

Europäisches Zentrum für Föderalismus-Forschung
Tübingen



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Economic Regionalism in a Federal State:

Germany and the Challenge of the Single Market

Occasional Papers
Nr. 1

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I. Economic regions and federalism

1. The identity and viability of the Länder

Federalism is a core element of the German constitution. At first sight the reasons for a federal order in Germany are easy to comprehend. A few years before the Federal Republic came into existence the German Länder were founded by the Allied Powers in post-war Germany. The Länder therefore are not a creation of the federal government for administrative purposes. Federalism was, however, not only the political compromise result of Nazi Germany's defeat in the Second World War, it has also a certain though not very successful tradition in German history. Still the federal solution found for the West German constitution in 1949 has been strongly criticized for its lack of a truly federal legitimization¹ which - according to this opinion - is genuine only if, as in the case of Switzerland and the United States, formerly independent states decide to give up their sovereign rights and join a union. In this union a separation of powers between centre and periphery should still be visible and important, and every state should have the right to differ from every other member of the union to a large though not uncontrolled extent.

The post-war German Länder not only found their independent powers of policy-making restricted, they were also confronted with questions of viability. The first of these questions centred around the notion of regional identity, the second around the problem of economic competitiveness.

Except for Bavaria which more or less survived as a historic entity, and maybe the city states of Hamburg and Bremen with their medieval Hanse tradition, the other Länder were artificial products of a mixture of events, such as the Allied decision to eliminate Prussia from the German landscape, the military advances of one allied power or the other and the decision to divide Germany into four occupation zones. The typical results of the artificial boundaries drawn after the war were hyphenated names for newly founded Länder such as Rhineland-Palatinate,

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1) See Heidrun Abromeit, Der verkappte Einheitsstaat, Opladen: Leske + Budrich 1992.

Northrhine-Westphalia, or Baden-Württemberg. Not only did the names sound clumsy, there seemed to be little reason for the inhabitants of these states to have or develop a hyphenated identity parallel to the name their state had been given.

Still, the provisional arrangements have to a certain degree been a relatively great success for four reasons:

a) The first reason has certainly been time. Referenda in the fifties for example still produced majorities for a reconstitution of the old Land Baden (now part of Baden-Württemberg), strong feelings in favour of another status of Palatinate which either wanted to return to Bavaria or become part of Baden-Württemberg, and a great interest in Rhine-Hesse and Montabaur to leave Rhineland-Palatinate and become a part of Hesse. The former Prussian province on the Rhine (Koblenz-Trier) had inclinations to leave Rhineland-Palatinate for Northrhine-Westphalia and both in Oldenburg and Schaumburg-Lippe, which had become a part of Lower Saxony, many citizens wanted the old independence of their regions back. Time was used as a political weapon to defuse this potential for a disruption of the status quo. The decisive referenda on the Länder boundaries was not held until the latest point in time possible, namely the year 1975, in other words thirty years, almost a generation, after the war had ended. In the meantime a process of social learning had reduced the identity problem to a non-issue in the sphere of politics. Certainly old "tribal" loyalties² easily recognizable by the numerous very different German dialects remained intact, but they had lost their impetus for political expression. In the eighties even the once unthinkable became possible. A number of Land election campaigns were successfully contested with explicit reference to the loyalty of the citizen in "hyphenated" states, such as Northrhine-Westphalia (the slogan of the victorious Socialdemocrats was "WE IN NRW"). So loyalties to traditional and/or cultural regions marked by a certain sense of belonging and/or language differentials were superseded by a broader political identification with one's state, which for so long now - especially in the media - had been presented as the relevant subnational unit in charge.

b) A second reason has certainly been the migration to West German regions. The large number of Germans, 12 million it is estimated, who fled their regions of origin either because they had lost their homes or

²) See: Regionale Politische Kultur, in: Der Bürger im Staat 34(3) (1984).

were driven out of the now Soviet or Polish controlled regions of the former German Reich reduced regional cohesion in West Germany and destroyed to a certain degree parochialism. In the early sixties the influx of migrant labour (the so-called guest workers) from other European countries began, and in 1972 already more than two million foreign workers lived in Germany. The 1980s saw the arrival of hundreds of thousands of ethnic Germans from Russia, Poland, and Romania and of an even greater numbers of asylum-seekers from all over the world. East Germany had invited a workforce to its territory from its communist allies, such as Vietnam, Cuba or Angola. The breakdown of communism resulted in the latest wave of migration both from East Germany and from other former Eastern bloc nations, and most recently of refugees from the civil war in former Yugoslavia. Asylum-seekers are distributed to every German local community without exception in a certain relation to the total number of its inhabitants. Every German region has been affected by the process of change through immigration. In the eighties it became obvious that the sheer number and diversity of migrants no longer allowed the complete integration of newcomers into an existing regional or national consensus which was supposed to be based on a shared identity. German society is now described as multicultural, a catch-word not for regional, but for non-territorial ethnic diversity.

