

# **Do the European Union's Structural Funds Affect the Support for European integration in Receiving Areas?**

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## **Abstract**

In this paper we investigate whether the European Union's Structural Funds affect the public support for European integration in receiving areas. Sweden held a referendum on joining the European Union 1994. In 1995 Sweden joined the EU and started receiving structural funding. Some municipalities received substantial amounts from the structural funds, while other municipalities received very little. Sweden held a second referendum in 2003 on introducing the Euro. The chronological order of the two referenda and the introduction of the structural funds spending in Sweden allow us to use a quasi-experimental approach for investigating the effects of structural funds on the support for European integration. The 1994 referendum gives us data on the regional distribution of support for the EU before the introduction of the structural policy in Sweden. Between 1995 and 2003 some municipalities received much money from the structural funds than others. In 2003, we can measure the support for European integration in all municipalities by the results from the 2003 referendum. We find no effects of structural fund spending on the support for European integration.

**JEL classification:** D72, H77, R11

**Keywords:** European Union, Voting Behaviour, Regional Policy

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# 1. Introduction

Most policies serve several purposes, both official objectives, such as efficiency or equality and unofficial objectives such as increasing the chances of re-election of incumbent politicians. The EU structural policy is no exception to this rule. It has been claimed that it is beneficial for growth and economic equity between regions, for an overview see e.g. Tarschys (2003). The economic efficiency of the structural policy is doubtful, see Midelfart-Knarvik and Overman (2002). What is unusual about the EU structural policy is that it explicitly aims to legitimise European integration for the voters. The idea is that economic integration within the EU is more beneficial for some regions than others and that it for political reasons is important that all regions benefit from the European integration. EU structural policy is aimed to increase cohesion in the EU. A third, unofficial, explanation to the EU structural policy is that it works as a side payment in political negotiations. For example, the structural policy was expanded in connection with the introduction of the common market. This mainly benefited the southern Member States, who claimed that they would be disadvantaged in the common market. Side payments in political negotiations can of course be useful, but if it is the sole purpose of the structural policy, it would be more efficient to redistribute money directly.

Of the three groups of effects of EU's structural policy, economic effects, public opinion effects, and the side payment effect, we will concentrate on the second. It would be problematic to directly relate structural policy expenses to public support for the EU. The regions that benefit most from the structural policy are also the poorest regions. The question is how to isolate the effects from structural policy on public opinion. Ideally, we would like to first measure the support for EU in a region, then introduce structural policy, and finally measure public support after the introduction of the structural policy. We will argue below we have such a case in Sweden. In 1994, Sweden held a referendum on whether to join the EU. In 1995 Sweden joined the EU, and also started receiving funding from the Structural Funds. Especially the northern part of Sweden benefited from the Structural Funds. Finally, in 2003, Sweden held a referendum on whether to change currency to the Euro. Detailed data from the referenda allow us to study the changes in the public opinion between 1994 and 2003. The regional differences in support for the EU are remarkably stable between the two referenda. A simple OLS regression of the outcomes for the 1994 referendum on the outcomes of the 2003 referendum results in a R-square of 0.92.

The hypothesis that government spending can be used for increasing the popularity of the government among the voters has motivated a substantial amount of research in economics and political science. The empirical research testing this hypothesis has been concerned with two questions. The first question is if governments' spending has been used to purchase votes. An empirical strategy often used for answering this question is to identify constituencies where votes are more important to the government, for example swing states, and investigate if these constituencies receive more federal grants than other constituencies. Examples of research in this tradition are Dahlberg and Johansson (2004) and Strömberg (2004). Dahlberg and Johansson (2004) study a Swedish federal grant program, which the national government had great discretion to choose which municipalities should receive 'ecological' grant. They find that municipalities with a large share of swing voters received larger grants. Strömberg (2004) studies the New Deal program in the 1930's. At that time radio listening was expanding in United States. Strömberg finds that counties with many radio listeners, and therefore more informed voter, received more federal grants.

