EUROPE AND THE REGIONS: Past, Present and Future

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Abstract

Territorial politics has been a recurrent feature of the European state, although it has often been neglected in favour of state-centred analyses in the social sciences. The phenomenon of regionalism presents particular analytical difficulties, since it covers a multitude of phenomena, and regions can be defined according to many different criteria. They can be seen as purely geographical, they can be defined according to economic or cultural criteria, or they can be self-identifying, based on a sentiment of common identity. Regionalism, similarly, can be seen as a cultural movement, as a way of promoting economic development, or as a demand for self-government. It may be directed at the state, in the form of demands for resources or policy concessions, or it may aim at the achievement of local autonomy. In this article, we adopt a political economy approach, focusing on the linkages between regions as economic entities on the one hand, and political mobilization and institutionalization on the other. We first trace the dynamic of state-region relations in the modern nation state, then examine the impact of European integration. It has sometimes been argued that the twin pressures of regional assertion and European integration are squeezing the nation state, leading to a new political order loosely described as a 'Europe of the Regions'. We agree that the European context has altered the dynamics of territorial politics in important ways, but that the future development of this will depend on the extent and type of future European integration. In one scenario, regionalist pressures are likely to increase to the point of putting the nation state in peril. In another, we will see a continued three-level game among states, regions and the European Union. In a third, we see a renationalization of territorial politics.

INTRODUCTION

Territorial politics has been a recurrent feature of the European state, although it has often been neglected in favour of state-centred analyses in the social sciences. The phenomenon of regionalism presents particular analytical difficulties, since it covers a multitude of phenomena, and regions can be defined according to many different criteria. They can be seen a purely geographical, they can be defined according to economic or cultural criteria, or they can be self-identifying, based on a sentiment of common identity. Regionalism, similarly, can be seen as a cultural movement, as a way of promoting economic development, or as a demand for self-government. It may be directed at the state, in the form of demands for resources or policy concessions, or it may aim at the achievement of local autonomy. In this article, we adopt a political economy approach, focusing on the linkages between regions as economic entities on the one hand, and political mobilization and institutionalization on the other. We first trace the dynamic of state-region relations in the modern nation state, then examine the impact of European integration. It has sometimes been argued that the twin pressures of regional assertion and European integration are squeezing the nation state, leading to a new political order loosely described as a 'Europe of the Regions'. We agree that the European context has altered the dynamics of territorial politics in important ways, but that the future development of this will depend on the extent and type of future European integration. In one scenario, regionalist pressures are likely to increase to the point of putting the nation state in peril. In another, we will see a continued three-level game among states, regions and the European Union. In a third, we see a renationalization of territorial politics.

THE STATE AND THE REGIONS

An influential school of thought in the 1950s and 1960s depicted the process of national integration as a historical inevitability as 'pre-modern' territorial particularities broke down in the face of the market, mass culture and the bureaucratic uniformity of the state (Deutsch, 1966). This idea received a sharp setback in the 1970s with the revival of territorial politics in industrialized countries across Europe, and since then there has been a greater appreciation that territorial distinctiveness has not merely survived from an earlier era, but is continually produced and reproduced in the conditions of modernity (Agnew, 1987; Keating, 1988). The European state in its heyday did not suppress territorial identities. Rather it managed them in a variety of ways, and its history has been punctuated by a series of crises of territorial representation as changes in the structure, scope and power of the state have met with support, resistance or confrontation on the ground.

The first territorial crisis occurred in the late nineteenth century as the expanding and modernizing state encountered resistance in peripheral territories to produce counter-nationalist or regionalist movements (Keating, 1988). Often these were tied to conservative and traditional interests based in an older social order, but in some cases they represented alternative paths to modernity. In most countries these territorial resistances were overcome as states consolidated their authority, although in the cases of Ireland and Norway secession occurred. In Spain, the crisis of territorial government was one of the underlying factors in the breakdown of the monarchical system, and the efforts of the second republic to resolve it with concessions to the minority nations was in turn one of the factors precipitating the rebellion of 1936 and the subsequent Franco dictatorship. Following the second world war, regionalism was downplayed in France and the United Kingdom, where centralization was accentuated. In the defeated powers of Germany and Italy, regional decentralization was introduced as a safeguard against a return to dictatorship, although in the Italian case the implementation of regional government was initially confined to the special status regions of the islands and northern borders.

By the late 1960s, however, many states were experiencing a second crisis of territorial representation, again the product of an expanding state colliding with mobilization on the ground. From the 1950s states had begun to complement national economic management strategies with policies to ensure balanced regional development. In an era of full employment, diversionary policies, which prevented industrialists investing in booming regions and instead diverted them to underdeveloped or declining regions, could be presented as a non zero-sum game. Underdeveloped regions could gain from increased investment and employment; booming regions would gain relief from inflationary pressures and congestion; and the national economy would gain from bringing idle resources into production. Over time, packages of industrial incentives became more elaborate and were complemented with planning frameworks and infrastructure programmes, organized around development areas or growth poles. Policy was generally seen as consensual, technocratic and centralized. In order to secure the implementation of programmes and the cooperation of local actors, however, governments started to put in place consultative mechanisms such as regional planning councils, with representation from local government, business, agriculture, trade unions and other key sectors. At this point, top-down regionalism came into conflict with an increased mobilization on the ground, as territorially based social movements resisted change, or argued for different models of development. As in the late nineteenth century, regionalism covered a variety of movements, from coalitions of territorial defence, pledged to resist change, to development coalitions seeking to manage economic transition. In some cases, they linked up with cultural or linguistic movements, or tapped historic territorial identities to present a broad-based challenge to the state. Both state-managed regional policies and the new territorial social movements destabilized existing patterns of territorial representation and intermediation, through parties, territorial bureaucracies, personal networks and patronage systems. Regional development became a highly politicized issue. The resulting crisis of territorial representation, which was sharpened by the problems of traditional regional policies in the aftermath of the oil crisis of the 1970s, was handled by a range of policy and institutional concessions. Regional governments were established in France, Italy and in Spain, where they formed part of the transition to democracy. In several cases (such as France and the UK), regionalist demands were absorbed by the parties of the social democratic left and, while these parties delivered rather little in government, this served to defuse the issue and demobilize the movements. In France and Italy, the old political elites managed, by and large, to colonize the new regional institutions. In France and the United Kingdom in the 1980s , city-based politicians eclipsed regional leaders and became the main actors in territorial politics, although their influence in the UK was sharply cut by the centralizing policies of the Conservative government.