c) A third reason is the relative economic success of post-war West Germany. It was not necessary to develop sophisticated regional strategies for the defense of regional interests and the support of hopelessly backward regions. Politicians could neglect in principle, though the need for regional policies to support relatively weaker regions was never doubted by any German party, the regional factor in the political process as long as they made sure that they had a regionally balanced team at the head of the respective party. No politician felt the need for a greater regional autonomy for economic reasons, on the contrary regional parties disappeared (e.g. Deutsche Partei in Lower Saxony, Bayernpartei in Bavaria), or remained weak (the Bavarian CSU is an exception because the Conservative Party CDU does not exist in Bavaria). The political system clearly increased its centralized decision-making both with regard to the powers of the federal government and with regard to the integration of top decision-making involving the state and federal governments. Before unification West Germany's economic homogeneity stabilised the status quo.

d) Finally one should mention that after the war any kind of German nationalism had fallen into disrepute. There was no alternative identification to the one provided by the Länder no matter how artificial they may have looked like. To the present day, nationalism or even patriotism are far from being feelings shared by the German mass public. The ordinary German celebrated in 1990, because the German soccer team had become world champions and not because of German unification. Still, the overall picture remained complicated. There is always an element of ancient and advanced attitudes mixed with historic contingency in identity formation. Old tribal and emotional loyalties survive, and nationalism can to some degree always become instrumental for politics, although the most acceptable and most rational identification with regard to the first geographical dimension larger than the individual and its family is the Land.

Summarizing these arguments one could say that the German states in their present boundaries (including the new East German ones who profited from a general opposition against the GDR state apparatus which was both communist and centralist) have been fairly successful in creating and supporting regional identities. Identification with a certain territory is however, as we know from other cases, such as Scotland, or Quebec, only a necessary but not a sufficient precondition for a greater role of a region in the control of its own economic affairs. Both in the Scottish and in the Quebec case opponents of a greater degree of economic self-determination have pointed out that these nations/regions are economically unfit for survival without support from the central state.

The economic viability of the German Länder in their present boundaries has always been doubted. Though modernization processes have changed the relative importance of one state over the other (they transformed, for example, the former poor agrarian states of Bavaria and Baden-Württemberg into more advanced ones, whereas the decline of heavy industries reduced the leading role of the Ruhr and as a consequence of Northrhine-Westphalia), the larger states, perhaps with the exception of Lower Saxony, remained economically competitive. Some states were, however, from start either too small or too far behind economically to catch up, or became victims of the modernization processes. The economic imbalance between the Länder was a major argument for

territorial reform³, which until 1976 when a change in the Basic Law reduced the constitutional obligation for a reform initiative to a mere possibility, was on the agenda of German politics. There were several official enquiries into this matter. The most important one was the work done by the Commission for Territorial Reorganisation (Ernst-Commission), which argued in its 1973 report that the ten West German Länder should be merged into five or six with comparable economic power. This reflected the criteria of Article 29 of the Basic Law for territorial reorganisation, and would have solved most of the problems originating from financial transfers from richer to poorer states to balance state incomes guaranteed by the Basic Law. Political inertia and economic prosperity helped economically non-viable states to survive. Today economic problems have turned redistribution into a zero-sum-game. The richer states no longer have additional income they could share, the poorer ones, such as the Saarland or Bremen, are no longer merely economically behind they are bankrupt. The Federal Constitutional Court has to and will have to deal with the question of the share of revenues every state has a right to, because political compromise has become almost impossible. Short of a merger the Northern states of Hamburg, Lower Saxony, and Schleswig-Holstein have agreed on a greater degree of cooperation in order to act as one Northern economic voice in Germany and to make use of economies of scale.

German unity has reintroduced the problem of economic viability as a topic for political debate by giving birth to five new mini-states whose number of inhabitants ranges from 4.8 million (Saxony) to 1.9 million (Mecklenburg - West Pomerania). The whole of the former GDR had fewer inhabitants than Northrhine-Westphalia. Still, for political reasons the new debate on territorial reform triggered by German unification, soon faded away. The West German states which were reform candidates preferred the status quo and in East Germany there seemed to be a general preference for the rebuilding of those states which existed in East Germany for a short period after the war until 1952. The problem of viability was "solved" by three strategies: a) some important decisions were postponed: The merger of Berlin and Brandenburg was mentioned in the unity treaty, but it was not made compulsory. A solution for the

3) In greater detail: Arthur Benz, *Redrawing the Map? The Question of Territorial Reform in the Federal Republic*, in: Charlie Jeffery/ Roland Sturm (eds.), *Federalism, Unification, and European Integration*, London: Frank Cass 1993, pp.38-57.

financial equalisation process had to be found until 1994. b) a general hope prevailed that German unity would turn out to be an economic success, which would reduce the dimensions of the viability problem. c) when it turned out that the latter assumption was untrue, the states turned to the federal government and asked for its help for solving the viability problem and keeping the states in need "in business" in order to enable them to exercise their political and administrative functions in German federalism.

From the point of view of the stability of the German political system such a solution of the viability problem may be acceptable. It is not acceptable from the perspective of regional development. Regions which become financially almost completely dependent on outside, and even worse "federal" support reduce substantially their options both for regional decision-making and regional economic strategies. Economic viability has to be more than an accidental by-product of federal dominance, it has to have a regional focus, identified and defined by representatives of the regions for the regions. If the German states see themselves as the only representatives of regional interests they should ask themselves whether their political strategies directed mainly at institutional survival combined with the vague hope that there is a widespread loyalty in the population for the institutions and territories they defend are not fundamentally contradicted and therefore indefensible, when they simultaneously neglect basic economic necessities for regional autonomy.

