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POSSIBILITIES AND LIMITATIONS OF A REGIONAL
ECONOMIC DEVELOPMENT POLICY IN THE FEDERAL
REPUBLIC OF GERMANY.

by

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Possibilities and Limitations of a Regional Economic
Development Policy in the Federal Republic of Germany

1. I want to divide my lecture into three sections, namely: intentions, reality and the necessary reorientation and adjustment of regional economic policy in the Federal Republic. I think it is very important to include this last section and make some remarks about a reorientation. We are dealing here with a field of politics that has always been controversial and that will continue to gain in socio-political importance. Therefore I cannot just stop after elaborating the actual and scientific weaknesses, shortcomings and limitations of public actions in this area. It would be impossible within the available time to design a "new regional policy" which would be complete and conclusive in its goals and instruments as well as in its planning relationships and executive responsibilities; that is not my intention. I will only try to point out a need for a shift of emphasis and some important elements for further improvements and put this up for discussion.
2. There are two more reasons why some thoughts about reorientation and adjustment of regional policy seem to be appropriate:

- Its intentions and reality, its possibilities and limitations have already been analyzed from all different angles: politicians of all levels, scientists, labour union leaders and many others have tried their hands at it; the result is common disappointment and disillusionment. The firm conviction that the underlying concept has to be reconsidered became a commonplace.

- The pressure to act is increasing radically daily. Rearrangements in the world wide division of labour, the scarcity of certain primary energie and of some other important raw materials, with the resulting exorbitant price increases, and, last but not least, cyclical and structural weakenings strained the regional development processes to breaking point and brought forth their weak spots. As soon as they are not covered up by a comprehensive, all-absorbing growth impulse, regional crises become again immediately noticeable for the people in the affected areas.

I The Intentions of Regional Policy

- 1.) The promotion of regional economic development

as the spatial element of public economic policy has been pursued in the Federal Republic at least since 1969. In that year the joint project "Improvement in the Regional Economic Structure" was introduced. (Before then, regional policy was carried out more or less unsystematically). This joint project is a common program of the Federal Government and all the States (Länder) that ensures uniform planning and financing of a task which the constitution declares to be their joint responsibility (Article 9/a). The joint project was set up with a triple aim in mind:

- to make the best possible use of the territorial resources, that is, the available factors of production in the various regions. This growth objective was combined with the demand for full-employment, which in turn is tied to three indicators:

a) no net out-migration

b) no below-average employability ratios, especially for women (an employability ratio is the proportion of persons employable, i.e.

either employed or looking for employment,
to all persons at employable age in the sector
of the population under consideration.)

c) no open unemployment.

- closely related is the stability objective. Here
we have to consider two components:

- a) cyclical fluctuations in the various regions
are to be reduced and approximated at least to
the parameters for the economy as a whole, and
- b) structural stability is to be secured by
reducing marked regional monostructures. This
is especially important in view of the one-sided
utilization of the labour markets.

- next comes the equalization objective.

It aims at procuring just and equal living
conditions in all regions; target indicator is the
reduction of interregional income disparities, i.e.
it demands

- a) equal wage rates for the same type of work,
and

b) approximation of the income pyramids between regions.

c) In addition, it is often required that regions be adequately and equally provided with infrastructure facilities and tertiary services.

In short, it can be said that the targets of regional economic development promotion are the regional aggregates 'income' and 'job offers-employment!

A qualitative differentiation, that is, a distinction regarding the quality of jobs that have been created,

is not undertaken. The same holds true for the income target: immaterial portions as well as the spending side are ignored.

2.) At this point it is necessary to characterize the goals of regional policy a little bit more clearly.

I think two aspects are especially important:

a) Our constitution instructs the policy-maker to establish and maintain an equal quality of life in all parts of the country. (Article 72, section 3). It seems that this initiated in

regional policy a normative influence of the national average. It is particularly obvious for the stability and the equalization objectives. But it also holds true for the growth objective, which is pursued under the restriction of active spatial melioration (rehabilitation, reorganization). (This means, the mobility of capital is promoted and not the mobility of the labour force: Jobs to people instead of people to jobs.) So, as you can see, there is no component in these goals of regional policy, that is intentionally aimed at regional differentiation.