THE NEW REGIONALISM

In the 1990s, however, the European state faces a third crisis of territorial representation, one which this time transcends the boundaries of the state and cannot be resolved by internal accommodation. This has produced a 'new regionalism' (Keating, 1996; Balme, 1996) which places its demands and strategies in a global and continental rather than a purely national context. One important factor in this is the collapse of the old regional policy paradigm in the face of capital mobility, international competition for investment, and fiscal restraint. The political consensus on diversionary policy has broken down with the end of full employment, as regional development has become a zero-sum game. Governments can no longer divert investment from rich to poor regions since investors can choose to leave the country altogether. The emphasis on national competitiveness leads them to promote their most successful regions and sectors. Without the support of national governments, regions have fallen back on their own resources and begun to emphasize indigenous development, and to advertise their own attractions in the global market. At the same time, a new paradigm has emerged in regional economics. While traditional approaches to development emphasized national incentives, external investment, infrastructural development and central planning, the new paradigm emphasizes indigenous capacity, human capital and training, research and innovation and the stimulation of networks and favourable milieus (Stöhr, 1990; Storper, 1995; Dunford and Kafkalas, 1992) both to stimulate endogenous development and to attract inward investment. As regions, like states themselves, are pitched into competition for investment and markets, the old theory of *comparative* advantage has given way to the idea of *competitive* advantage. These economic changes in turn have had political effects as new development coalitions form within regions seeking ways of inserting themselves in the new continental and global economic order (Keating, 1996). Territorial politics has thus reconfigured as the themes of development, growth and competitiveness have reshaped the political agenda.

European integration has affected this process in important ways. Free trade and the completion of the internal market have complex effects on the territorial economy. Classical approaches might suggest that, in a single market, territorial disparities would be reduced as capital flowed to areas of surplus labour and workers moved to areas of expansion. In practice, however, factors of production are not perfectly mobile and most analysts are agreed that integration tends to accentuate territorial disparities (Molle et al, 1980; Keeble et al, 1988; Camagni, 1992; Steinle, 1992; Begg and Mayes, 1993; Commission of the European Communities, 1991; André et.al., 1989; Dunford, 1994). The opening of markets has increased the peripheralization of marginal regions and produced a new territorial hierarchy. At one time, it was thought that integration would concentrate development in the central regions of the 'golden triangle' or, later, the 'blue banana'. This would produce a new centre-periphery cleavage. It is clear now that matters are more complex and the mosaic has been suggested as a more appropriate metaphor. Unlike nation states, the EU has no automatic compensation mechanism through fiscal equalization and large universal spending programmes financed by general taxation (Mackay, 1993). EU policies may also have an anti-regional bias (Franzmeyer et.al., 1991). Competition policy may disadvantage marginal regions, through preventing cross-subsidization of communications services and , opening public procurement (Fullarton and Gillespie, 1988). Agriculture and research spending may benefit the more developed regions (Strijker and de Veer, 1988; Cheshire et al, 1991; Grote, 1992). The single market programme has further disarmed national governments, while economic and monetary union will remove their ability to manipulate exchange rates and interest rates or to run budget deficits, all instruments used for regional as well as national purposes.

Politically, European integration may entail greater centralization within individual states, since it is national governments which are represented in the Council of Ministers and other institutions, so that, as the EU expands into areas of regional competence, regional governments have lost out. For many years, national governments tended to insist that, as European matters lay within the realm of foreign policy, they came under their exclusive competence, even in matters formally devolved to subnational governments.

There have been two types of reaction within affected territories. A rejectionist regionalism opposes European integration and clings to the nation state as the guarantor of social and territorial equity. This was a common reaction in peripheral areas up until the 1980s and is still the dominant reaction in the Scandinavian peripheries. A second reaction takes the form of positive engagement as regional actors seek to get into the European game and position themselves favourably. They have been greatly encouraged to do so by the development of EU regional policy, which provides substantive rewards for them, especially since the reforms of 1988 (Marks, 1992, 1993; Hooghe and Keating, 1994; Armstrong, 1995). The Commission's insistence on partnership with local actors, within agreed programmes and planning frameworks, have stimulated regional mobilization and raised expectations (Hooghe, 1996). More generally, Europe has provided a new arena for the expression of regional and minority nationalist aspirations. Some minority nationalists insist that European integration has reduced the cost of national independence, and propose simply to secede from their host countries and rejoin the EU as member states; this is the policy of the Scottish National Party and some Basque nationalists. Others, such as the Welsh nationalist party *Plaid Cymru* and other Basque nationalists, want to replace the existing Union with a federation of regions and small nations. Others again, like the Catalan governing party, *Convergència i Unió* (CiU). are more pragmatic, seeing in Europe an arena in which their nationalist aspirations can be expressed and legitimated, while pressing for influence at whatever points are available.

European integration and regional assertion are not the only factors transforming the European nation state. Others include the rise of neo-liberal ideology, the advance of markets and deregulation, and the strengthening of civil society in systems formerly dominated by strong states. In the past, the nation state was the basis for a series of economic and political systems. It was the locus of sovereignty and for governing institutions. It was the principal arena for public policy-making. It was the framework for economic activity and 'national economies.' It was the foundation of cultural and political identity. It was a system of representation and legitimation of decisions. It was an arena within which the conflicting needs of economic competitiveness and social integration could be reconciled through political means. These processes are increasingly divorced as economic change is globalized and escapes the control of states; policy-making retreats into complex networks which do not correspond to formal institutions; and new and rediscovered forms of identity emerge at the subnational and even the supranational level. Some observers have insisted that all this heralds the end of territory as a factor in social life (Badie, 1995). We see, rather, a reconfiguration of territorial politics. European integration and regionalism must be seen not merely in negative terms, as forces undermining the state, but also as attempts to create new political arenas at the supranational and subnational level to try and recapture control of at least some of these processes. The shape of these arenas will condition the type of politics that is possible within them, hence a series of conflicts over the shape of the new Europe: the more social versus the purely market vision; the unitary versus the federalist vision; and over the role of regions.