2. The formal role of the Länder in political decision-making

At the same time when the role of the Länder as regional voice became even less convincing than before, the state governments fought hard for an increased role in political decision-making on the federal level. The political strength of the Länder is to a smaller degree based on a (shrinking) area of policies for which they have (almost) sole responsibility, such as education, culture, and policing. More important for the political strength of the states is the fact that the lion's share of public administration is their responsibility. They administer federal legislation in which the state governments always have a say via the Bundesrat, a quasi second chamber. Most recently a compromise on the new Article 23 of the Basic Law even guaranteed the state governments a

European role, because in certain cases of overwhelming interest for the states they can claim for themselves the role of representative of Germany in Brussels. The states, in other words, have made inroads into the foreign policy prerogative of the federal government.

Is this also an asset for the regions the states claim to represent? The role the states play now and in the future in national and European decision-making is clearly different from the role they will have in a future Committee of the Regions on the European level. Working in the latter they will be expected to represent regional concerns and to focus their interest on matters of importance to their region. Today's logic of interlocking decision-making both on the federal and the European level is, however, a trap, at least from the point-of-view of the regions. It blocks out regional interests by three mechanisms: a) once elected regional governments prefer the administrative logic of decision-making, i.e. the finding of compromises between high-level bureaucrats and top politicians working through their party political networks. When they come back to their parliaments (if at all) they confront these institutions with sophisticated tit-for-tat formulae, and compromises which cannot be altered unless one wants to restart negotiation processes from point zero. A regional voice is only one amongst many and powerless against a majority backing a broad and complicated compromise. b) the transparency problem increases with the addition of the EC-level of decision-making. A German region is only a national sub-unit, not necessarily to be consulted, and with very few administratively independent allies in a European Community, in which federal states are the exception. The Länder overestimate their influence on the eleven other European states, and underestimate how they can be used as transmission belts for the logic of bureaucrats in Brussels. c) Representation of the regions on the federal and national level can only be assured at the price of an aggregation of regional preferences. In the bargaining process there is only one voice for all regions left, and this one voice is rarely representative of the needs and preferences of all German regions. Most of the time it will have to defend a compromise which is the result of a consensus between regions, sometimes it is simply the majority opinion which won the conflict with the minority (maybe with the outside help/ bribe from national or European politics).

The argument that the present political strength of the German states is an important element for a successful regional economic development is

therefore not very convincing. German federalism today combines elements of political centralism, regional economic imbalance, and weak state identities. The region as focus and initiator of politics has never had a great importance in German politics, and there is a tendency that its role is diminished further. State governments use the argument of regional interests as an instrument to gain and secure power on the national and the European level. They pretend to be able to count on regional loyalties and expect support for regional economies from their own greater role in European economic integration.

II. The challenge of European integration and economic internationalization

1. The role of the nation-state

Daniel Bell's verdict that the nation-state is too big for the small problems of society and too small for the big ones has been repeated by many social scientists⁴ and even politicians in Germany (the Socialdemocrats included this statement in their program papers). European integration seemed to rapidly erode national sovereignty. Maastricht was supposed to move Europe closer to a common foreign and defense policy, and to a harmonization of economic policies not yet europeanized by the Single Market project which started in 1992, including a common European currency. With very few competences left on the national level, a "sandwich model"⁵ of policy-making seemed to emerge. Between the two slices of thick European and regional bread the thin layer of nation-state cheese was placed. Meaningful political activity both migrated to Europe and had to be reclaimed by the regions.

This model proved, however, to be utopian. Not only because those political actors who were supposed to eliminate the nation-state were the very same who had a stake in it. On the European level it turned out that economic development was not part of an irreversible process towards greater harmony amongst the nations. There had always been winners and loser of European economic integration, namely certain regions, but now whole nations feared to become victims of the modernization process initiated by further integration. German unity provided an excellent example for the catastrophic consequences of a rush into economic integration. These economic fears were supported by a latent political nationalism which on the one hand was inward-looking in its defense of traditional national sovereignty, but which was also outward-looking in its efforts to erect barriers against the possible power position of the unified greater Germany.

4) An interesting comparative volume is: Leslie A. Pal/ Rainer-Olaf Schultze (eds.), The Nation-State versus Continental Integration. Canada in North America - Germany in Europe, Bochum: Brockmeyer 1991.

5) This expression was coined by Thiemo W. Eser, Europäische Einigung, Föderalismus und Regionalpolitik, Trier: Zentrum für Europäische Studien 1991.

For the regions this means that for the near future the more likely environment they have to work in will be one in which their rational claim of being closer to and better informed about regional economic problems and policy problems in general will not matter very much.⁶ Instead of offering the regions a level of policy-making in its own right in partnership with Europe, the regions have become the object of a double tutelage by both Europe and the nation-state. They end up as a third fairly unimportant tier of government, mainly an administrative convenience. Their interests are defined by their superiors, their income and expenditure is controlled, economic development goals are dictated by EC averages and economic strategies are developed in Brussels by criteria foreign to regional needs, such as Europe's position as trading bloc on the world market, the chances for compromises between competing national interests and industrial lobbyism in Brussels.

The German regions have for quite a while assumed that political and administrative integration has a logic of its own which is not automatically based on regional needs. Regional room for manoeuvre without creating political hostilities has been secured by using two arguments: a) the reference to practical needs for and b) the reference to economic advantages of regional cooperation. Because of a lack of an institutional regionalism in Europe this kind of cooperation necessarily had to progress piecemeal and is weak in its institutional superstructure, but that does not mean it is inefficient.

