

Choosing a market-based approach to tackle the credit crunch and explicitly referring to the better-spending notion can be interpreted as a conscious decision against traditional anti-cyclical solutions. By relying on a similar efficiency- and competitiveness-enhancing discursive strategy and by sticking to austerity, the two actor coalitions have enforced the usage of ‘private investment backed by the public’ (Streeck 2015: 22): the Friends of Better Spending by lessening the redistributive

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3 Introduced for the first time in 1994, they were extended between 2007 and 2013 within programs such as JESSICA. Anguelov et al. (2018) describe how through JESSICA the potential return of investments became an important selection criterion for choosing fundable urban infrastructure projects.

component of the ESI Funds and the EIB and the EC through enforcing the EFSI and the greater usage of financial instruments.

## Conclusion and Outlook

This chapter has examined how far a third-order paradigm shift from redistributive regional investments to market-based financial instruments can be identified with regard to regional investments in Europe. To accomplish this, it has analysed major reforms within the ESI Funds prior to and after the GFC and has compared this instrument to the Investment Plan for Europe. By employing the concept of discourse coalitions it has been possible to identify which competing actors have pushed for or prevented reforms. As has been shown, a major shift to attain greater cohesion by promoting regional competitiveness was already introduced prior to the GFC by coupling the ESI Funds to the Lisbon Strategy. While this did not alter 'the hierarchy of goals' (Hall 1993: 282) altogether, it did constitute a substantive alteration of policy objectives, which was deepened by the 2014–2020 MFF reforms. Against this backdrop, Hoyer's claim of a 'paradigm shift [...] away from grants and subsidies, in favour of loans and guarantees' (EIB 2016) must be interpreted as a result of the very absence of a third-order policy change. Rather than a clear-cut shift, it represents a continuous strengthening of market-based instruments and the endorsement of more competitiveness. In other words: Business as usual. The introduction of the EFSI and the expansion of financial instruments that rely on market-based tools are the logical consequence of what Streeck (2015) calls the consolidation state.

Both the ESI Fund reforms and the introduction of the EFSI were advocated based on efficiency-enhancing discourse strategies. First, in terms of the notion of 'better spending' to counter the demands of the Friends of Cohesion that the ESI Funds be transformed into an anti-cyclical investment tool. Second, by the Commission and the EIB to frame the EFSI and the expansion of financial instruments as 'doing more with less'. Connections between the two concepts were explicated by both the German Financial Ministry and EIB President Werner Hoyer. The continuous expansion of market-based finance is thus paralleled by a stable discourse coalition to push things through.

In the current negotiations, Brexit and the phasing out of rebates for net-contributor MS place additional pressure on the ESI Funds. The Friends of Better Spending have already called for the further reduction of Cohesion Funds by ten percent. Since investments to foster the single market are likely to increase (Bachtler/Mendez 2019: iii), the transformation of the originally transfer-based and market-compensating character of the ESI Funds is likely to continue.

The post-2020 ‘InvestEU’ fund will act as a continuation of the EFSI and bring ‘a multitude of financial instruments under one umbrella’ (Kelly 2018). Expanded to €650bn, InvestEU objectives will also include social investments (especially in social housing). Because this attracts fewer profits, the expected leverage ratio has already been reduced to 1:13.7. In this institutionalised form, EFSI 2.0/InvestEU could function as a bargaining option for opponents of the ESI Funds. For instance, the neoliberal thinktank EPICENTER has already suggested that in order to avoid ‘a mere public hand-out [EFSI] [...] should play a more prominent role in future regional development projects’ (Burleigh 2017). The Friends of Cohesion seem to have accepted the new role private capital will play in the future of the ESI Funds. In their 2018 declaration, they highlighted the need for EU resources ‘to promote public and private investments’ (Friends of Cohesion 2018: 2).

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Table 1: “The European Structural and Investment Funds.” Created by Neujeffski, Moritz (2020) for this publication. Data taken from <https://cohesiondata.ec.europa.eu> (July 30, 2019).

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Table 3: ““Friends of Better Spending” and “Friends of Cohesion”” Created by Neujeffski, Moritz (2020) for this publication.