Traditionally, territorial politics could be understood through the relationship between the state and its component territories. In the European state of the first half of the twentieth century, the relationship between regions and the international market was largely mediated by the state, which was able, through protectionist policies, taxation and spending, to manage its own spatial economy. After the second world war, tariff protection was reduced, but regional policy spending, diversionary policies, planning and infrastructure programmes served the same purposes. States were able to accommodate regional interests through policy and institutional concessions in exchange for political support, either for the regime itself in the case of territories with a secessionist potential, or for the governing party (figure 1). The channels of mediation varied from one case to another. In some cases, such as Italy, political parties were the main channel, and resources distributed in a clientelistic manner. In Germany, institutional mechanisms were more important, with the Länder being integrated into national policy making. In France, personal networks emerged around powerful territorial brokers, able to accumulate office at various levels within the system, while the territorial bureaucracy of the central state also served a mediating role. In the United Kingdom, the territorial departments for Scotland and Wales tied those nations into the centralized system of government, while providing important channels of influence on both the political and bureaucratic side, so permitting a complex process of territorial intermediation. Europeanization and the opening of global markets have destabilized these networks, just as the extension of the states in the late nineteenth century and the postwar era destabilized earlier networks of territorial influence. In the new dispensation, the dyadic relationship between state and regions has given way to more complex patterns in which regions find themselves in a direct relationship also with the global market and the new international regimes, notably the European Union (figure 2). Political influence can still be exercised through the central state but regions also seek to influence the decision-making instances of the EU, either through the state or directly. The relationship of the region to the global market, on the other hand, is determined by the region's international competitiveness, rather than by political exchange, and this imperative in turn powerfully moulds politics within the regions themselves, legitimizing some projects and not others, benefiting some actors and disadvantaging others. These factors also increase inequalities between regions and, because of the need to emphasize competitiveness, within them.

Figure 1

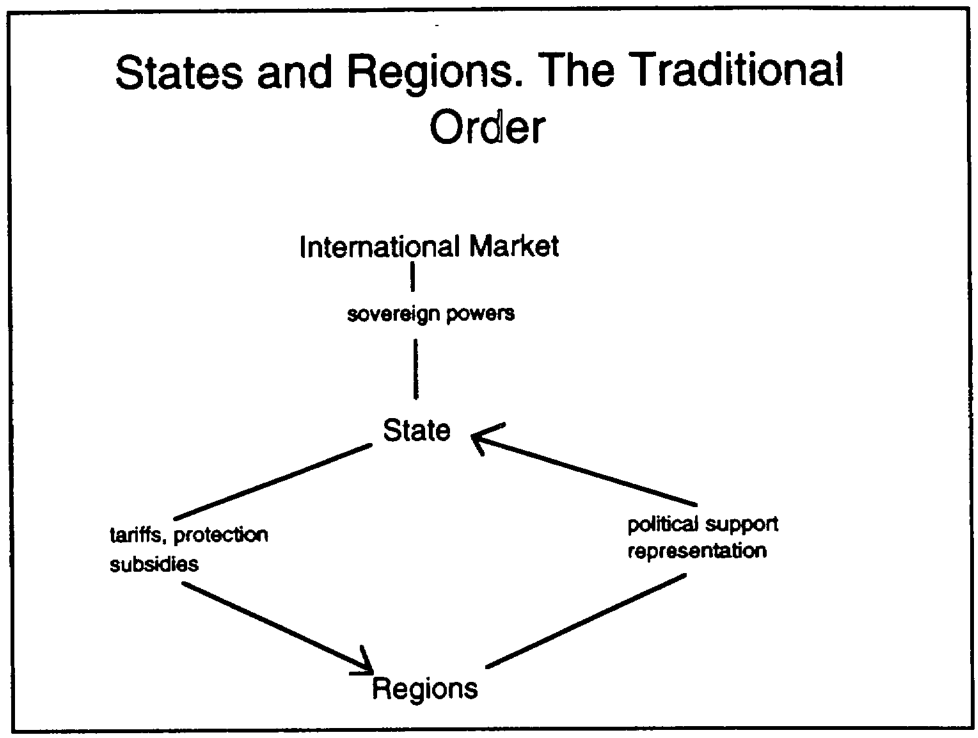
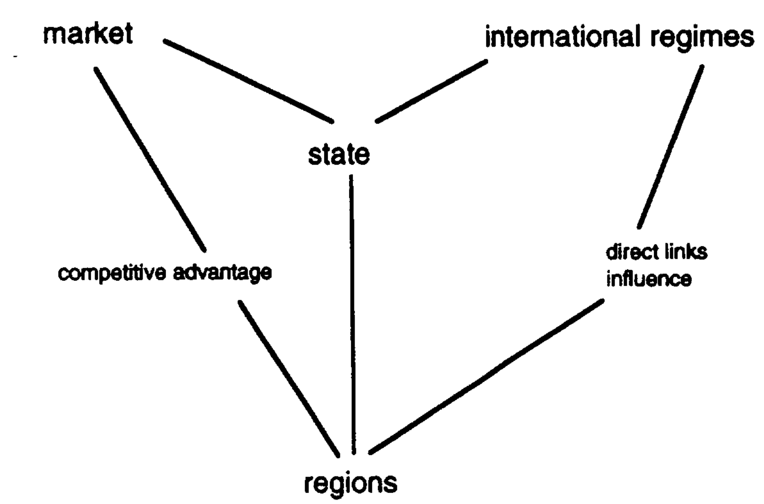


Figure 2
Regions, State and Market



EUROPE OF THE REGIONS

The restructuring of territorial politics has stimulated a debate about a 'Europe of the Regions' (Morata, 1987; Bullman, 1994; Jones and Keating, 1995; Petschen, 1993; Borrás et.al., 1994). This vague phrase covers a variety of interpretations and political projects. One perspective sees an erosion of the existing states in the face of the twin forces of Europeanization and regionalism, to produce a new system in which the key actors will be Europe on the other hand and powerful regions on the other. This idea is supported from two rather different perspectives. On the one hand are regionalists, minority nationalists, communitarians and a range of people generally inspired by postmodernist notions, who see the small-scale unit as a more natural as well as more participative level of community. On the other hand are observers of a more technocratic bent, who insist that the state is doomed to decline as it becomes functionally redundant. This view has strong affinities to the neo-functionalist perspective on Europe generally, although neofunctionalists had little to say about territory. The problem is that it ignores the massive power resources at the disposal of states and the strong interests operating at state level. Other observers see regions in competition with states and conjure up visions of an alliance between the Commission and the regions to circumvent national governments and reduce their power. Outside the area of structural funds policy, however, the Commission has shown little interest in regions and even there it works more closely with national governments. Generally, the Commission needs the states, and is more interested in policy effectiveness and efficient delivery than in broad issues of political restructuring. Finally, there are those who talk of a 'Europe with the regions', in which regions are implicated in policy and politics and can use Europe to enhance their political standing, but do not rank with national governments as political actors.

