

Productive Resources, Productive Structures, Product- and Process Innovations – Experiences of Germany’s industrial and regional policies for crises regions and leading export-areas

Draft

1) The EMU – a single currency space without important nation attributes

The now a day situation of the EMU formally can be compared and partly explained with the policies which were realised in national states with single currencies. The main difference is that the EMU has a very weak common political and public space, no strong and fiscally based central administration and therefore no strong budget and no strong regional equalisation and social security system, On the other side the EU competences in trade and single European market regulation are very strong (in combination with the European Court). This constellation is a fantastic regulation system for the multinationals: the “freedoms” of capital, goods, services, workforce and investment without a strong administration and budget (only about 1% of the European national gross product).

2) Industrial and regional policies in the nation states

England

In England the Thatcher (counter) neo-liberal revolution of 1979ff led to a deindustrialisation process (mining, steel ships, metal processing industries) and on the other side to an investment wave into the South-East, especially in the financial centre of London Docklands, whereas the North and the North-West declined rapidly with the exception of some flagship projects like Liverpool Docklands, Manchester airport area expansion, Newcastle inner-city reconstruction, Glasgow European Culture City renovation, and Cardiff as the centre of Wales. The result was a deep deindustrialisation of large parts of the country, the growing role of the real estate and financial industry, the reproduction of some important branches like pharmaceuticals, special chemical industries, electronics and medical tools and arms industry, all mainly located at the M 4 and London - Bristol axes, and last but not least the offshore oil and gas industries.

One precondition of the success of the high-tech industries was the expansion of the university sector where nevertheless the deepening of the division between elite schools and very poor financed (mostly former polytechnic universities) was continued. University industries are today the most important sector of Liverpool and other large cities in the North.

After the beginning of the single European market project (1986-1992)) the poorest regions of England became Objective 2 areas like Merseyside and the North-East, Merseyside 1993 Objective 3 region which meant, that the average GNP per person was less as 75% of the EU-average.

France

France developed in the typical French approach big axes, based on the TGV-network: Paris, Lyon, Grenoble, Lyon-Marseille, Lyon-Montpellier-Barcelona , Paris , Bordeaux-Toulouse, Paris-Lillie-London, Lillie-Brussels- Cologne, Paris-Strasbourg and Paris-Brest. The main nodes should release the hypertrophy of Paris as the all over helming big centre. This infrastructure policy was combined with a strong science and military based industrial policy which connected state incentives with the geographical investment strategy of the leading industrial companies which partly were in the ownership of the state. Some big successes: Airbus, TGV, pharmaceuticals and for some years motorcars. Losers today: motorcars companies, atomic power station industry, a huge problem for the future and in the first years also the steel industry and their location. Later Arcelor was captured by Mittal. (See also Michael Schlecht, 2013 (2))

Italy

Italy as a semi-industrialised country with big state owned companies after the war was not able to attract high volumes of efficient investments to the South (with the exception of a few development- cores like Tarentum (steelworks), Naples (Alfa Romeo) a.s.o. Initially the Industry of the North was very successful (Fiat, Iveco), and especially the successfully development of the “Third Italy” was an objective of endless regional economic studies of the high quality food industry, other high fashioned consumer goods (moebles and luxury goods) and it’s marketing. The deep cultural gap between North and South could not be balanced, what resulted in the neoliberal times since the beginning of the 80th in destructive rebellions against the equalisation policies (Lega North). The second period of neo-liberalism created the Berlusconiism and destroyed the substance of parliamentary democracy and the leftwing parties as well as industrial investments. Today important industries like motorcars and mechanical engineering are fighting for their economic survival (FIAT).