2. Cross-border and international regional cooperation

The first moves towards a closer regional cooperation have been cross-border ones, such as the EUREGIO initiative, which coordinates local politics in the Dutch-German border region, or the ARGEALP, which is an association of Alpine regions with a strong interest in ecological and public transport problems in the Alpes. Lately the EEC has started to support cross-border cooperation financially.

New forms of regional international cooperation have wider implications and try to transcend pragmatism. The Saar-Lor-Lux initiative for

⁶ In detail on this argument: Roland Sturm, *Die Industriepolitik der Bundesländer und die europäische Integration*, Baden-Baden: Nomos 1991.

example, which integrates the Saarland, the Lorraine, (parts of) Rhineland-Palatinate, Luxemburg, and the Belgian province of Luxemburg is an effort to create more than cooperation. What we can observe here is a trial-and error process of regional self-definition, both with regard to regional boundaries, and above all with regard to regional competitiveness in a wider Europe. Everywhere in Germany such smaller or large-scale efforts can be found. The decisive difference to the former pragmatic approach of cross-border cooperation to solve policy problems, such as traffic congestions, or environmental problems, is that regional cooperation now covers all aspects of policy-making regions can influence. The important implication of such a new form of cooperation is that the limit to what is a regional matter can no longer be defined by the legal situation, the present (small) share of responsibilities found on the regional level. Regions are developing as a response to demands from below, which in the case of Saar-Lor-Lux can be summarized as the wish for a future for this region characterized by declining industries (coal and steel) and a geographical location on the periphery of their respective nation-states. Politicians on the institutionalized levels, such as the Land governments in Germany, know that their position both in the EC and in the national political system is too weak to organise economic and financial support for their regions in need, and hope that the internationalization of the problem may both attract and concentrate resources and heighten public awareness of the problem. So the initiative of "traditional" politics, which tries to shift responsibility for a problem it cannot solve to another level, results in an open-ended political process, which may undermine both national boundaries, and the claim of politicians to be the sole spokespersons for "their" regions.

Relatively successful Länder, such as Baden-Württemberg or Bavaria, have in the past even asked for more than policy-communities across borders. Baden-Württemberg has tried its own foreign economic policy, not only as ambassador for the state's industries, this role is common for German state governments, but also with the intention of organizing regional internationalism. It has started the so-called four motors initiative of European growth regions (with Catalonia, Lombardy, Rhône-Alpes), extended by partnerships with Wales and Ontario. This cooperation is part of an institutionalized state economic foreign policy under the roof of an association for international economic cooperation (*Gesellschaft für internationale wirtschaftliche Zusammenarbeit Baden-Württemberg*). Baden-Württemberg tried not only to use its comparative

economic lead in Germany for leaving behind Germany-centred regional economic development goals, it even thought it possible (the utopian character of such plans is now obvious) to take the lead, together with growth regions in other European nations, in the process of European integration. The tacit assumption of this strategy was that in the future economic strength would be far more important than constitutional and administrative powers of nation-states and that the national and European ideas of social and economic cohesiveness would be no hurdle for a greater regional autonomy no matter how this would affect the regional balance nationally and Euro-wide.

3. A revival of regional economic identities

The Baden-Württemberg strategy is less surprising when it is seen in the context of a general tendency in the German Länder to trust more their own potentials, and to try to secure for themselves greater independence, especially in economic affairs, from the federal level. One explanation for this tendency is to be found in conservative political thought and corresponding federal practice. Very similar to the phenomenon we could observe in the United States in the Reagan years⁷ the federal government dominated by the Conservatives in the 1980s tried to shift political responsibilities, and especially expenditure programmes to the sub-national level. The constitutional limits of re-federalization⁸, as it was sometimes called, were much narrower in Germany than in the United States, and so the status quo was not changed radically. Still, the fact that local government had to shoulder the growing costs asylum-seekers and long-term unemployed citizens caused, led to pre-unification legislation which granted most of the Länder a block grant (*Strukturhilfegesetz*) as financial compensation.

More important was, however, that structural economic problems (for example permanent unemployment of about 2 million people in West Germany) and additional demands of markets for rapid adaptation to world market pressures had developed into a dilemma for Land

7) See for example: Carl E. Van Horn (ed.), *The State of the States*, Washington, D.C: CQ Press, 2nd edition 1993.

8) See Hartmut Klatt, Reform und Perspektiven des Föderalismus in der Bundesrepublik Deutschland, in: *Aus Politik und Zeitgeschichte* 28(1986), pp. 3-21.

politicians. They new that they had to demonstrate to their state electorate their compassion and their ability to support regional industries effectively. They also new, however, that a wait-and-see attitude which puts its trust in either the EU and the federal government or both may produce unwanted results.