Let me deliberately exaggerate a little:

This policy has attained its final goal, when the various indicator values are the same for all regions, that is, when regional differences or distinctions are abolished. At its core this policy aims at what I want to call de-regionalization; and it anticipates it. Therefore it is only consistent that a strong tendency towards de-regionalization can also be detected at the instrumental level:

- (1.) The aforementioned joint project "Improvement in the Regional Economic Structure" is

the most distinct form of joint political responsibility and action of the Federal Government and the States. It is based on the growth pole theory and therefore tries to work through a direct promotion of industrial jobs by subsidizing industrial investment in retarded areas; industry-orientated infrastructure projects in these areas can also be subsidized. The way this program is set up, it enforces a rigid, formalized process and inflexible regulations for the utilization of funds. It was designed more with vertical harmonization in mind than with horizontal priorities. This country-wide standardization of indicators, target values and so on, which has been practised in many different respects and at various levels, is certainly one of the factors responsible for an inflation of the number of places that are eligible for development funds.

- (2.) Of great significance, too, is the fact that the administrations in the various fields

are organized vertically, especially in their decision and communication processes. (One has to imagine these administrative departments as single columns, where communications function from top to bottom and vice versa, but not horizontally between different departments; they are not interconnected with one another). You find this "column theory" corroborated when looking at highway construction as well as in research and technology policy, in municipal transportation financing as well as in the location of federal agencies, and there are numerous other examples. As Wagener put it rather drastically: These decisions are taken in departmental blindness; or, in my own words: de-regionalized. There is a steady pressure on the respectively lower territorial authority to use up the allocated funds, and that sweeps aside all other priorities and regional necessities.

- b) The way regional policy is designed at present, only material criteria are taken into consideration

or, with Stöhr and Tödting: it only relates to the conditions of "having" and neglects immaterial needs, like local solidarity and identity, participation or different personal preferences, that find their expression in different customs, habits and priorities. As mentioned above, this also holds true for the qualitative components of income, as for example clean air, little noise, an intact environment, sufficient and undisturbed areas for recreation, and so on, as well as for the spending side of income.

It is not surprising that a regional policy which is aimed at levelling all material differences, should resort to a spatial structure that guarantees the best conditions for the required results, that is, the generation of material income. So what we are faced with is a consequently pursued concept of urbanization in the sense of decentral concentration; but there is an increasing tendency towards concentration and a decreasing tendency towards decentralization (For example: in the first studies accompanying the start of regional policy,

the necessary size for a growth pole, that is, for an agglomeration that could guarantee a process of self-sustaining growth, was found to be 30.000 inhabitants; meanwhile, in later studies, this number went up to 100.000). In the last consequence, all this leads to an increasing share of regions with passive spatial melioration (reorganization), that is, regions with net out-migration, where labour leaves in order to look for the complementary factors elsewhere, and not vice versa. For these regions, other functions have to be found, and the theoretical foundation was subsequently delivered: "priority regions" are now the answer; these are regions that are assigned compensatory or reserve functions for the rest of the economy. And when there ist no other possible use, they are called regions for ecological compensation.

II Reality and Results of Regional Economic Development Promotion

What are the results of a policy that set out to

eliminate differences in living conditions between regions and to prevent critical recessive developments in these areas? A policy that put up with considerable distribution problems and that shelled out considerable amounts of money - the statistics show investment subsidies by the Federal and State Governments of more than 2.000 million DM for the years 1972 till 1975.

In the beginning there was a time of euphoric news about its successes: more than 120.000 jobs created or secured annually (in the Saarland alone a total of 40.000, that is, every fourth job in industry), above average growth rates in the subsidized regions, a lessening of out-migration, reduction of income disparities, as well as improvements in the supply of infrastructure. It was obviously deemed unnecessary to have these results tested more thoroughly, let us say for the quality of jobs offered, the types of businesses that were attracted, the relatively constant infrastructure differentials, the segmentation of the labour market, the 'picking-up effect' of subsidies (that means, investment subsidies had no effect on the localization decision;

a firm would have settled in a particular region anyway, even without subsidies, but they nevertheless got them; and now the corresponding jobs appear in the statistics as having been created by regional policy measures). Also, it was not asked how persistent the attracted industries and the created jobs are.

This euphoria was followed by a sobering experience during the recession, which proved to be a difficult test for the successes of regional policy: the highest unemployment rates occurred in those areas, that were eligible for regional policy funds; the newly attracted industrial facilities showed persistency problems and, especially in rural areas, they often turned out to be "back-pack plants" (This means they are only additional assembly operations of bigger companies, which do not require much qualified labour; at times of high demand, they are erected in areas with comparatively cheap labour during a recession they are obviously the first to be shut down). This was going hand in hand with increasing out - migration and especially a deep-drawing erosion of the labour market, not as a

consequence of residential preferences, but under economic pressure.