The second question that has been tested is if governments spending affect voters. This literature is rather small. Levitt and Snyder (1997) find that federal grants affected voters' behaviour in the congressional election of 1984. An increase of 100 USD in federal grants resulted in as much as a two percent increase in votes for the incumbent. Jordahl (2002) studies the effects of a change in the Swedish national grant system for municipalities in the beginning of the nineties. He finds that specific grants to municipalities, for example to education, increase the support for the incumbent. The 'cost' for one vote is according to his estimate SEK 120 000, or about \$15 000. Even if this is a substantial amount, it may affect the election outcome in a close race. This paper is concerned with the second question.

It has been argued that the justification of the Structural Funds goes beyond its economic effects. Bachtler and Taylor (2003) maintain the view that the added value of the funds operates at several levels. For example, the cohesion added value, i.e. the promoting of convergence between the Union's regions, is according to their survey complemented by a policy added value, an operational added value, a learning added value, and – which is highly relevant for our purposes – a *political added value*.

Bachtler and Taylor (2003) argue that efforts financed by the Structural Funds are visible in several layers of society and that this bi-product of the Funds has increased support for the European integration process. They claim that,

“[a]mong the perceived benefits is stronger support for European economic and political integration. For some, this is a significant dimension of added value. The effect has perhaps been strongest in those Member States that are most ‘distant’ from the heart of Europe, whether geographically (e.g. remote regions) or in terms of engagement in European integration (Denmark, Sweden, UK).” (Bachtler and Taylor 2003, p. 17)

Thus, it can be argued that part of the aim of the Structural Funds is to increase voter support for European integration, which makes it extra interesting to investigate the public opinion effects of this particular policy.

The remainder of the paper is organized as follows. Section 2 describes EU’s Structural Policy, with a focus on Sweden. Section 3 describes the data and Section 4 gives the econometric results and discuss the interpretation of these results. Section 5 concludes.

## 2. EU Structural Policy

EU regional policy aims to promote economic and social cohesion in the Union. Even though regional policy in Western Europe had found its most vivid expressions in the 1960s and early 1970s<sup>1</sup> – Structural Policy, and later Cohesion Policy, got underway only in the 1980s and 1990s, respectively. The driving force behind their development has foremost been the accession of new Member States – from Greek accession and onwards – and the establishment of the Single European Act (SEA) and the Economic and Monetary Union (EMU).<sup>2</sup> In particular, the 1992 Maastricht Treaty made economic and social cohesion one of the top priorities in the EU.<sup>3</sup>

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<sup>1</sup> The Treaty of Rome established the European Investment Bank (EIB) and the European Social Fund (ESF), while the European Regional Development Fund (ERDF) was created in 1975. ERDF is a redistribution instrument and originally served as a compensatory measure when it became clear that the UK could not fully take advantage of the Common Agricultural Policy (CAP).

<sup>2</sup> The establishment of EMU also meant the introduction of the Cohesion Fund. However, as the Cohesion Fund only applied to Greece, Ireland, Portugal and Spain, it is of less relevance for our purposes.

<sup>3</sup> A fuller account of the history of EU Structural Policy is provided by, *inter alia*, Tarschys (2003), who has pointed out that the EU enlargements, with the exception of the 2004 enlargement, have caused fundamental changes to the Structural Policy due to its adaptability. This adaptability, further, has made it the perfect companion of the rather inflexible Common Agricultural Policy (CAP), as, for example, in the case of the UK

The Financial Frameworks<sup>4</sup> that are most relevant for our purposes are those that cover the periods 1994-1999 and 2000-2006. In the first period support amounted to 154.5 billion ecu in 1994 prices (Dall’erba 2003). The bulk of the resources were channelled through the European Regional Development Fund (ERDF), which supported measures within Objectives 1, 2, 5a, 5b and 6. The European Social Fund (ESF) supported measures within Objectives 1, 2, 3, 4, 5b and 6; the European Agricultural Guidance and Guarantee Fund (EAGGF) supported rural development measures within Objectives 1, 5a, 5b and 6; and the Financial Instrument for Fisheries Guidance (FIFG) supported measures in coastal regions within Objectives 1, 5a and 6.<sup>5</sup>

[TABLE 1 ABOUT HERE]

In March 1999 at the European Council in Berlin the then 15 EU Member States agreed to reduce the number of objectives to three. Objective 6 was included in Objective 1, Objective 5b in Objective 2 and Objective 4 in Objective 3. In total the support from the Structural Funds will have been ca €200 billion, or 0.46% of EU GNP, for the years 2000-2006. The Objectives and their funds are shown in Table 1, where some emphasis has been placed on the relevance of funding in Sweden.