The discussion of the future on regions in Europe is necessarily speculative, but we cannot even begin to engage in it until we have specified what regions and what Europe we are talking about. There is not just one type of region and regionalism present in Europe, but a variety of movements of quite differing character; and there is a variety of possible futures for the European Union itself.

The term region has a range of meanings in social science. Certainly, it refers to a territory, but even this covers a diversity of scales, from the city-region to the large provincial-scale territory. Regions are also defined by economic criteria, such as dominant productive activities, or labour-market areas. They may be characterized by a distinct culture or language, or shared historic memories and myths. Alternatively, they may be defined institutionally, by administrative or political arrangements, established by the state or inherited from a pre-state past. They may also be characterized by features of their civil society, such as religion, associational life, sport or mechanisms of interest articulation. These features may or may not coincide in space, to create a recognizable pattern of regional politics, or a confusing mosaic of overlapping systems of action. Where they do coincide, that is where we have a recognizable economic unit, with a distinct culture and popular sense of identity, together with political institutions and a distinct civil society, we may speak of strong regionalism. Where only some elements are present, there is a weak regionalism, or no sense of regionalism at all. Regions are not natural features, but are constituted by these different meanings, and often by the actions of political entrepreneurs who take these elements and use them in a conscious region-building project. Regions thus constituted may then become political *arenas*, within which choices are debated, divergent interests accommodated, and decisions taken which are regarded as socially and politically legitimate. Beyond this, regions may also constitute themselves as *actors* within the state, the European Union and the global market, pursuing a regional interest as defined by the dominant coalition within the region. In the new dispensation, regions will always be rather open systems, lacking the capacity to manage interests within them in the manner of the classic nation state and not monopolizing links with the outside. As actors, they are rarely likely to be uncontested, and cannot define a 'regional interest' with the authority with which states try to define a 'national interest'. Their capacity to define a territorial interest, indeed, varies. The German Länder, with their strong institutional standing, are more likely to define the territorial interest in an authoritative manner than is the case in France or Italy, where regional governments are in competition with local governments, the territorial bureaucracy of the central state, and with private and corporate actors. The politics of regions is thus open, flexible, and variegated. In states without regional governments at all, a regional interest is more difficult to articulate and emerges, if at all, from negotiation among elements in the public and private sectors, through development agencies, plans and programmes.

The demands emerging from regions in relation to European policies and the future of Europe will also vary according to the character of the regions themselves and their position within the European market and polity. Some of the most active protagonists in Europe have been the rich and dynamic regions like Baden-Württemberg or Lombardy. The Four Motors of Europe group links these with Catalonia and Rhone-Alpes in a high-technology consortium, seeking to use the single market to strengthen their position (Borrás, 1993). In a very different situation are peripheral regions like most of the Italian Mezzogiorno, southern Spain and Portugal, or large parts of Greece. Here market integration is seen as a threat, and there is a strong emphasis on obtaining compensation in the form of structural and cohesion fund spending. These regions tend also to be underdeveloped administratively and politically, and rely heavily on their national governments to obtain favourable policies from Europe and on both the state and Europe to protect them against the rigours of the global market. The same might be said of the eastern Länder of Germany. Some regions are themselves historic or emerging nations, with important autonomist movements, wanting to use Europe to loosen the embrace of the central state; notable examples are in Scotland, Catalonia, the Basque Country, Flanders and Tyrol.

Channels of Influence

Regions have a variety of channels of influence in Europe (Keating and Hooghe, 1996) and their use of them reflects their interests as well as the opportunities open to them. The most important is through their national governments, using the same mechanisms of influence as they employ in domestic politics. So Belgium, Germany and Austria have reformed their federal arrangements to permit regional influence in the formulation of the state's European policy and have invoked the clause in the Maastricht Treaty which allows subnational governments to represent the state in the Council of Ministers. In France, the networks of personal influence have been extended into Europe (Balme 1995). In Spain, political parties provide a key link. Under the former Socialist government, Andalucia was protected as a critical support base, while the Catalan nationalists included European policies in their pacts with successive socialist and conservative national governments. In the United Kingdom, the Scottish and Welsh Offices represent their respective nations' interests in negotiating European policy. These national systems do not always adapt themselves to Europe, however. The French tradition of rigidity in the rules and flexibility in the implementation cannot be applied to European regulations, which need to be enforced (Schmidt, V., 1995). Germany's legalistic and institutionally-oriented policy style does not adapt well to the new open-ended policy style of networks and continual negotiation (Tömmel, 1996). Scottish and Welsh interests may be present in sectoral Councils on matters in which they are functionally competent, but they are likely to be sacrificed when trade-offs have to be made to reach package deals (Keating and Jones, 1995).

A second mechanism for influence is through direct links. Many regions have established offices in Brussels, engage in lobbying and hire consultants to help them through the Brussels system. Since power remains concentrated in the Council of Ministers representing national governments, there is a limit to what can be achieved by direct contact, but it may enable regions to have advance notice of proposals under consideration, as well as enabling them to follow dossiers on particular projects through the Commission.

National states have tended to resist these links and in Italy and Spain used legal and constitutional mechanisms to prevent them, but in both cases courts have now ruled that such representation is constitutional.

Thirdly, there is a variety of consultative mechanisms put in place by the EU itself or recognized by the Commission. The Assembly of European Regions represents regional interests broadly, and a range of more specialized bodies speak for regions of particular types. For the administration of the structural fund programmes, the Commission has insisted on partnership arrangements, including regional representatives. Finally, the Committee of the Regions (CoR), established under the Maastricht Treaty, has formal consultative status alongside the Economic and Social Committee. The CoR emerged much weaker than was hoped by the more ardent regionalists, who had envisaged a regionally-based second legislative chamber (Jeffery, 1995a). It also suffers from the need to represent the interests of all European regions when these, as we have noted, are in competition with each other on policy and funding matters. It also has to bridge the rather different demands and needs of regions and local governments.

