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Implications Of The EMU For The Regional Policy Agenda.

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‘Implications of the EMU for the regional policy agenda’

Abstract

According to some authors, the EU does not constitute an optimal currency area. This has important consequences for the necessary adjustment procedures that governments at different levels must push through. The EMU, a form of (response to) globalisation, is therefore a powerful agenda-setting mechanism and conditions the outcomes of political bargaining processes. In this political science-contribution, the relevance of the EMU for the regional policy agenda will be highlighted.

I. Introduction.

A decade ago, globalisation was considered as one of the most influencing restraints of national and (micro-)regional policy. For many years, that buzzword shaped popular perceptions that the world was heading for a fundamental shift, a kind of all-changing 'great transformation' (Polanyi 1944). Several authors and actors believed that in the 21st globalisation-century, time nor place, history nor geography will matter, that capital will source all over the globe, along and across borders, looking for the ultimate cost-reducing site. In this battle of all against all, no single political authority was immune to the disciplining force of globalisation, so the story goes. In order to keep one's head above water, the rigid and corpulent states – especially the European 'Keynesian' welfare state – should transform themselves towards a more adjusted form of political authority, if they were to survive the '*contexte nouveau*' (Lafay 1996). After all, globalisation was setting states against states, (micro and macro) regions against regions. '*You can run, but you can't hide*' or '*there is no alternative*' were popular mantras symbolising the state of mind of those days.

As I have explained elsewhere (Devos 1999), that mythical dimension of the globalisation process is susceptible to and subject of a fundamental modification. At the end of the nineties, several authors have put the globalisation process into its more realistic and less mythical perspective. (e.g. Veseth 1998, Weiss 1998) Fortunately, this more critical approach to the globalisation process is gaining ground in (some) political and academic analyses. This fundamental qualification of the 'real', 'empirical' dimensions of the globalisation process does however not strip the globalisation process off some far-reaching consequences. After all, in our view one can also distinguish a 'mental', 'empathical' dimension of the globalisation process. In this dimension, the globalisation process – and in particular through the notion 'potential' or 'perceived' globalisation – has an impact on elite and mass perceptions and behaviour not in spite of but because of its subjective, mythical dimension. Globalisation is a kind of 'proto-hypothesis' (Gaus 1999), it is an essential ingredient of contemporary 'common sense', it is a common, popular definition of the everyday situation (cfr. Thomas-theorem: '*if men define situations as real, they are real in their consequences*' Thomas, Thomas 1928).

In Europe too, both the 'real' and 'subjective' dimension of globalisation inspired a widespread concern for the impact of the globalisation process on the economic

performance and welfare of the 'old continent'. In view of the expensive European social security systems, the high European labour costs, the rigid European welfare states, etc. and in view of the intense, violent competition of some new industrialised (Asian) economies and the burgeoning and promising economic growth in the US, many of the political and economical protagonists in the EU and its member states became increasingly worried about the possibility of, for the EU detrimental, effects of 'regime shopping' by (relative) footloose firms or of 'international regime competition' (Streeck 1995).

According to Paul Hirst, there was something like a '*new common sense*': "The notion that an integrated global economy has developed in recent decades has become part of the new common sense. It is widely believed that nations, firms and individuals have no option but to adapt to the intensifying global competitive pressures or go under. Distinct national economies it is claimed have dissolved into the world system, and with them has gone the possibility of macroeconomic management by national governments. The new global system is driven by uncontrollable international market forces and is dominated by transnational companies that produce and sell wherever economic advantages dictates. States cannot govern world markets and they have to accept, if they are not to disadvantage their societies, that the only role remaining to them is to help make their territory attractive to international mobile capital. Globalization is not just a trendy concept - belief in it by politicians, media commentators and academics is politically highly consequential." (Hirst 1997:206). Although this drastic phrasing does capture the spirit of the popular conventional wisdom, it also underestimates – or, more precisely neglects – the political intention and actions to counter this state of affairs.

Since individual states cannot govern the world and thus their markets, forms of inter-state cooperation were necessary in order to restore the external and internal strength of political authority and public governance. According to popular assumptions, the movement towards a single currency in Europe is an economic necessity if Europe is to be a competitive force in the world economy.