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accession. A third noteworthy feature of EU Structural Policy is that policies once decided may have outlived their original justification. The Cohesion Fund, originally set up to aid lagging economies to cope with the Convergence Criteria of the EMU, is a good case in point (Tarschys 2003).

<sup>4</sup> EU’s Financial Frameworks are multi annual spending plans, usually for a period of seven years.

<sup>5</sup> The four funds, ERDF, ESF, EAGGF and FIFG, are together called the Structural Funds. In the current setup the ERDF contributes to assisting the regions whose development is lagging behind and those undergoing economic conversion or experiencing structural difficulties; the ESF provides assistance under the European employment strategy; the Guidance Section of the EAGGF helps in both the development and the structural adjustment of rural areas whose development is lagging behind by improving the efficiency of their structures for producing, processing and marketing agricultural and forest products; and the FIFG supports restructuring in the fisheries sector. See “Summaries of the Union’s legislation” on <http://europa.eu.int/scadplus/>.

## 2.1 Structural Policy in Sweden

When Sweden negotiated the terms of accession in 1994, it became clear that no matter how the negotiators tried to re-draw regional borders, calculate and re-calculate population statistics and regional GDP per capita, they were unable to reach the desired targets required to achieve EU funding under Objective 1. The eligibility threshold for Objective 1 – a GDP per capita of less than 75% of EU average at NUTS II level – was too low and the poorest Swedish regions were simply too rich. The solution would be a new eligibility criterion where support was given to sparsely populated areas. Sweden thus received support within Objectives 2, 3, 4, 5b and 6 (the bulk of which went to the northern parts of Sweden<sup>6</sup>) in the years 1995-1999. After the decision was taken at the 1999 European Council in Berlin to merge the seven Objectives into three, Sweden has received funding within all Objectives.

The regions in Sweden eligible for Objective 6 support in 1995-1999 and Objective 1 support until 2006 are parts of North-Central Sweden, Central Norrland and Upper Norrland, covering some 450,000 people (5 per cent of the Swedish population). In the 1995-1999 period total support amounted to €635 million, out of which the EU provided €252 million. In 2000-2006 Objective 1 regions in Sweden will have received €797 million from the Structural Funds. Eligible areas for Objective 2 support cover a larger part of the population, some 1.22 million inhabitants (24 per cent of the population), but support is significantly less: In the first period total EU payments amounted to €160 million and in the second period Sweden will have received €431 million. Objective 3 (and 4 prior to 2000) in turn cover areas that are not covered by Objective 1/Objective 6. The support from the Structural Funds in the first period within both Objectives 3 and 4 was €520 million and in the second period €795 million.

## 3. Data

We use data from two referenda, from Statistics Sweden. The data contains all votes in the two referenda distributed over the 285 Swedish municipalities. The first referendum took place November 13, 1994. The issue at stake was whether Sweden should join the European

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<sup>6</sup> The average annual per capita support in 1995-1999 within Objectives 2, 5b and 6 to municipalities north of Dalarna was €48, while the corresponding number for municipalities south of this area was €19.

Union. There was two alternatives Yes and No. It is also possible for the voter to cast a Blank vote. The results were that 52,3 percent of the voters voted for Yes, 46,8 voted for No and the remaining 1,1 percent voted Blank. The turn out was 83,3 percent.

The second referendum took place 14 September 2003. The subject for the second referendum was whether Sweden should introduce the Euro as its currency. Yes scored 42,0 percent of the votes, No 55,9 and Blank 2,1. The turnout was 82,6 percent.