THE FUTURE OF EUROPE

So we see a variety of regionalisms in contemporary Europe. These could potentially serve to transform the nation state and the EU itself; or the states might reassert their control over spatial policy and politics, renationalizing the regions. The outcome will depend on political developments within the regions themselves, but also on the future of the European Union. Since there is no way to predict the complex processes shaping this future, we have modeled three possible scenarios.[1] Within the scenarios, the most important factors and the internal logic of the further development of Europe are analyzed and options for regional economic and political developments are discussed. The prospect of economic and monetary Union (EMU) as embodied in the Maastricht treaty is the most important of these factors (Barber, 1996c). It is argued here that EMU's launch or failure as well as the interpretation of the criteria chosen for membership will play a decisive role for the political and economic future of the EU and hence its regions. While there is no direct regional influence in this process, its effects on the territorial cohesion of member states are important and, if this leads to a weakening of states, then regional influence on an emerging new European polity could become much stronger than hitherto experienced in Western Europe.

EMU is due to begin on 1 January 1999, since the requisite majority of EU member states meeting the Maastricht fiscal criteria in time for a 1997 start has not been achieved (Marterbauer, 1995;Europäische Kommission, 1996; Barrell, et.al., 1995). As of 1996, only Ireland, Luxembourg and Denmark would be eligible. Even Germany exceeded the budget deficit reference value in 1995 with a deficit of 3.6% of GDP (Dempsey, 1996; Münchau, 1996). While most member states are converging on low rates of inflation and their differences between the long-term interest rates are relatively small, chances fulfilling the financial criteria are poor (Schlesinger, 1996). Despite these difficulties, official statements show commitment to the January 1, 1999, launch date for EMU (Tett/Hill, 1996). Even should EMU be postponed for 2 or 3 years (Vaubel, 1996), it seems unlikely that this would change the choice of members and the effects of EMU fundamentally (Schlesinger, 1996). Nor would a minor reformulation or wider interpretation of the convergence criteria during the next years, hence the scenarios continue to apply in the event of such changes.

The second important contextual factor is the prospect of EU expansion, which has become more prominent in Commission statements lately (Barber, 1996a). However, eastward enlargement seems unlikely before 2010 (Gowan, 1996). Negotiations between

1. Cf. Pintarits (1996); for methodical aspects of ascenario-approach cf. Schremmer/Krajasits (1992).

the EU and candidates for membership are not expected to start before the end of the present Intergovernmental Conference (IGC), that is not before the end of 1997 (Bartak, 1996). The expected timetable ranges from a period of 10 to 15 years for negotiations in earlier informal statements to more recent suggestions that membership might be possible as early as 2002/3 (Barber, 1996a).[2] Considering the importance of such a change, chances for full membership or for special arrangements (Franzmeyer, 1995) for Slovenia, Poland, the Czech Republic, Slovakia and Hungary (the five member states of the Central European Free Trade Agreement – CEFTA) are analyzed within the scenarios.

Scenarios for European Integration and Disintegration

The factors seen as decisive within the three scenarios are shown in table 1. A decision to launch EMU will require the participation of France and Germany, but it is argued that there will be no EMU without at least five or six member countries; EMU with two or three members only seems unrealistic for political reasons. Most likely candidates are the Benelux countries (Belgium, the Netherlands and Luxembourg), Austria and Ireland, but , given unchanged convergence criteria, their participation depends critically on the interpretation of the criteria for public debt and budgetary deficits (Barell et al., 1995). The purely monetary criteria must definitely be complied with. France, Germany, Benelux and Austria, defined as core countries in the scenarios, would form a quite homogeneous economic area in which economic shocks would affect all countries in a relatively similar manner, at least in the beginning (Breuss, 1994). Denmark also belongs to this economic area, its reluctance to over EMU being political in origin.

The three scenarios are distinguished by different assumptions on the basic political attitude of the EU member countries and their effects. Germany and France are expected to be the most influential players in shaping the further integration process., particularly in the decisions on EMU. Scenario 1, 'Core Europe', is characterized by quicker pace and depth of integration for the economically strong core (plus Ireland). Scenario 2, 'Business as usual', assumes a co-operative strategy, which implies slower integration, while Scenario 3, 'Stagnation', shows member states using all their remaining national political powers to stop the integration process.

Table 1: Scenarios for the future of Europe

	further political integration	members and launch of EMU	economic development
Core Europe	deeper and faster integration of the core	launch in 1999with G, F, Benelux, A, Ire, but without I	moderate economic growth within core, economic uncoupling of other member states
Business as usual	co-operation of all EU members and slow deepening of integration	launch in 1999 with G, F, Benelux, A, Ire, and I	moderate growth and increasing unemployment within the widened core and outside
Stagnation	reversal of already agreed steps of integration	EMU abandoned	slow economic growth and very high unemployment

A - Austria; Benelux - Belgium, the Netherlands and Luxembourg; G - Germany; I - Italy; Ire - Ireland
Source: own assumptions; cf. Pintarits (1996).

2. This assesment of Ambassador Manfred Scheich was repeated by *DiePresse*, 27 September 1995.

CORE EUROPE

"The relationship between the ins and outs is potentially very dangerous" (Financial Times, 11 April 1996).

Our 'Core Europe' scenario has integration oriented towards the economically strong countries, reflected by decisions on EMU and agreements reached at the IGC during 1996/7 (table 1). The convergence criteria would remain compulsory, or even tightened for members) with automatic sanctions in case of excessive deficits (Barber, 1996b). The rules for countries in derogation would provide for a revived but voluntary exchange rate mechanism, giving the European central bank a role in deciding on exchange rate changes (Fisher/Norman, 1996). Countries outside the single currency-area that could not adhere to the convergence criteria would get no support when their currencies came under pressure (Neumann, 1996; Fisher/Norman, 1996). All countries would still be expected to join EMU in the future. In this scenario a new institution, maybe an Economic and Monetary Council (EMC), seems possible, which would institutionalize co-operation and common decision-making on economic and monetary policies of the core (Franzmeyer, 1995). On 1 January 1999 core EMU would be launched, Germany, France, Benelux, Austria and Ireland being the first members. Denmark and the UK would most likely be unwilling to join, referring to the opt-out clauses negotiated at Maastricht. Italy, Spain and Greece would have to stay outside the EMU and Sweden, and Finland might opt out.