The first step to an ideological break with traditional state lobbyism on the national and European level was the "rediscovery" of the subsidiarity principle. Though constitutional lawyers debate the legal quality of the principle⁹, it could be used as battle-cry to rally the federal forces. The German Länder even organized European regional conferences to which the then President of the European Commission, Jacques Delors, was invited, and at which he paid lip-service to the subsidiarity principle.¹⁰ The Länder had hoped to establish the rule that regions should be entrusted with the tasks they are better qualified to deal with than the nation-state or Europe, and that they themselves should be able to make the binding judgement on their respective abilities. In addition, more regional financial autonomy both with regard to spending and taxation policies should accompany the clear division of policy responsibilities. However, even disregarding the utopian character of a general regionalization of Europe, the German Länder themselves are far from getting even approximately the kind of powers this model implies. One reason are German constitutional realities, especially the German form of cooperative federalism¹¹, another is the division between the Länder. More financial autonomy of the states would at least at the beginning only help the economically successful ones, whereas the poorer ones who need federal aid would become even more dependent on that source of support or/and they would have to tolerate that the standard of living in their respective states would fall significantly behind the one found in more prosperous states.

9) See for example: Hermann-Josef Blanke, Das Subsidiaritätsprinzip als Schranke des Europäischen Gemeinschaftsrechts?, in: *Zeitschrift für Gesetzgebung* 6(2) 1991, pp. 133-148.

10) It has to be stressed, however, that this apparent agreement was based on a misunderstanding. Though the principle of subsidiarity was accepted on the European level by its incorporation in the Maastricht treaty, it has become on that level a new formula for defending the rights of member states against Brussels, and has in practice little to do with regional self-determination.

11) see for one important aspect Chapter III.4

Because of the difficulties a general constitutional reform would have generated, it was much easier for the states to look for a strategy in the existing legal framework. This does not mean that all the states have given up their pressure for a greater degree of self-determination, but no state wanted to wait for a completely new constitutional framework on the national and/or European level before it decided to define strategies for regional economic survival in the Single European Market. Regional aid policies are defined by Brussels and by the rules of the structural and cohesion funds. Autonomous aid by the states to certain of its regions is controlled by Brussels, because this aid is a subsidy. So, the states had very few state-wide possibilities for the support of regional development. In the more prosperous states one strategy to break through the financial barriers set up by Brussels was the aid policy often simultaneously for technological innovation and small and medium-sized enterprises, a policy certainly not without regional implications.

Another strategy for regional economic development acknowledged the existence and economic viability of sub-state regions. A number of reports written for state governments and the federal government which addressed the question of the regional implications of the Single Market came to the conclusion that the effects of market integration would be most clearly visible in such sub-state regions defined by common regional economic structures (type of production, comparative advantages etc.).¹² The degree to which the states have started to support regional economic initiatives varies considerably. Whereas, for example, Rhineland-Palatinate, has just started defining geographical areas for such an initiative¹³, other states, above all North-rhine Westphalia, have already developed a decision-making process which guarantees considerable room for regional economic cooperation on the sub-state level. State strategies also differ with regard to the extent to which they organize regional "autonomy" from above (for example in Baden-

12) See for example: Prognos, Vorbereitung auf den EG-Binnenmarkt. Herausforderung und Chancen für die Unternehmen in Europa, Basel/Köln 1989.

13) See Technologiebeirat des Landes Rheinland-Pfalz, Rechenschaftsbericht über die 2. Sitzungsperiode 1990/92 und Empfehlungen an die Landesregierung, Mainz 1993, pp.21f.

Württemberg, Rhineland-Palatinate, Saxony, or Brandenburg)¹⁴. There exists, however, a process of learning which on the one hand involves state governments (Rhineland-Palatinate learns from and cooperates with Baden-Württemberg, Brandenburg tries to follow the Northrhine-Westphalian example) and which on the other hand reflects sub-state regional enthusiasm and initiative of self-organization even without the explicit support of state governments.¹⁵

For every successful regional initiative a number of minimal conditions have to be fulfilled:

a) regional identities have to be defined as focus for initiatives and as a force for motivating cooperation. Such identities may be closely connected with common economic problems, but they are more convincing if some kind of traditional cohesion can be found for the economic region in question. Very often historic ethnic roots or historic events are re-invented in order to justify the regional boundaries chosen for economic reasons. Public relation experts are given the task of creating a special regional image, both for producing support among those living in the region, and for making the region attractive to outside investors and recognizable as new regional competitor.¹⁶

b) Regional support must be able to count on "motivational resources", which is another way of describing support given freely or cost-efficient by the local people, because they not only identify with their region, but are also ready to do something for its economic future. This kind of support depends very much on the psychological factor: The individual sense of belonging has to be strong enough to create a feeling of responsibility in the individual not only for him/herself, his/her family, but also his/her region. Motivational resources have to be used goal-

14) See Roland Sturm, Integration ohne Dezentralisierung: Die ökonomische Modernisierung der ostdeutschen Länder, in: Udo Bullmann (Hg.), Die Politik der Dritten Ebene, Baden-Baden: Nomos 1994, in print.

15) For a number of case studies see Helge-Lothar Batt, Regionale Industriepolitik. Akteursnetzwerke und Steuerungspotentiale am Beispiel von fünf regionalen Entwicklungsgesellschaften in der Bundesrepublik Deutschland, M.A. thesis, Heidelberg 1992.