[TABLE 2 ABOUT HERE]

The independent variable, *YES*, is calculated is as

$$YES = \text{Yes}/(\text{Yes}+\text{No}), \text{ i.e. the blank votes are disregarded}^7$$

The geographical distribution of Yes votes is remarkably similar between the two referenda, as can be seen in Diagram 1. The share of Yes is lower in 2003 than in 1994. The fall in Yes votes is larger in the municipalities where there was a close race in 1994. The fall is on average smaller in municipalities where Yes or No scored a large share of the votes in 1994.

[DIAGRAM 1 ABOUT HERE}

The outlier in the centre of the diagram is the municipality of Haparanda. The city of Haparanda is located on the border between Sweden and Finland. The twin city of Torneå on the Finnish side of the border is connected to Haparanda via bridges. Finland had already introduced the Euro at the time of the Swedish referendum. For the population in Haparanda the Euro referendum was in practice a decision on having the same or different currency within a city or not. In contrast to all other municipalities, the share of yes votes increased between the 1994 and the 2003 referendum. In the econometric analysis below we disregard the Municipality of Haparanda. Keeping Haparanda in the sample would not alter the results in any interesting way, however.

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<sup>7</sup> An alternative definition would be to define *YES* as the share of yes votes of all votes, including blanks. Choosing this definition would not affect any results.

We have obtained the distribution of Structural Funds spending in Sweden on a municipality level from Nutek, a Swedish government agency, for the period 1995-2000.<sup>8</sup> Some of the Structural Funds spending cover all of Sweden, such as Objective 4 spending. We construct a variable from spending under the objectives that are focused on special regions, such as northern Sweden. We call this variable  $SF_{95-00}$ , for Structural Funds spending 1995-2000, measured in 1000 SEK per capita. As many as 47 percent of the municipalities no regionally directed Structural Funds grants at all.

[TABLE 3 ABOUT HERE]

Table 3 gives the distribution of  $SF_{95-00}$ .

#### **4. Econometric Results**

Before Sweden joined the EU in 1995, no municipalities received money from the Structural Funds. After Sweden's accession to the EU some municipalities received substantial amounts from the Structural Funds, while others received no or very little support. This variation allows us to conduct a quasi experimental analysis, where the municipalities receiving substantial economic support are the treatment group, and the municipalities receiving no or very little support constitutes the control group.

The electorate's views on the EU are affected by many factors. It is for example well known that education, income and gender affect the support for European integration, see e.g. Gabel and Whitten (1997) and Vlachos (2004). By controlling for the referendum results in 1994, we capture all these differences, unless there is a substantial change in the municipal composition of the electorate between 1994 and 2003.

The support for the EU may vary over time as a result of for example political scandals in the EU, or perceived performance of the EU in general. This does not bias our result, unless the changes in public opinion are correlated with the municipal distribution of grants from the Structural Funds. It seems unlikely that the public reaction to for example a political scandal

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<sup>8</sup> The Spending for 2001-2003 is of course important to include and we will get these data on a municipality level soon. However, spending is correlated between the 1995-2000 and 2001-2003 periods, so our results is probably no affected too much of our current lack of data.

would be different in a municipality receiving large grants from the Structural Funds than for a municipality receiving only small grants, everything else being equal.

[TABLE 4 ABOUT HERE]

We use the election results from all but one municipality to investigate the effects of structural policy on public opinion. We exclude Haparanda which, being a border town to a Euro-country, benefit more from the Euro than other municipalities.  $YES_{94}$  and  $YES^2_{94}$  controls for the referendum results in 1994. The positive signs on  $YES_{94}$  and  $YES^2_{94}$  show that there is a positive relation between the share of Yes votes in 1994 and 2003. This relation is not linear, however. The support for European integration fall less in municipalities where the share of Yes votes was very high, or very low in 1994. The square term  $YES^2_{94}$  captures this non-linearity. The control variables  $YES_{94}$  and  $YES^2_{94}$  do a very good job in prediction the outcome of the 2003 referendum, as indicated is by an  $R^2$  of 0.93.