EMU members in this scenario (with the exception of Ireland) are close to matching the criteria claimed for optimum currency areas (Krugman/Obstfeld, 1994) and show a high degree of integration when measured by trade relations (Tichy, 1994). This and a positive reaction of financial markets to the hard Euro might help to gain further economic advantage for the core. Cost reduction through the single currency and a decreasing risk premium on interest rates could help the economic upswing and create a moderate growth in which private investment compensated in part for low public demand. Applying Krugman's (1992) analysis, however, we expect an increase in the spatial division of labour and a polarization, with a dominance of central regions, which gain more from the effects of full economic integration. Thus the core area becomes less optimal as a single currency area.

Despite these positive economic prospects for the core, unemployment might remain relatively high even within the core. Private investment and consumption could remain below effective demand (Matzner/Streek, 1991) and exports might not be high enough to compensate this, because of the hard Euro. Sectoral and spatial restructuring would lead to more job losses due to rationalization. Specific measures to fight unemployment seem unlikely to be agreed upon. Despite the single market, work migration between EMU outs and ins would remain low due to the lack of (unskilled)labour demand within the core (Molle 1994). EMU 'outs' would come under increasing pressure. They might be forced by the EU to meet EMU criteria in any case, in order to prevent their free-riding or gaining unfair advantages through competitive devaluation. Even their weak currencies could not stimulate exports enough to compensate the lack of public and private demand and economic growth might stagnate. Increasing uncertainty on international markets about medium and long term effects of the new hard core could permanently impair trust in the stability of non-core member currencies. This could result in even higher interest rates which would further depress economic growth. Such a vicious circle could lead to an economic uncoupling of 'outs', without any chances for them to meet the criteria for EMU membership.

Within core Europe, the increased spatial disparities would promote demands for income-related tax raising powers for the EU and for fiscal federalism (Tondl, 1995) to enable the EU to combat these. Such an expansion of EU competences would lead to demands for stronger political institutions of a federal nature. The core might use its newly established

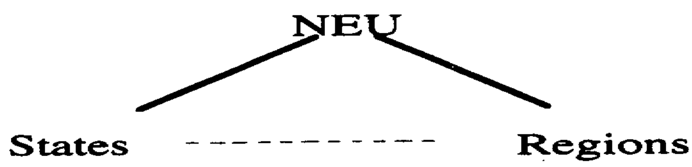
European and Monetary Council as a platform and institutional core for a fundamental reconfiguration of the EU– for the first steps to create a New European Union (NEU). The increased economic and political differentiation between centre and periphery could lead to a political disintegration, as Portugal, Spain, Italy and Greece remain within an outer institutional circle of the EU, at the margins of the NEU. They would remain members of the single market as an economic dependency of the core. The UK would also remain outside the core, perhaps re-orienting itself towards the Atlantic. Yet the establishment of a two-tier Europe would remove the necessity for large transfers to the periphery through the structural and cohesion funds and these could be reduced. The eastern candidates for membership might become part of this periphery as well.

Given such a development, a revitalized system of Nordic co-operation, including Denmark and all Scandinavian states is possible. Socially shared values such as high environmental and welfare standards as well as existing strong economic and political links (Tichy, 1994) would facilitate such a process, which EU membership on the present terms has tended to discourage. Common policies could be developed and the Baltic states might be incorporated into this sphere.

Regions: Strong Regionalism and Separation

The political pressures arising from a stronger EU would also have regional effects. Politically strong regions of the core, such as Bavaria, Baden-Württemberg, Tyrol, Salzburg, and the Flemish region would see changes in their opportunity structures and orient their political efforts towards the EU level. They would also have incentives to cooperate to influence the direction of policy. This would bring the issue of institutional change to accommodate regions back onto the agenda. The German and Austrian Länder as well as the Belgian Regions and Communities might push for a new model of division of competences between nation states and a NEU on the one hand and political regions and a NEU on the other hand. Nations states, their power to manage their spatial economies drastically weakened by EMU, would be in a weak position to resist. A 'double two level system of governance' (figure 3) might emerge where nation states would share their competences for foreign and security policies and for internal affairs and justice with the institutions of a NEU. Political regions would be responsible for economic and social policies, as well as for all policies concerning culture, education and spatial/regional planning, in co-operation with a NEU.

Figure 3: Division of competencies between New European Union (NEU) and states on the one hand and regions on the other hand (scheme)



Source: Pintarits (1996); own assumptions.

Among the 'outs', regional pressures to join the core would be likely in economically strong regions; in regions with a strong sense of political identity; and in regions with a strong European orientation. These might include Lombardy, Trentino-Alto Adige, Catalonia and Scotland (Schmidtke/Ruzza, 1993; Pintarits, 1996; Keating, 1996). Regional governments and political movements would push for enhanced status and competences, and more financial independence within their states. Official and informal links to the European Commission, the European Parliament and dynamic regions of EMU ins would be reinforced. Minority nationalist movements and parties would increase their demands for separation, and in some cases would try to join a nascent NEU. If the UK did not become a member of the Core it can be assumed that Scottish nationalists would claim separation more urgently than before. They would claim membership within the core, founded on the economic potential of the North Sea oil resources. Separatist pressures could also increase in Catalonia. We could also anticipate regionalist/minority nationalist pressures in Wales and in the Basque Country but, due to these regions' weak economic position, they would be primarily directed against national governments. Joining a NEU would be out of reach . Regionalist pressure and regionalization processes within EU states might also spill over to CEFTA states and initiate strong tensions between their most prosperous regions in the western and their weakest, most eastern regions. Eastern areas of Poland might seek stronger ties with Germany, rediscovering their German past and traditions in the process. The 'velvet divorce' between the Czech Republic and Slovakia has already provided a precedent for such a development.

From Core Europe to Business as Usual?

In a slightly different version of Core Europe, monetary stability is emphasized even more strongly, as proposed by Germany in 1996/5 (Norman 1995). Then, economic recession within the single currency area seems likely, with already high unemployment seriously aggravated (Krugman, 1996). In this case, EMU outs would have no incentive to comply with rules designed to prepare them for membership. They might use all national opportunities left to stimulate economic growth and might succeed partially. Public and party opposition within the core could lead to a reformulation of monetary and economic criteria within the core and further integration could be more marked by co-operation between ins and outs. Regional influence then might be quite strong, but disintegration of the EU or of nation states seems unlikely. These last considerations lead to the second scenario.