Germany

Germany and other “northern” countries like Sweden, the Netherlands, Austria and Denmark were able to transform their countries and also most of their regions in the age of science, technology, ecology and the beginning of globalisation (in the 80th and 90th) in high productive areas and zones. One main precondition was a strong r&d-budget and bias to science, technology and development as well as to high quality of education and of engineers. The second precondition was the strong level of competences of public institutions of the regions (NUTS-2, in Germany the Lander) and the local authorities in the fields of economic development policies, training and also research & development. Thirdly many public financed non-profit organisations (like Fraunhofer Society, Max Planck Gesellschaft (both public financed) and many private foundations like Volkswagen, Bosch etc.) are part of the inter-median science and technology networks, which mainly supports small and medium industrial firms. Many of them have become world market leaders in highly specialised markets. In the last 15 years since 1998 in Germany the SME`s and of course the big companies have been supported by the dumping wage policies in Germany on the costs of the partner countries and the low paid people.

3) Crises regions in Germany: revitalisation strategies

The Ruhr

Some of the regions of the North, especially in Germany, like the Ruhr-area, the coast (Bremen, Kiel), Saarland and most important East Germany needed special und huge long term recovery programmes to deal with the death of coalmining, steel and shipyards. Under a big coalition between any federal government since 1967 and the governments of the Lander the strategy consisted of two main element: **a defensive component**, which reduced the pace of the reducing of coal production, where in the 1950th half a million miners earned their wages, and modernised the coal-mining and the steel-production with more than 200000 workers, protected the demand of coal by a specific mix of energy policies and protected for ten years the regional structure of the European steel industry by using Art. 58 ff of the Montanunion-Treaty (1978-1988), combined with a capacity-reduction programme and a strong rationalisation bias. An important part of this strategy was to finance the adaptation system of the social insurance funds (early retirement, training etc).

The **offensive part** of the overall strategy included **firstly** the foundation and expansion of half a dozen universities in the sixties and seventies with 150 000 students today in the Ruhr, with national important departments of informatics, mechanical engineering, electro-techniques, chemical engineering, biotechnology, environmental engineering, construction, architecture and spatial planning and of course economics, business administration, sociology, psychology, teaching and cultural sciences. A **second** pillar of the offensive transformation of the regional economy was the foundation and the management of (mostly local owned) technology centres, of technology parks, of which in Germany Dortmund was the most successful one (8500 jobs from 1985-2005); all these activities were partly financed by EU structural funds and co-financed by the Land of NRW and the local communities. The **third** pillar was the fundamental modernisation of the rail and motorway infrastructure which transformed the cities transport systems in a regional one and therefore the local labour market in a regional one. **Fourth** huge investments were realised for improving the environment, leisure and the cultural infrastructure and the overall living conditions (housing, education, air cleaning, re-naturalisation of the regional rivers (Ruhr and Emscher). It was expected that the young high qualified graduates of the universities would stay longer or permanently at the Ruhr after their examinations, and people from outside would be attracted by these better living conditions. So the productive basis of this region did not collapse completely, but it is not strong enough to exist without national and EU-transfers and can not avoid high unemployment rates. (This would ask for a completely alternative economic, industrial regional and social policy. See Arbeitsgruppe Alternative Wirtschaftspolitik, 2013 and Euromemo, different volumes).

The **fifth** part of the offensive strategy was a complex system of professional education (dual system) and occupational re-training. This was developed especially in the 70th and 80th. On the other side the general education for relevant parts of young people was neglected, especially because of the stupid German three-class- educational system.

The overall social and regional economic results of these Ruhr-transformations are better as nothing, but dissatisfying. About one third of the people is living under poor conditions, 15-20 % are unemployed, another 10% have precarious jobs. The urban space is extremely divided and segregated between the rich and affluent parts of the region and its cities and the poor ones, where most of the immigrants are living. In the City of Dortmund for example

about 50% of the children are born and living in the poorest districts, a huge challenge of the education and social policy, especially under the aspect of demographic change – not speaking about human rights.