Our main variable, per capita grants from the Structural Funds,  $SF_{95-00}$ , turns out to be insignificant. Grants from the Structural Funds do not increase (or decrease) support for European integration in receiving municipalities. This is the main result of our paper. We have conducted several robustness checks. Using only  $YES_{94}$ , but not  $YES^2_{94}$ , as a control variable still renders  $SF_{95-00}$  insignificant. Including more control variables, for education level and income level on the municipality level, do not change the results. These additional control variables should not be significant if  $YES_{94}$  and  $YES^2_{94}$  capture the municipal variation in a superior way, which is assumed in the preferred specification. Indeed, these additional control variables turn out to be insignificant, and only change the estimates of the variables in the preferred specification marginally.

There are several possible reasons to why Structural Funds spending does not increase the support for European integration. Two obvious explanations are that the voters do not value the type of activities the Structural Funds support, or that the voters are not aware that EU finance the activities. Another explanation is that it is possible for the national government to offset the effects of the EU's regional policy by adjusting the national regional policy. The Swedish government can lower regional policy expenses to the parts of Sweden that receive much support from the EU. If EU expenses only replace Swedish regional policy expenses,

the voters in municipalities that receive money from the Structural Funds will not experience any improvement, only a change in the source of financing.

Voters seem put different value to different types of spending. Jordahl (2002) finds that some types of grants to municipalities increase voter support, but not others. The expected gains from a deepening of the integration are foremost related to structural change, with a more efficient allocation of resources and accumulation of additional resources (Midelfart-Knarvik and Overman 2002). The primary role of the Structural Policy has been to aid regions in the Member States to manage the transition process when such structural change has occurred. Midelfart-Knarvik and Overman (2002) examine whether assistance from the Structural Funds has facilitated structural change and their results indicate that the assistance has in fact had a negative effect.<sup>9</sup> Furthermore, they find that the Structural Policy has not been able to prevent regional polarisation.

Other studies (see for example Boldrin and Conova, 2001; Dall'erba and Le Gallo, 2004; Ederveen *et al.*, 2002; Puga, 2001; and Sapir *et al.*, 2003) tend to show that the evidence of positive regional effects is inconclusive. Sapir *et al.* (2003) point out that,

“[i]n practice, [...] there is simply not enough relevant regional GDP data for statistical procedures to distinguish the effects of cohesion policies in the absence of data on other regional characteristics... The net result is that it is not possible to establish conclusively what the relative performance of these regions would have been in the absence of EU cohesion policy and other policies.”

For Sweden a consortium of research institutes attempts to establish the effects of funding in Sweden within Objectives 2, 5b and 6 (ITPS, 2004). They find no positive effects from the EU's geographical programmes on the overall regional development; quite the reverse, regional disparities in the period 1995-1999 in many supported regions increased rather than decreased. Given that it has been hard to verify any positive economic effects of the structural policy, it is not unreasonable to hypothesize that the voters do not put a particularly high value of this type of spending.

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<sup>9</sup> The authors conclude that the most direct result of EU expenditure has been the distortion of the location of R&D industries by attracting them into areas without the proper endowment of high-skilled workers; see Midelfart-Knarvik and Overman (2002).

## 5. Conclusions

Sweden held a referendum on joining the EU in 1994. From this referendum we have detailed election data on the regional distribution of public support for the EU. Sweden joined the EU in 1995. Parts of Sweden received support from EU's Structural Funds. A second referendum on introducing the Euro as currency was held in 2003. Again, we have detailed election data over the regional distribution of support for the EU. Between the two referenda parts of Sweden received support from EU's Structural Funds. Using a quasi-experimental approach, this paper investigates if the public support for European integration increased in receiving areas, relative to non-receiving areas.

We find no effects of the EU's Structural Funds on voter support for European integration. This finding is compatible with three explanations, the first being that voters do not care much about economic grants to their region. It could also be that they do not care about this particular type of grant, but may value other types of grants. Finally it is possible that the voters do not perceive any change, if the Swedish national government offset EU's Structural Funds spending by decreasing national regional policy spending directed to the municipalities receiving grants from the EU.