Despite notable exceptions, the attracted subsidiary plants proved to be particularly susceptible to cyclical pressures. This is especially true for the standardized, single-process production units, which made up most of the occurring industrial relocation, due to the selective effects of the applied subsidization methods. In the wake of the improvements in training and education, the low qualification requirements of the newly created jobs became more and more noticeable; the relation of white collar to blue collar workers is very often unfavourably compared to the respective regional average. (if the relocated plant is relatively big in relation to the regional ^{labour market} as a whole will be influenced negatively). Usually, the ratio is also unfavourable when compared to the parent firm (Ford, for example). Companies that do relocate usually bring their own qualified personal with them. In the first carefully conducted quantitative analysis of regional policy (Hansmeyer) it turned out that only one in one hundred jobs has directly or

indirectly been created by investment that had been subsidized during the preceding six years.

In summary: Not only were the goals of regional policy not met, in as much as the targets for the economy as a whole were violated; but what is more, the regional disparities have clearly been intensified. The weaker rural areas and the old industrial regions had to carry the main burden during the last recession. The desired effects did not occur - the separate sectoral crises hit the effected regions to their full extent. (For example: the coal and steel industry, shipyards, the textile and clothing industry, and, increasingly, the electrical industry)

Under the maxims of the present regional policy, development problems will increase even further:

- We are faced with a decreasing population and shifts in the age pyramid resulting in mounting difficulties for the infrastructure supply (to put it crudely: excess kindergardens and schools, not enough homes for the elderly), for basic tertiary services, for the concept of

decentral concentration. At the same time there is an increasing number of employable persons and an increasing demand for jobs.

- During the last couple of years we have witnessed considerable changes in the international division of labour, in raw material and energy prices and so on. As a result the relocation potential and the room for growth and for increases in the number of industrial jobs are shrinking.
- We are faced with the task of shifting our industrial structure towards more high technology production of goods and services, which in turn produces a considerable trend towards increasing local concentration.
- The share of the tertiary sector is rising. But it has localization requirements that cannot be influenced with the instruments currently at our disposal. The present system does not allow subsidies for the attraction of service industries.
- The importance of indicators of immaterial welfare is rising, combined with a growing consciousness

for regional differences and differing preferences (environmental concerns, regional and local identities).

The results of the preceding analysis of regional policy and its successes are not surprising; in fact, they had to be expected. Because if it is true that this policy has mostly been carried out de-regionalized in its goals and major instruments, then its results could cause a change in regional development perspectives (in the economic situation of a region) only by chance. It could only have been the case if the constellation of conditions within a region corresponded accidentally to the assumptions of this policy.

Otherwise (in the other regions?) the regional implications of booms were strengthened, and those of recessions were weakened. As has been proved again and again this policy did not induce investments, but rewarded those which would have been undertaken anyway; it did not reduce economic differences, but exploited them; it did not develop the infrastructure in accordance with regional

needs, but made additions wherever bottlenecks appeared. Most of the effects and successes that did occur were the result of market forces and the respective stage of the business cycle (Again, a good example is the Saarland: positive changes were not due to the _____

instruments of regional development promotion, but among other things, to the available labour supply and wage rate advantages) In the same manner the effects of this policy will depend on these forces during a recession and will then prove to be a failure. A de-regionalized regional policy could not have hoped to realize changes in the spatial structure, even in the sense of its own restricted intentions.

III. Reorientation and Adjustment

Reality and future demands that can already be foreseen require a reorientation, a shift of emphasis.

This position is widely accepted and relates to various elements of regional policy: a demand for improved, "highly sophisticated" methods for regional development prognoses, for forecasting results and effects of political measures in this field, and for the analysis of spatial structures (delimitation of regions that are eligible for funds); changes of goals and an improved set of instruments have been called for; it has even been suggested, that we are dealing here with problems, which can only be solved by replacing the predominant ex-post coordination of economic processes by deliberate ex-ante coordination (Buttler-Gerlach-Liepmann)

I think, from what has been said so far, it became obvious, that a "Regionalization of Regional Policy" has to be at the centre of its reorientation. This cannot be attained by isolated improvements in the methods of analysis and prognosis, despite the undeniable importance of this field of scientific research.