The central and top priority concern for the competitive position of the EU in general and its member states in particular caused a broad, widespread search for ways to manage the globalisation process, for mechanisms which could strengthen the international economic position of the EU. Next to these external push-factors, the construction of the EMU was also supported by internal pull-factors, such as the

dynamic of the European integration process and the need for financial reconstruction and modernisation of the European welfare states. On the one hand, the EMU-project was considered as a 'European', macro-regional response to the threatening external challenges. On the other hand, the EMU was seen as a logical and deserving step in the European integration process which made 'necessary' – according to some 'unavoidable' – transformations of the welfare systems of individual member states possible. In sum, the EMU-construction had an external and internal function: "globalization, in the form of the need of monetary union in Europe, has become the lever by which Europe is compelled to address a set of national and supranational problems that would be politically taboo without the dead hand of (the) destructive global machine to force the issue." (Veseth 1998:138) The single currency will force Europe to reform its welfare state and to renegotiate the social contracts on which it is based, the threat or promise of globalisation is the lever that opens up the possibility of otherwise quite difficult domestic policy reforms. According to Veseth, the EU is using globalisation – by way of the EMU – to create a political environment in which labour market reforms can occur: "using the threat of globalization to drive monetary union makes some economic sense, as we have just seen, and is very useful in producing certain high and low political outcomes. But the dirty little secret of monetary union is that its most important economic and political effects are seldom part of the public debate." (Veseth 1998:143)

Several analysts indicated that the EMU was 'putting the economic cart before the political horse', that it was imposing a single currency on what is not a single economy, that it will deprive individual countries and economies of the shock absorbers and safety valves necessary to cope with local and regional economic problems. (Harries 1998:126) These analysts indicated that the EMU did not constitute an '*optimal currency area*'. If the EMU does not meet the criteria of such an 'optimal currency area', this has some clear consequences for the responsibilities and manoeuvrability of the (regional) governments of the EU-member states. Behold the subject of our contribution.

The purpose of this contribution does not include a historiography of the EMU or an analysis of its criteria and aspects nor a thorough examination of what is called the economic theory of the optimal currency area which addresses the obviously relevant question of the conditions under which it makes sense for different nations or regions to

have the same currency versus the situations under which separate currencies are more efficient. Since these subjects are well documented and intensively studied by several economists, this is beyond the scope of our political science essay. Secondly, it is also well-known that in many member states, several state competences are now embodied in an intra-state multi-level governance structure. As a result of regional, nationalistic or federalistic tendencies and devolution processes within some EU-members, certain parts of the competences to regulate the market and of the so-called 'flanking' policies have been assigned to the regional authorities. In other EU-members the process of regionalisation has not (yet) resulted in a meaningful transfer of competences enabling the regional state-level to influence seriously the 'regional' economy. In several of them, however, apparently soft competences, such as education, training programs, activation policies, infrastructure, environment, etc. are placed in charge of the region. 'Apparently' soft refers to the fact that these 'soft' issues increasingly become 'hard' determinative issues in the era of the knowledge economy since they can be of great significance for the quality and capacities of the local human capital factor.

This means that the majority of the competences of the different European regional authorities are increasingly relevant for the attractiveness of the region as a site of economic activity on the global market of possible sites. Moreover, the 'knowledge economy' increased the importance of regional authorities for the wealth of that region since these authorities have in many cases a considerable influence on the quality of the one immobile production factor that is tied to the region, namely human capital. Since the significance of human capital has increased substantially, in view of the shift towards a post-fordist 'knowledge' accumulation regime, these regional competences are of increasing importance. Whatever the nature of the competences allocated to the region, it seems to be a recurring reflex that they increasingly become economically relevant, or at least that the economic (more specifically, cost-competitive) consequences of each decision taken in the field of a specific competence are taken into account. A very deciding reflection is whether a certain decision deteriorates or improves the competitive position of those living in a region and since all regions or states are captured by this logic, there seems to be no other way.

The purpose of this rather abstract and theoretical contribution lies elsewhere. What is, from a *political science perspective*, the general significance of the EMU-construction for the policy agenda of regional authorities? What is the political impact

of the EMU-construction for the description and interpretation of the right, proper regional policy, for the political definition of the regional policy? In what way does the 'EMU-discourse' shapens the definition of the 'best practice' regional policy? This contribution must be considered as a brief collection of considerations and reflections rather than a conscientious considered and elaborated survey or case-study. As a general reflection, it only intends to offer some arguments for discussion.

II. The EMU as an agenda-setting mechanism?

Let us assume that the story of the ECB and EMU – its criteria, conditions and aspects – is well-known. What does it mean, in brief, that the EMU is not an 'optimal currency area'? As we know, the role of exchange rates in this analytical framework is to help regions or nations deal with the adjustment problems that come from asymmetrical shocks or uneven growth rates: when economic activity is uneven, creating unemployment and payments problems, adjustments can occur either through external exchange rate changes or through internal effects such as wage and price changes. A depressed region might experience a currency depreciation that would make its products more competitive and help resolve its payment problems or it could experience wage and price deflation that would also improve its international competitiveness, albeit at potentially severe social costs. Generally, as Veseth (1998) indicates, if exchange rates are flexible, internal adjustments are less important and need be less severe; if exchange rates are rigid, internal adjustments must bear more of the burden.