East-Germany

The transformation conditions of **East-Germany** were very different from those of the Ruhr. In 1990 the expectations of the people were very high, the promises of chancellor Kohl in 1990 have been extremely unrealistic (“blühende Landschaften” which means “flourishing landscapes” in a few years), full employment and other empty promises. But because of the sudden introduction of the DM in East-Germany (first of July 1990) with a completely unrealistic exchange rate (a revaluation of about 250-300 percent) the Eastern industries collapsed within half a year by more than 50 percent. The Treuhandanstalt, a state owned administration, founded in 1991, which was managed by the finance ministry with top-managers of the private industry, privatised the 100 big conglomerates and firms of the former GDR without modernising them (“Privatisation comes before modernisation”). This was a regional transformation under the conditions of radical and stupid neo-liberal principles, without a long and Keynesian orientated investment financed concept which was realised at the Ruhr, and because of the following disaster the Federal State had to finance huge amounts to reconstruct some industrial cores, the infrastructure and to stabilise and modernise the economy in general and to finance the extremely high unemployment rates and the prevention of the social insurances (Arbeitsgruppe Alternative Wirtschaftspolitik, 2010).

Today the Treuhandanstalt again is in discussion as a paradigm of an Agency which should organise privatisation in Greece and other countries. And the three actors IWF, ECB und EU-Commission try to localise it far away from the owners in Brussels or Luxembourg. And today it is argued that the Treuhandanstalt is a success model. But don't forget, that in the ten years from 1990 to 2000 the public deficit of Germany exploded from 1 to two billion €, whereas Greece and the other countries have to reduce sovereign debts and to privatise public assets and companies at the same time. Germany was able to finance these huge deficits. For some years until 2000 it had a current account deficit (about 40 billion € in 2000), which helped the other members to stabilise their current accounts.

Table 1 Net Transfer Payments from West- to East-Germany 1990-2005

| Year | Net-Transfer in Bill.€ |
|------|------------------------|
| 1990 | 23,0 |
| 1991 | 59,5 |
| 1992 | 65,6 |
| 1993 | 73,3 |
| 1994 | 54,6 |
| 1995 | 50,0 |
| 1996 | 58,8 |
| 1997 | 58,5 |
| 1998 | 64,2 |
| 1999 | 63,1 |
| 2000 | 70,5 |
| 2001 | 72,8 |
| 2002 | 78,8 |
| 2003 | 86,0 |
| 2004 | 76,3 |

| | |
|------|------|
| 2005 | 76,6 |
|------|------|

Source: Arbeitsgruppe Alternative Wirtschaftspolitik (2010), p.84

The cumulate amount of the transfers was about 1.500 Billion € 1991-2010 (from 2005-2010 estimated). That's about 70 billion € per year. In percentage: in the first years of the unification it was about one third of the Eastern GNP, than one fourth to one fifth. About 4% of the West-German GNP was yearly transferred to Eastern Germany (Arbeitsgruppe Alternative Wirtschaftspolitik (2010) page 85-87).

If you compare these shares with the EU regional funds you will find fundamental differences of the volumes und shares. The overall volume of the EU-budget is about 1% of the EU GNP, and the poorest countries of the EU get maximum 4 percent of their BNP by regional fund and CAP money. If the exchange rates of the non EMU members to the € are realistic, this is not the main problem, but it's a huge problem for EMU-members in crisis like Greece, Portugal, Spain and even Italy.

One main aspect of the transfers is whether a relevant share is invested in modern industrial parts and R&D.

I will try to find some results of these different experiences of regional industrial policies which could be useful for formulating a coherent strategy for the countries in crises like Spain, Greece and others, perhaps also like France. This paper has similar hypotheses like the approaches of Michael Best: (2013) Productive Structures and Industrial Policy in the EU (see www.euromemo-eu).

3. Summery: experiences of transformations and recoveries under national political and economical conditions, especially under a single currency

- Much time is needed for redeveloping regions in crisis within a single currency union, partly 30 or 40 years

- The conflict between the neo-liberal and the democratic Keynesian approach is also the key question in regional and industrial policies. Many economists of the Ruhr-universities and the RWI (Rheinisch-Westfälisches Institut für Wirtschaftsforschung in Essen) argued for a "short cut" of the mining and steel industry like Thatcher did it in Britain. But firstly it is a big difference to cut 500 000 instead 100 000 jobs in a region with 5 million people within few years (3-5 years), and secondly there are the problems of passive reconstruction: emigration, deconstruction of the infrastructure and the housing sector, poorness on the lowest level, segregation between downtown and suburbs: Detroit is the best but shameful example.