16) On this "new regionalism": Roland Sturm, Westeuropäischer Regionalismus und deutscher Föderalismus, in: Gerhard Hirscher (Hg.), Die Zukunft des kooperativen Föderalismus in Deutschland, München: Hanns-Seidel-Stiftung 1991, pp. 205-221.

directed. They cannot stand too much frustration and should therefore be given a clear framework with regard of the tasks to be fulfilled and the time this is going to take. After successes are visible, it is easier to come back to the original support or to create new one.

c) Such regional cooperation is formally organized as local corporatism (public/private partnerships, regional net-works)¹⁷. Typically local government, universities, chambers of commerce, local savings banks and in some states with a socialdemocratic tradition also union representatives organize projects and support or invent regional initiatives. The organizational framework found can act as regional representation. In Northrhine-Westphalia the regional initiatives are expected to present regional development plans at conferences of the regions. During these conferences the different plans competing for limited funds to finance them should be ranked by their relative merits. The state government who provides the funds is also the sole arbitrator, and finally decides which regional initiative gets state aid. For the state government this position is attractive because the government does not have to discuss the fact that funds are limited, it does not have to develop by itself regional economic initiatives, and it is not necessarily blamed for a lack of spending in certain regions, because it can always argue that it would have preferred expenditures there, but the project the region in question presented was not as well drawn up as other projects.

Still, even in Northrhine-Westphalia institutionalized regionalism remains fairly weak with regard to its "constitutional" status. A lot of policy initiatives end up or are planned from start as symbolic politics for which a successful image campaign is already a great political success. The fundamental problem regional initiatives have drawn attention to is, however, of central importance to the political economy of regionalism of Germany, namely how to bridge the gap between existing and democratically legitimized administrative structures and viable regional economic cooperation which is crucial for future regional economic survival.

17) In detail for Northrhine-Westphalia for example Rolf G.Heinze/ Helmut Voelzkow; Komunalpolitik und Verbände. Inszenierter Korporatismus auf lokaler und regionaler Ebene?, in: Hubert Heinelt/ Hellmut Wollmann (eds.), Brennpunkt Stadt. Stadtpolitik und lokale Politikforschung in den 80er und 90er Jahren, Basel etc. 1991, pp. 187-206. For Lower Saxony see Institut für Regionalforschung, Die Bedeutung regionaler Netzwerkstrukturen, Göttingen:IfR 1992.

4. Centralizing tendencies of fiscal federalism

Not only for newly created economic regions, but also for the established states the financing of regional autonomy is the decisive factor. Sub-state regions depend on their own resources or on the amount of financial support they can mobilize through applications to state and federal programmes. The independent tax base of local government and states, and also of the federal government is fairly insignificant. The bulk of the tax administration of the major taxes, personal and corporate income taxes, wealth taxes, and sales taxes lies with the states, but the grand total of public income collected by the states is than subdivided between the states and federal government. Joint tax income of state and federal government makes up 75% of the tax income both levels of government have together. There is a fixed quota for the division of income tax. Both the states and the federal government receive fifty per cent, after a deduction of 15% of the grand total which goes to local government. The share of the sales tax that is allocated to either the federal government or the states is defined by law. Both the states and the federal government have to agree on the formula found.

German unification could have provided an opportunity for political initiatives to secure a more independent tax base for both the federal and state administrations. One reason was that the post-unification federal system could have been given a greater flexibility with different tax policies. East German states could to some extent have been freed from the need to justify their expenditures to other levels of government if they had only spend "their own" money. They could also have decided to use a special tax structure to attract investment. West German states could have breathed life into the subsidiarity model by becoming more autonomous from federal government.

Still, the tax structure was only viewed as instrument for financial transfers to East Germany. None of its centralizing tendencies was challenged. Article 7(3) of the Unity Treaty of 1990 guaranteed the East German Länder a steady increase of their share of the sales tax until it reaches 100% in 1995, and immediately more than their full share of

income tax.¹⁸ In 1991 the decision with regard to the sales tax was reversed. East German states were granted immediate full access. In that process the share of the sales tax which the states could claim for themselves was increased from 35 to 37%. The Solidarity Pact of 1993 which among other financial emergency measures regulates financial equalisation further increased the states share to 44%. So, in the end German unity - in spite of the lip - service of the states to the principle of subsidiarity - further increased dramatically the states' interest in joint taxation. Policy initiatives for more autonomy in regional economic policy-making are confronted with the seemingly insurmountable hurdle of fiscal centralization. This does not prevent such initiatives, it seriously reduces, however, the room for manoeuvre, especially the financial one, for such initiatives.

18) Local government in East Germany does not receive transfers weighted according to the amount of taxes paid by its citizens (as is the case in West Germany), but based on calculations which take the number of inhabitants of a town as yardstick, whatever the amount of taxes is they paid.

III. The consequences of German unification

1. Tensions in German federalism

Regional political economy initiatives have not been made easier by the problems of consensus-building in post-unification federalism.¹⁹ It has always been difficult to convince the poorer German states that self-reliance could have potentially greater advantages than waiting for the federal government as problem-solver. The poverty of the East German states has given this problem a new dimension. Lobbying for federal (and other) funds has become the central job definition for East German politicians. In 1992 only 26.8% of the budgets of the East German Länder (Berlin excluded) was financed from their own income (transfers: 54.4%, credit-financed: 18.8%)²⁰. In addition the competition for regional economic aid has increased. Special initiatives, for example, to help shipyards in Mecklenburg-West Pomerania in need meet with criticism from Lower Saxony and Bremen, West German states with similar problems. Though the EC concedes a period of adjustment it will in the long run ask for one yardstick which is chosen according to the rules of the EC's subsidy control.