Since this is not the essence of our paper, we will deal very summarily with the question if the EMU is, or is not, an optimal currency area. In general, authors indicate the fact that the EMU-economies are not 'similar economies', that economic shock waves and cycles do not run parallel in all EMU-economies, that the electorate of the EMU-area does not share a common 'culture of economic policy' and that euro's member states do not share a 'common economy': "in other words, the EU's single market must be complete so that goods, services, capital and labor can move freely across the borders of the EU countries in response to price signals. (...) If the EU's single market remains incomplete, the increased competition generated by the euro will have an even more dramatic impact on less competitive businesses." (Sheridan 1999:46)

Therefore, according to Weidenfeld (1998), the EU will be forced to follow the American road towards 'workforce mobility and wage flexibility'.

In theory, the Maastricht-criteria should guarantee that the EMU-economies are indeed running parallel with each other, that the EMU-economies are indeed (evolving towards) similar economies so that one single monetary and budgetary policy is suitable for every individual 'national' economy. According to Sheridan (1999), these criteria do not measure the 'real convergence': "those areas that the Maastricht criteria do measure are not economically necessary to create a monetary union. (...) It is self-evident that the eleven countries that have adopted the euro do not constitute an optimum currency area. (...) However, although an optimum currency area defines whether countries can painlessly enter into a monetary union, it does not indicate whether a group of countries should do so." (Sheridan 1999:48-49). As we have noticed, this is a political decision, in other words, the EMU is chiefly a political project.

That a single currency area does not constitute an 'optimum area' is not the end of the world. There are several adjustment mechanisms which must make such a non-optimal area function. The first is 'price and wage flexibility'. If prices and wages can fluctuate freely and the market can be cleared, the process of 'creative destruction' can shift the allocation of labour and capital towards activities with a higher growth potential. A second mechanism is the mobility of labour and capital. Since the euro will make markets more transparent, labour and capital must be able to move freely towards high-performance economic regions. But as Weidenfeld (1998) indicates, when it comes to mobility, Europe has a lot of catching up to do. In particular labour mobility is quite problematical in the EMU-area. A third adjustment mechanism is the use of inter-regional financial transfers, for example through the EU-structural funds and regional policy.

Since production factor mobility and inter-regional solidarity are unsatisfactory as adjustment mechanisms, flexibility and the promotion, support and extension of the local – in particular the immobile – production factors, in short their international competitiveness, will be the main 'adjustment mechanisms' which must make the EMU function as a single currency area. In other words, monetary union will create an environment in which it will be necessary for European national and regional governments to reform their welfare and labour market policies. That is why some authors indicate that the EMU is the use of (the myth and discourse of) globalisation to

force social reforms and labour market liberalisation in member-states with strong political interests opposing such reforms.

For these reasons, we assert that the EMU-construction functions as an agenda-setting mechanism: the EMU pushes the reform – decentralisation, deregulation, ‘flexibilisation’, etc. – of the ‘notoriously rigid’ labour markets and regulation, of the expensive welfare systems and public government intervention with great emphasis on the political agenda. Indeed, these issues were waiting to be dealt with but the monetary union has made them even more unavoidable, has underlined their importance and priority. The EMU circumscribes the context in which there reforms have to take place, the EMU demarcates the acceptable alternatives and inspires the best practice solution.

III. The EMU as a power-mechanism.

Therefore, the EMU must be a main topic for political scientists. After all, under a single currency – with exchange rates fixed and monetary and fiscal policies inflexible – the most appropriate (and according to some only) method to address growth and unemployment problems is to contest and challenge the national policies that prevent them from being solved through wage, price and resource flexibility and movements. In sum, the EMU-discourse presupposes that the main road towards economic prosperity runs over the adjustment or modernisation of several of the main clauses of the European social (neo-corporatist) contract between labour, capital and the state.

So, the monetary union includes a great political project, next to a way of shielding off the relative ‘autarkical’ EU from the international ‘global’ market forces. The powerful ‘imagery’ of globalisation not only inspires an internal policy agenda, it also influences the political outcome of the conflicts of interests and bargaining processes which result from the pressing policy agenda. According to conventional wisdom, the state (national and regional) will be ‘compelled’ to fight unemployment and economic stagnation, will be forced to foster economic growth with the only tools it has left, such as labour market reforms that in many cases will directly conflict with the established interests of organised labour. The imagery of globalisation, in the form of the EMU, could lead to what Wolfgang Streeck (1995) called ‘a competitive environment for national policies’. This ‘regime competition’ will not lead to an ‘instant decline’ but to a consensus that expectations on the extension of the welfare mechanisms must be diminished. Further, “regime competition may preclude certain ways of closing gaps in

social protection at national level. (...) Regime competition is further likely to result in a shift of power inside national regimes in favor of potentially outwardly mobile factors, above all capital. Such a shift may be caused by the mere threat of exit (...). As regime competition limits the capacity of national governments to impose obligations on potentially migrant capital, national social policy may increasingly turn into generation of investment incentives for business and of production obligations for labor.” (Streeck 1995:420-421) This brings us to the concepts of the ‘investment state’, the ‘competition state’ or the SWS (Schumpeterian workfare state), concepts which flourish in the contemporary context of the ‘*pensée unique*’, of which the ‘third way’ is a pronounced example. We will turn to this in section IV.