- Also the ecological results of passive regional reconstruction a disastrous. In any case structural transformation policies are necessary: basic ecological orientations: regenerative energies, ecological agrarian production, energy and water saving, recycling economy, ex-intensify and deceleration strategies

- Remember: each technical and output-transformation within a sector is combined with struggles about the capital structure and ownership of the sectors (see for example in Germany the power losing position of the former dominant "big four", the German producers and distributors of electricity RWE, e ón, Vattenfall and EnBW). These intra-sectoral changes result from a possible decades long development of new technologies by enthusiasts,

innovative scientists and entrepreneurs and the step by step de-legitimizing of former monopolistic positions via public de- and new regulations of the sectors.

A second group of power players in the field of transformations are consumers, especially their organisations and pressure groups (incl. public consumer agencies). In the food sector they are pushing “green products” and their production, also fair trade and so on.

A third group are the activists organisations like Greenpeace, who are extremely important in developing a new system of ideological hegemony about what is sustainable, progressive, mankind friendly and who are the destroyers of the global natural basis.

Also social changes are important in these transformations. The interests of the working classes must be defended in these transformations decades. Some parts will lose their former privileges for example in the nuclear and military industries, that is one thing, but often they will lose their jobs and pensions, that is another thing.

Political formations and parties who are very intensively connected with the old structures of technologies and capital formation will lose power and influence without creating radical reformation programmes and a new creditability.

- There are different levels of success of regional and industrial policies

a) the traditional high-tech-regions of the first half of the 20th century like Baden-Württemberg, parts of Bavaria: they gained especially from the military industry (factories for aircrafts, cars, tanks, optical and chemical industries and also shipyards were transformed to civil industries. Siemens moved its headquarter and many factories from Berlin to Munich. In combination with the new industrial revolution (computer and software industries) the “old” factories were modernised, and the military policy in the 50th and 60th (especially jets) preferred south Germany, the processing industries and the growing high-tech sector. The intermediate scientific and consulting sector (Best), the public science organisations and the leading universities in Munich, Stuttgart, Erlangen, Freiburg, Karlsruhe and Heidelberg and the new foundations in Augsburg, Regensburg, Bamberg and so on constituted an ideal social-economic regional environment for industrial dynamics in the second half of the 20th century and nowadays.

- b) Regions with partly high-tech orientation and big losses in basic industries like Hamburg (docks and yards) or the Rhine-Ruhr area (coal, steel, heavy mechanical engineering), whereas in Hamburg the services sector and in the Rhine-Ruhr the chemical sector and also the motorcars industry expanded. “Hidden regions” like Bergisches Land und Sauerland (in the South of the Ruhr), mainly settled with metal-processing industries on the small and medium level, managed the transformation to high technology and created many world market leaders. So the industrial density of the Ruhr today is very low, about half the level of the surrounding regions. The Rhine-region from Bonn to Düsseldorf/Krefeld on the other side is a very dynamic region with chemical, pharmaceutical and car industries, four big universities (Bonn, Cologne, Aachen and Düsseldorf), big headquarters like Telecom and Deutsche Post/DHL and two international airports.

- Headquarters in the Ruhr-area

c) Although there are some important headquarters located in the Ruhr area (Thyssen-Krupp, RWE, Evonik (formerly Ruhrkohle AG), Ruhrgas and Karstadt, all in the city of Essen, the

real power of the Rhine-Ruhr is located in Düsseldorf, the capital of North-Rhine Westphalia, which has more inhabitants (18 million) than many of the EMU-members.