Tensions also arise with regard to the quality of state autonomy for German federalism. East Germans have a much more instrumental and less traditional and principled attitude towards state autonomy. Whereas even the poorest West German states know that a certain category of concessions to the federal government will, even if they are profitable for the states in the short run, in the long run damage the principle of federalism and will therefore also be to their disadvantage there do not seem to be the same kind of scruples on the side of East German state governments. This can be documented by the influence the Conservative party in the Bonn government had on the process of writing new constitutions for the new states, and the degree to which the federal government dominates culture projects in East Germany, although culture is one of the few policy fields the states defend as their special responsibility.

19) In detail: Roland Sturm, *The Changing Territorial Balance*, in: Gordon Smith/ William E. Paterson/ Peter Merkl/ Stephen Padgett (eds.), Developments in German Politics, London: Macmillan 1992, pp. 103-134.

20) Frankfurter Allgemeine Zeitung, 10.3.93, p. 6.

2. The former GDR as economic wasteland

Much of the weak resistance against federal interventions is, of course, a result of the relatively great poverty and the economic problems in East Germany. This basic condition has greatly influenced the ability of East German states to support or start regional economic initiatives.²¹ There is also the danger that East Germany develops into a branch plant-economy with headquarters outside its territory and isolated growth poles in the new states.

We do find, however, some first efforts to organize regional economic contexts. One kind of initiative are employment firms, which have the strategic purpose of keeping firms alive through outside financing provided by, above all, social security funds, *Treuhand* (the East German privatisation agency) funds, and sometimes state funds. The idea for such firms, which specialize in re-training, and sometimes also try to secure new production by looking for marketable products, came from the trade unions, especially the metal workers' union (*IG Metall*). These firms also have the effect of helping regional economies to survive. To a great extent they are, however, doomed, because they cannot reverse the fate of declining industries and because even after re-training alternative employment in the same region is rarely available. In a way they mirror more a general interest of the unions (to attract a new membership in East Germany) and the state governments (to find a temporary solution for the unemployment problem) than genuine regional initiatives.

A top-down model for building a regional economy has been tried in Jena (Thuringia) where the former Prime Minister of the West German state of Baden-Württemberg, Lothar Späth, was made chairman of Jenoptik (the former Zeiss Jena firm). The firm is financed by the state of Thuringia and the *Treuhand* and is supposed to work in a niche provided by an agreement with its West German Zeiss Jena mother firm. So far economic success for the region has not yet arrived, though in theory many of the conditions for regional economic initiatives (skilled personnel, a culture region to attract investments: Weimar is close, proximity to West Germany) are said to be available.

21) See Roland Sturm, *Integration ohne Dezentralisierung*, op. cit.

On the local level a great number of business parks have been founded following the West German example. Whereas there are about a dozen business parks in West Germany which cover an area of about fifty thousand square meters, East Germany already has more than one hundred double that size. Too many local councils chase too few potential investors, which means that if they find one at all they have to accept conditions which are more costly than the benefits such business parks may have even in the long run.

IV. The German case in comparative perspective

In comparative perspective the German case may be unique in the way it combines formal elements of federalism with the de facto centralism of unitary states. Many arguments have been made by academics in favour of a re-federalization of Germany, i.e. a greater autonomy, including a greater financial autonomy of the Länder.²² But both institutional inertia and the interests of the poor and/or East German states block such fundamental change. The disadvantaged states still see themselves in the role of federal "welfare recipients". Competition between the states is reduced to a great extent to a fight about funds not about political concepts.

Regional economies, even if their territorial boundaries were identical with those of the states, would therefore lack a strong institutional backing. Still the regional economies in Germany are better off than the ones in unitary nations. Sub-state regional needs cannot be ignored by state governments who seek re-election. Their powers and instruments for intervention may not be sufficient, but at least some room for manoeuvre can be used for a better positioning of the regions in the context of national and international competition.

Regionalism as an essential part of the future European constitution has been praised for a number of reasons of which the advantages of a functioning regional economy is only one.²³ The question arises, however, whether the Single Market will not constantly produce regional disparities. These disparities may count for little politically as long as they are passively accepted by the regions affected. The situation changes when they give rise to an economic and political reaction, expressing itself - as is now the case in Germany - in flexible local/regional societal partnerships. The EU with its need for definitions of regional sub-units to channel its structural funds, and to identify the candidates for a Committee of the Regions may contribute to the political consolidation of regional entities Euro-wide. Will this top-down regionalism be

22) The most recent attempt is a collection of essays in Staatswissenschaften und Staatspraxis, Vol. 4(1) 1993.

23) See Peter Häberle, Der Regionalismus als werdendes Strukturprinzip des Verfassungsstaates und als europarechtliche Maxime, in: Archiv des öffentlichen Rechts 118 (1993), pp. 1-44.

compatible with the bottom-up regionalism created by Single Market pressures? And will it suffice to lay the foundations for a greater autonomy of regional economies in general? Answers to these questions are difficult, but some aspects seem to be clear. For example, if economic pressures combine with ideological cleavages, such as nationalism, the demands for a greater economic autonomy becomes politicized. Such ideological pressures are, however, still absent in Germany.