BUSINESS AS USUAL

Business as usual describes an integration process characterized by small steps and compromises (table 1). Permanent and fundamental changes of the EU are not excluded in the long run (Puntscher Riekmann, 1995 and 1996). Agreement on EMU membership is facilitated by a more flexible interpretation of the public debt criteria, recognizing the effects of the economic slowdown. A supporting policy of the German *Bundesbank* and European and national policies aimed at a stimulation of economic growth could improve the economic basis for this scenario (Schulmeister,1996). In 1997 the outcome of the IGC could already reflect this attitude of slower and co-operative integration.

EMU is launched on schedule, Austria, Belgium, France, Germany, Ireland, Luxembourg, the Netherlands *and* Italy (Wolf, 1996) joining from the beginning. Lasting economic and political stability in Italy are an important factor in this decision. Sweden and Finland might also be among the first members. Common decision-making of EMU ins and outs for all policies within the existing institutions of the EU is maintained. The UK and Denmark might not join EMU at first, but decide to reconsider membership by 2002 following a change in government. It could be inclined to decide in favour of UK membership, not least due to fears that London could lose its position as an international centre of finance. This factor could overcome public reluctance.

As long as the Maastricht convergence criteria remained in principle compulsory both for EMU ins and for aspirant members, aggregate demand would very likely have to be reduced. On the other hand, financial markets could react positively to the political stabilization of the integration process and interest rates might stay relatively low. Economic growth might then keep the momentum it would have got before 1999 and the national economies of ins and outs would not diverge further. Unemployment, however, could aggravate further within all parts of the EU.

During the first years after 2000 the need for common or co-operative solutions to fight high unemployment and balance increasing spatial polarization triggered or enforced by the single currency (Krugman 1992 and1996) could not be ignored any longer. EMU outs would have difficulties in approaching or meeting the convergence criteria, since restrictive fiscal policies had slowed down their economic growth. Intra-national regional disparities increase and European and national regional policies are insufficient to compensate. This might lead governments to start a new debate on constitutional changes for the EU, the central issues being to include outs in EMU and if and how fiscal federalism for the EU should be institutionalized. The strong orientation to monetary stability would have to be reconsidered.

Although there would be political forces favouring a strong core with tighter convergence criteria and strict sanctions, this option might lack strong public support. Economic imbalances would increase the importance of fiscal federalism while the strategy of piecemeal integration created demands for deeper political integration. The pressures to build a deeper political union, even a federation, might be strong enough to succeed. Given such a development, chances for full membership of the CEFTA countries would be low. The amount of fiscal resources necessary to include those states in a Union with fiscal federalism would be too high to find the necessary public support. Yet, chances for partial membership are very high due to the more co-operative and flexible attitude of the EU-member states. So new models of membership might emerge.

Regional Policy Instruments as Means of Integration

Given the maintenance of a single EU, structural and cohesion policies would have to be maintained as a compensation for the effects of convergence policies on the weaker states. Structural funds and Cohesion fund resources would not be reduced in 1999 and not be tied to a narrow monetary stability commitment on the part of EMU outs to support the economies of Portugal, Spain and Greece. To legitimate those increasingly disputed transfers in the eyes of net payers, the European Commission might get a mandate for a new reform of the structural funds. New procedures would most likely aim at a stimulation of indigenous growth and be designed to continue even with reduced financial support. This could open up ways for fundamental changes of the EU structural policies and so ease the admission of CEFTA countries.

The new fund regulations could be an example of piecemeal integration and experimental policies (Tömmel, 1992; Puntscher Riekmann, 1995). 'Regional managers' might be set up by the Commission to stimulate indigenous growth through intensive co-operation with regional actors. This could increase the efficacy of EC regional policies. A similar concept might be developed for the Cohesion fund, where co-operation between national administrations of Portugal, Spain and Greece and the Commission could be intensified. National experts and civil servants of all member countries could take part in this co-operation and technical aid. Such a concept might intensify the involvement of European, national and regional/local actors far beyond national identification. The Commission's influence on national, regional and local administrations in economically weak regions of the Union would increase significantly.

Regions: financial crises, further regionalization, intra-national political tensions

While new regional policies might lead to deeper political integration, economic growth would be too weak to reduce socio-economic regional disparities. Apart from the effects of the single market, the establishment of a single currency area would lead to internal debt crises of the less productive regions within EMU (Dow,1993). Southern Italy and Ireland would be most affected. Fiscal federalism on a European scale would become an issue therefore, its importance increased through overall processes of accelerated spatial specialization and polarization.

Political regionalization processes within the member states would presumably develop along traditional national lines first, but increasingly be influenced by economic integration. Different models of shared competencies and functions between the levels of government could develop that strengthened regions in their political role within their states. Issues of European integration would be more often seen as national interests and regions might co-operate within national systems and across them to gain influence. 'Regional foreign policies' would be recognized by central states and embodied in the respective legal systems (as has in part already been the case) but fundamental constitutional changes that could lead to disintegration of nation states in the long run are assumed unlikely. In Belgium the federal balance between the central state and the regions and communities might be maintained at first. In Italy, a first constitutional reform would start a federalization process of the country. In UK Scotland and Wales would gain a certain degree of regional autonomy after the British elections in 1997, but to a lesser degree than in Scenario Core Europe. The German and Austrian Länder would consolidate their national participation rights in European affairs and might succeed in a wider formulation of the principle of subsidiarity to cover sub-national authorities with legislative powers (Morass, 1994 and 1996; Jeffery, 1995b). However, financial problems due to the only moderate economic growth could lead to new political tensions between the prosperous regions and the poor regions especially in Belgium (Dreze, 1993; Chauvier, 1996) and Italy (Pohl1995).

Business as Usual versus Stability Pact and Recession?

Another development based on the basic assumptions of 'Business as usual' is conceivable if a tight stability pact for EMU members were to trigger economic recession within the single currency area (Krugman, 1996). Internal debt crises in less productive regions would develop quickly and give rise to increasing socio-economic disparities. Countries outside EMU might use their room for manoeuvre in the economic and monetary field, creating an economic dynamic, which also strengthened their less developed regions. Strong regional tension would emerge within the single currency area, especially in Belgium and Italy, because their economically weak regions would suffer from recession and national redistributive schemes are strained more than ever. Demands for increasing financial support would lead to massive political tensions.