-Langfristiges sozialökologisches Aufbauprogramm und gezielte Re-Industrialisierung in den Krisenregionen sowie Verhinderung der Probleme in den derzeitigen nicht EWU-Mitgliedsländern

The industrial and regional policy which was described must be embedded in progressive social and environmental policies and a complete alternative macroeconomic design. Although you can't say that without these alternatives progressive industrial and regional policies cannot afford anything, but it is clear, that an environment of high unemployment, private and public poorness and frustration is an extremely bad condition for creating start up regions.

Sources

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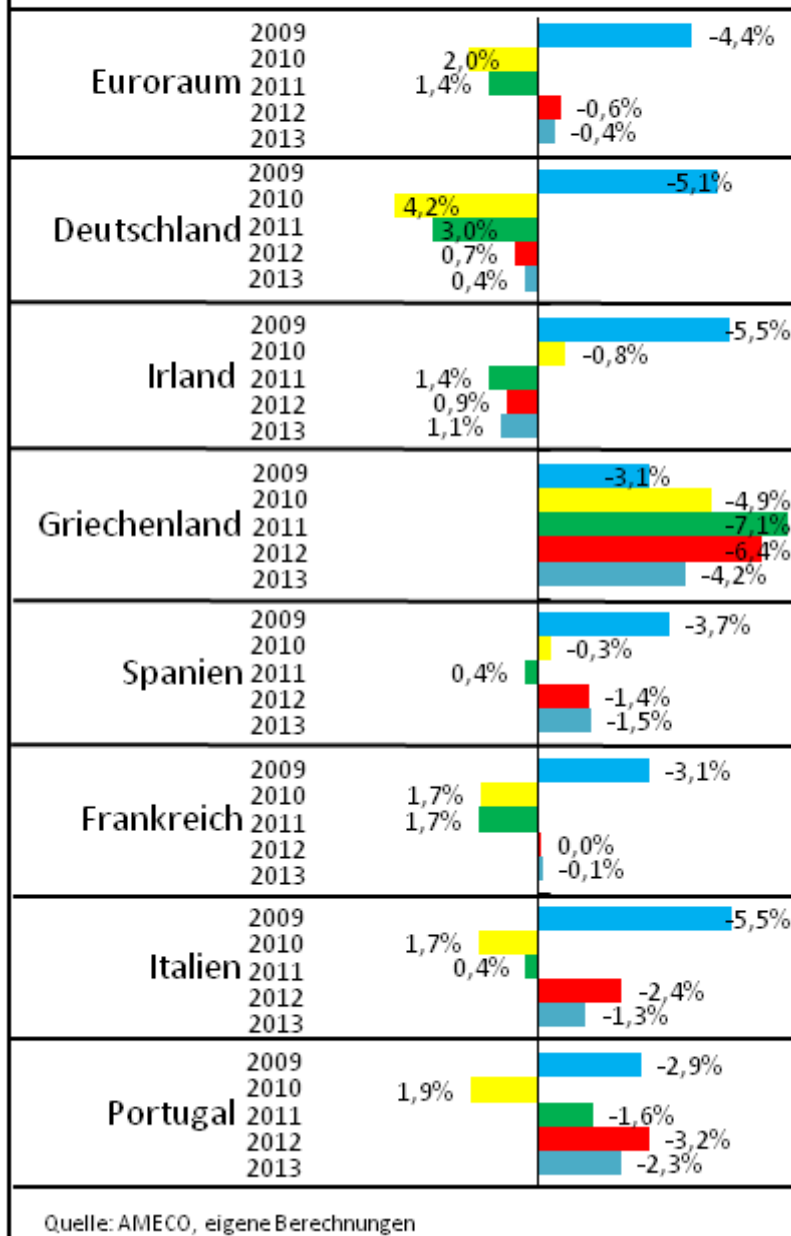
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The macroeconomic background of regional and industrial structural policies 2009-2013 is described by the following picture

Europa bricht ein

Das zweite Jahr in Folge wird mit die Wirtschaft im Euroraum schrumpfen.



Quelle: AMECO, eigene Berechnungen

Source: Schlecht