Here we can observe a case in which the seemingly neutral logic of administrative efficiency and regional economic necessities have resulted in a fairly a-political atmosphere of regional co-operation. Ethnic identification has ceased to be the focus of loyalties, instead such loyalties can now be invented in accordance with regional economic boundaries in order to make them more plausible. The conflict of regions with the nation-state, so often the result of a growing sense of regional/national identity has so far been avoided. But maybe this conflict has only been postponed. In times of economic crisis fiscal centralism may be a convenient way for the states to shift the blame for the recession, but this does not define away regional problems. Abandoned regions may start to fight back, more successful ones may want to find their own strategies for beating the recession, and so economic regionalism may turn out to be equally dangerous to the status quo than is traditional nationalism. The concept of the nation-state, which has already been found to be disfunctional for regional development, may be doomed when it turns out that in addition to its loss of efficiency it also loses legitimacy.

Abstract:

Die Frage, die untersucht wird, lautet ob regionalökonomische Regionalisierung infolge des Binnenmarktdruckes kompatibel ist mit den durch den Föderalismus vorgegebenen Politik- und Verwaltungsstrukturen. Regionale Selbstorganisation fordert sicherlich den Status Quo heraus, allerdings scheint der Weg zu einer größeren Sensibilisierung des Föderalismus, trotz zahlreicher kleinräumiger Ansätze der regionalen ökonomischen Zusammenarbeit, noch weit, zumal die Länder selbst einen Abwehrkampf gegen Brüsseler und zentralstaatliche Ansprüche führen.

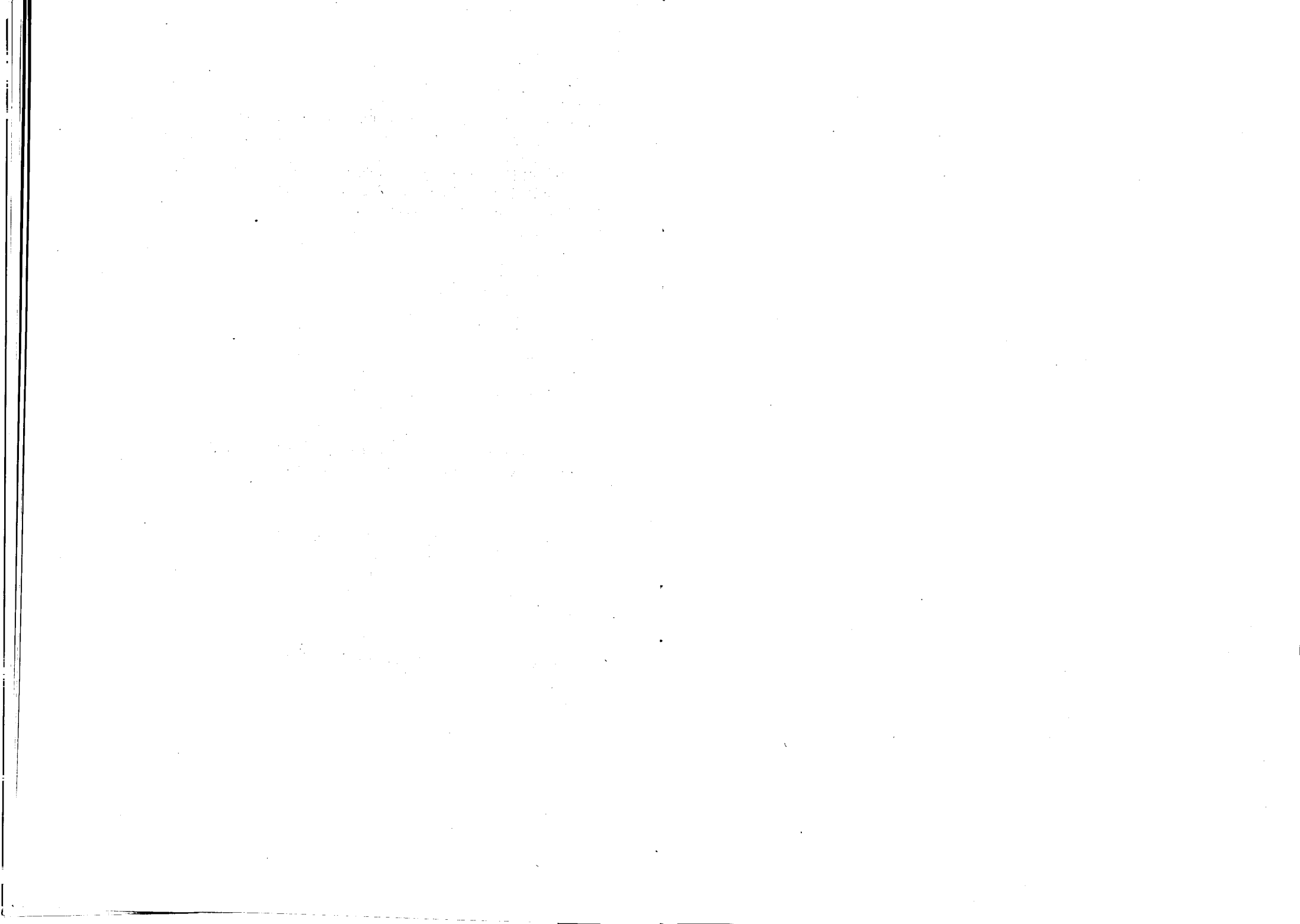
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