Economic incentives for EMU outs to join would be small and Denmark and the UK opt-out permanently. While economic problems remained depressing within the single currency area, new agreements on economic and monetary policy of the widened core and new criteria for membership are possible, emphasizing monetary stability less than before. Attempts of the widened core to institutionalize fiscal federalism within the EMU area are possible, but might be blocked by EMU outs. They might oppose the pronounced two speed integration and the fostering of a core EU. They could do so more easily in a scenario like this, where no new institutional nucleus of the core, as the EMC assumed in scenario Core Europe, had been established. Chances for membership of CEFTA countries would remain small as long as the widened core faced economic stagnation. On the other hand, chances for membership would be enhanced by the fact that fiscal federalism had not been established.

STAGNATION

The Stagnation scenario could emerge if economic growth in 1996/7 should remain weak and the interest rate policy of the German Bundesbank should lead to further recessive effects. No country except Luxembourg would satisfy the debt and deficit criteria (Schulmeister, 1996). Germany would insist not only on a strict, but on a narrow reading of the treaty (Schlesinger, 1996) and EMU could not be launched. The IGC 1996/7 would be characterized by increasing political tensions between member states. They would agree neither on a deepening of integration, nor on enlargement, nor on common or co-ordinated initiatives to fight unemployment. The conference might reach a deadlock. The abandonment of EMU becomes obvious before 1998/9. This and the political tensions between member states could lead to (in the worst case extremely) turbulent reactions of international financial markets with increasing long term interest rates and strong fluctuations of exchange rates even for hitherto stable currency relations. Some states reject a policy of monetary stability in favour of stimulating their economies and hence neither the fiscal nor the financial criteria are met. After a period when even the D-Mark was weakened, it could be strengthened again. Economic dominance between states would consolidate and Germany could become a monetary world power. European integration might stagnate to the point that the EC/EU became no more than a free trade area yet (Schmidt, H., 1995). Interest rates are high in all European countries. Germany would face losses in competitiveness in its export oriented industrial sector.

Even should the Commission attempt to revive the dynamic of the integration process, it would be unlikely to succeed. In this scenario EU-wide economic growth remains extremely weak, the number of unemployed dramatically increasing in all states. Each nation state would try an individual strategy to overcome recession and nationalistic politics in all policy areas would prevail, but even those states that would try to support demand by public spending could not succeed.

Scenario Stagnation does not provide the consensus between member countries needed to provide new structural or regulatory arrangements necessary for enlargement. Nor does it provide the member states and the EU with the financial means to face eastward enlargement. CEFTA countries, however, are severely impaired by the political as well as by the economic and financial crises. Their political situation might destabilize and economic development turn out extremely poorly. Yet, since EU-membership in this scenario is not attractive for CEFTA countries any longer, an alternative development is conceivable. CEFTA countries could develop their own single market, which could create (at least moderate) economic growth.

Regions: economic competition and intra-national regionalism

In this scenario, we anticipate a renationalization of territorial politics. European regions would lose their interest in formal institutions like the Committee of the Regions within the EU. Informal access to the Commission might remain of interest to a certain degree even though European financial resources would most likely be reduced drastically. On the other hand, national regionalization or federalization processes and reforms become more important, especially to alter the distribution of financial resources.

While the political integration of Europe would stagnate on the one hand, economic globalization and integration within the single market would progress on the other. Given the extreme slow-down in economic growth, massive financial and social problems especially for localities and regions would occur, while at the same time competition for industrial location between them would get even stronger than it is today. In this scenario the economic dimension of new regionalism (see above) becomes more important. Yet, the idea of political autonomy within a deepened EU becomes obsolete. Old centre-periphery conflicts re-emerge as do new ones. Old and new cultural and social conflicts within states could become territorialized where they coincide with economic and financial decline.

THE SCOPE OF EUROPE'S FUTURE

To show the scope of conceivable European developments, table 2 reviews the most important decisions that are due within the next years and the assumptions made for the three scenarios. During the time of the IGC in 1996/7 the basic political attitude of the main actors within the EU and the economic development of the next years will set the course for EMU, its launch or abandonment and its first members. As was argued, the relationship between EMU ins and outs is assumed to strongly influence the future of Europe and its regional dimension in particular.

Table 2:"Shifting points" for Europe's future

	1997/98/99*	between 2002 and 2005
Core Europe	EMU of the core without Italy	fundamental constitutional changes; single market is maintained, creation of NEU, a Nordic Co-operation and peripheries
Business as usual	EMU of the core with Italy	constitutional debate; slowly deepened EU and widened EMU
Stagnation	no EMU	ongoing stagnation of the integration process; free trade area and relations of economic domination

* In 1997 the Intergovernmental Conferences due to end and all states that want to join EMU by 1 January 1999 have to join the exchange rate mechanism (ERM) of the European Monetary System (EMS). At the moment, Italy and the UK do not participate in the ERM; Greece and Sweden are not members of the EMS. Before 1 July 1998 the final decision about membership has to be made; scheduled launch date of EMU: 1 January 1999.

Source: Pintarits (1996); own assumptions.

Table 3 reviews the emerging European polities and the different regional developments expected in the three scenarios, showing the range of possible developments.

Table 3:The scope of Europe's future: institutions, politics and economic development

	European polity	**political role and socio-economic development of regions**
Core Europe	New institution created by EMU ins establishment of a political powerful core; disintegration of the EU into NEU, peripheries and Nordic co-operation; disintegration of weak nation-states	Europeanization of territorial politics; strong political role within the NEU; regions as EU-wide actors of disintegration; economic specialization and spatial polarization
Business as usual	Joint decision-making of EMU ins and out; hence slow deepening of the integration process; first constitutional changes to establish full political union	Joint management of territorial politics; political role of regions increasing slowly without promoting disintegration at first; economic specialization and spatial polarization as well as structural economic and financial problems of regions within the widened core
Stagnation	Withdrawal of already agreed integration steps; strong re-nationalization of politics; re-stimulation of the integration process is prevented	Renationalization of territorial politics; political role within the EU becomes insignificant; strong domestic conflicts; socio-economic disparities increase strongly

Source: Pintarits (1996); own assumptions.

The Europe of the Regions is, as we have shown, a complex idea, dependent on what Europe and what regions we are discussing. Both are evolving and the future of both is uncertain. We certainly forsee a differentiated political order in Europe, more reminiscent in some ways of pre-modern Europe than of the state-dominated order which has prevailed since 1870. We have traced the influences which migh lead to one or other type of territorial restructuring, but there remains a large role for political entrepreneurship and mobilization. Party competition within states and regions provides incentives and signals to political leaders. Region-building can take place as conscious policy, and this will mould the fortunes of individual territories.

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