For the narrow question whether EU's Structural Funds affect voters support for European integration we can give a clear answer. It does not. For the wider question of how voters respond to government spending, this paper adds a piece of evidence. Not all spending affect voters. This is in line with Levitt and Snyder (1997) and Jordahl (2002), who find that some types of spending do not affect voters' behaviour.

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**Table 1. European Structural Policy in 1994-1999 and 2000-2006 – Objectives and Funds**

	Objectives 1993-1999	Objectives 2000-2006	Eligibility (spread)	Relevant fund in 2000-2006	Support in Sweden 1995-1999	Support in Sweden 2000-2006**
Objective 1	Development of the least favoured regions: <ul style="list-style-type: none"> <li>Investment in infrastructure</li> <li>Investment in education and health</li> <li>Environmental protection</li> <li>Direct investment in the productive sector</li> <li>Aid for SMEs and local development</li> <li>Strengthening the research and development capacities of regions</li> </ul>	Regions with GDP/capita of less than 75% of community average (Regional: in 2000-2006 parts of North-Central Sweden, parts of Central Norrland and parts of Upper Norrland)	ERDF, ESF, EAGF and FIGG	0	€797 million	
Objective 2	Conversion of regions facing difficulties: <ul style="list-style-type: none"> <li>Areas adjusting to change in industrial and services sector</li> <li>Rural areas in decline</li> <li>Urban areas in difficulty</li> <li>Economically depressed areas heavily dependent on fisheries</li> </ul>	Higher unemployment rate than Community average, falling employment rates, population ceiling, etc. (Regional)	ERDF and ESF	ecu 160 million	€431 million	
Objective 3	Combating long-term unemployment and facilitating the integration into working life of young people; promoting equality of opportunity	All regions outside Objective 1 regions (Community wide)	ESF	ecu 347 million	€795 million	
Objective 4	Help workers adjust to the impact of industrial change	All regions (Community wide)	ESF	ecu 173 million	-	
Objective 5a	Agricultural structures and rural development	Unemployed and workers threatened with unemployment (Community wide)	FIGG	ecu 40 million	-	
Objective 5b	The development and structural adjustment of rural areas	Low level of socio-economic development (Regional)	ERDF, ESF and EAGGF	ecu 138	-	
Objective 6	Structural adjustment of regions with a low population density <ul style="list-style-type: none"> <li>Development of jobs, trade and industry</li> <li>Promoting know-how</li> <li>Agriculture, fisheries and natural resources</li> <li>Rural and community development</li> <li>Sami development</li> </ul>	Sparsely populated areas (Regional)	ERDF, ESF, EAGGF and FIGG	ecu 252 million	-	
Support in Sweden, total				ecu 1200 million	€2396 million	

\* 1994 prices

\*\* 2004 prices

Sources: European Commission (1996; 2002); DG Regional Policy web site on [http://europa.eu.int/comm/regional\\_policy](http://europa.eu.int/comm/regional_policy); and Summaries of EU legislation on <http://europa.eu.int/scadplus/>.

**Table 2. Referenda results, percentage points.**

<i>Year</i>	<i>Turnout</i>	<i>Yes</i>	<i>No</i>	<i>Blank</i>
1994	83,3	52,3	46,8	1,1
2003	82,6	42,0	55,9	2,1

**Table 3. Distribution of  $SF_{95-00}$** 

<i>Decile</i>	<i>SF<sub>95-00</sub></i>
5	0.009
6	1.009
7	1.514
8	2.246
9	3.529
Max	8.278
Mean	1.081

**Table 4. OLS Regression results<sup>†</sup>**

<i>Constant</i>	8.89** (2.94)
<i>YES<sub>94</sub></i>	0.163 (0.109)
<i>YES<sub>94</sub><sup>2</sup></i>	0.00809** (0.00105)
<i>SF<sub>95-00</sub></i>	0.0533 (0.2057)
<i>Number of observations</i>	281 <sup>††</sup>
<i>Adj. R<sup>2</sup></i>	0.93

<sup>†</sup>Dependent variable: *YES<sub>03</sub>*. Standard errors in parenthesis.

<sup>††</sup>Haparanda excluded