Regionalization of regional policy means above all that we have to get away from the vertical structures of communication and decision, and arrive at a more horizontal orientation. To fulfil this aim first of all the available set of instruments

has to be reconsidered and reorganized. Even if the goals of regional policy should remain unchanged, the measures that are to be taken must be determined with the particular preferences of the individual region in mind. They cannot be allowed to be subjected to vertically orientated departmental priorities or to the smallest common denominator of Federal and State politics. Such improvements of the instruments of regional policy have repeatedly been called for and have been proposed in concrete forms, without any conclusions being drawn in practical politics. Even in the current crisis, the threshold of "cognitive dissonance" has not yet been crossed. This presumption is supported by the lack of systematic controls of results. In my view definite consequences for the instrumental level should be drawn in three areas:

- consequences due to the change of the basic data:
assistance for innovation, research and development, risk financing; the whole tertiary sector should be eligible for funds; industrial parks as a more efficient measure.
- less assistance for vertically integrated companies (tendency towards spatial separation of functions), more assistance for investments that really have a chance to be the nucleus of a self-sustaining regional development process (small and medium - size businesses; small business promotion)
- increased availability and disposal of funds at the regional level.

An example: For the Saarland the funds of the joint project "Improvement in the Regional Economic Structure" have been increased; but this money cannot all be spent sensibly, as there are not enough investment projects that would qualify for these funds. At the same time there is no money for more important things like innovation assistance or support for small and medium - size firms. But due to the strict vertical organization of the administrative system, there is no chance to transfer money from one department to another.

My proposal is to install a procedure similar to the one practised by the bank for reconstruction loans (Kreditanstalt für Wiederaufbau) when dealing with development projects of third world countries. ("Bank for regional development promotion").

Alternatively the individual regions should have a certain percentage of the funds at their own free disposal, combined with a special project.

- Also: less earmarked grants from the states to local administrations. More incentives for them to use their own initiative to warrant more regional differentiation. (Especially in areas with special localization advantages (nuclear power plants, heavily polluting industries) regional acceptance should be strengthened, for example with the help of lower electricity prices.).

The development towards a stronger regionalization of instruments - Stöhr and Tödtling demand "explicit instruments for selective spatial closure at various levels" - is insufficient and inconsistent without

a regionalization of the intentions, i. e. of the development goals. This would be the only way to check the increasing trend towards a levelling of preference patterns and to make use of differentiation as an important chance for regional development. At the same time this would open up the possibility to go beyond the criteria of "having", that is beyond material needs as targets for regional policy measures. It is quite surprising that so much has been said and written about qualitative growth, but the regional consequences have never^{been discussed} when growth-rates become very small. In short, what has been suggested for the instrumental level does also apply to the goals: No top-down directions, but unimpeded and independent development at the lower levels. Stöhr and Tödtling reach the conclusion that the preservation and encouragement of regionally different preference patterns depends to a large extent on a regional dis-aggregation of administrative and political institutions, and they demand: "When in doubt, decide for the lower level."

This concept of regional development planning is a legitimate competitor for the vertically orientated strategy of equalization. Here it was not my job to deduce typical regional goal structures. But if they are established, they will have to take into account that some regions don't have a growth potential in the traditional sense. As Kevin Allen put it: Do we as economists know enough about the economics of decline?

Of course, the accusation is to be expected that this means flinging the door wide open for a positive legitimation of passive spatial

mellionation (reorganization). Stiens for example charges: this is an extensive spatial blackwashing under ecological pretences. In answer to this let me make 3 remarks:

(1) The more widely the accepted strategy of urbanization, based on the growth pole concept, is pursued, the more passive spatial mellionation (reorganization) is tolerated - but concealed and therefore of no use for the development of positive assignments of functions to these regions.

On the other hand: With a suitable set of instruments that is able to accomodate individual regional goals, there will certainly be a tendency towards a consious division of labour between regions.

Under this concept the equalization objective is interpreted as a mandate for spatial differentiation according to regional preference patterns, and not so much an intervention aiming at levelling out all differences.

(2) You cannot talk constantly about democratic participation, local self government or a strengthening of the federative system, and at the same time reject a decision for regional differentiation.

Wagener for example believes that to a certain extent negative coordination is not too high a price to pay for the political and social advantages of federalism and local self government.

(3) It makes more sense to maintain in all types of regions minimum infrastructure standards and a certain supply of private tertiary

services than to continue to pay regionally undifferentiated subsidies for industrial relocation. These suggestions do not mean a surrender in view of inevitable trends of development, nor do they provide a legitimation for planning and politics to follow these trends.

I am well aware that many problems of such a regionalized regional policy have not even been touched upon: Suitable frames of reference for a region, numerous financing problems, the question of rewards for regions that accommodate compensation functions, mainly ecological priorities, or that allow investments with special localization requirements. My preceding remarks have probably been overemphasized at times and deliberately they provoke objections. I accepted this in order to illustrate my basic concern: A regionalized regional policy with ex-post coordination instead of a centralized regional policy with ex-ante coordination.

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