The EMU is a power-mechanism since agenda-setting is an aspect of the use of power. Secondly, the EMU is also a power-mechanism in a more indirect, subtle and complex way. We can clarify this statement by referring to the concept of ‘*jumping of scales*’, a concept contrived by geography. We will apply this concept to the subject under consideration because it enables to clarify things in a broader perspective. In short, Swyngedouw (1996, s.d.) considers scale no longer as fixed, stable and frozen moments. Scale is neither ontologically given nor a politically neutral discursive strategy. The current process of re-scaling, such as the construction of the EMU, has important political consequences and some clear empowering-disempowering effects. Scales of regulation and scales of production have changed, but while social regulation tended to move downward (individual, region), scales of production have become supranational, certainly cross-border. The supranational EMU-construction takes the fundamental political regulation of some of the most significant state – in particular monetary and budgetary – competences away from the – more close to the citizen – levels of national and regional governments while these authorities are held responsible for the economic prosperity of the communities they represent.

Furthermore, social relations, of which power is an inherent feature, are framed in a specific spatial-temporal dimension. Power has, in many cases, to do with control over a specific space or scale (local, regional, national, European, global), for as long as possible or necessary: the alliances which social groups forge over a certain spatial *scale* will shape the conditions of appropriation and control over *place* and have a decisive influence over relative socio-spatial power positions. Existing scales are the result of preceding struggles for power and can be adapted to the changes in social

(power) relations. In other words, the dominance of a certain scale – e.g. the regional, national or European level – in a political system or a specific competence is the outcome of a power-relation and simultaneously influences the continuation of that relation.

The increased mobility of capital, goods, services and information, has severe consequences for the distribution of power within a certain society and exerts influence on the scale at which regulation of production will be determined. In other words, the power to move, and - the real point - to move more than others, is of huge significance. It must be underlined that it is relative (im)mobility (of, for instance, production factors) which is at issue. The mechanism is simple: the relatively mobile/powerful try to stabilise the power position sources of others in part by tying them down in place (Massey 1996), such as the region, while possessing the freedom and ability to overcome space by commanding scale. In short, place matters, but scale decides. The spaces of the circulation of capital have been upscaled, while the political regulation-scale of the economic process has been divided: the broad monetary and budgetary competences are outlined on the EMU-scale, the (social) regulation of economic production and the loving care for competitiveness is largely kept on a national scale while on the other hand several of these competences are being down-scaled towards the regional level and, finally, the regulation of wage and labour conditions is gradually and partially being rescaled to the level of the enterprise.

So, power is based on the relative mobility of some and on the fixation of their opponents on a certain scale. Capital derives power from increased mobility, enabled by the process of globalisation, and from the *selective* refusal of political actors to organize certain (e.g. social and fiscal) competences accurately on the European scale, since they are unwilling to hand over more deciding competences, for instance in the field of social regulation, to these scales. Indeed, there have been some formal transfers of competences in that field, but they do not entirely amount to a real, meaningful competence of the EU on, for instance, social security and fiscal legislation. These competences have in several EU-member states been partially transferred to the micro-regional level, while the Union itself was chosen for the '*high politics*' of the EMU and Maastricht-criteria, enabling the Union to define the general contours of economic processes and the national scope for policymaking. The change of the relative importance of scales, the fragmentation of competences in the field of social and labour

policies, employment policies, etc., is what '*jumping of scales*' is about: "This (stretching process) is a process driven by class, ethnic, gender and cultural struggles. On the one hand, domineering organizations attempt to control the dominated by confining the latter and their organizations to a manageable scale. On the other hand, subordinated groups attempt to liberate themselves from these imposed scale constraints by harnessing power and instrumentalities at other scales. In the process, scale is actively produced." (Jonas 1996, o.c. in Swyngedouw 1996)

When we take the argument a little bit further, on the slippery field of devising an debatable supposition, by extrapolating this reasoning on a pure hypothetical basis, one could suggest, as a speculative hypothesis, that it becomes an interesting strategy to emphasise differences and competition between different locations, such as regions. Therefore, these regions must be given the appropriate competences, the proper tools in order to compete within the borders fixed by the EMU. This delegation or allocation of competences is generally packed up in a political discourse of federalism, decentralisation, regional (political, cultural, economic) autonomy, subsidiarity, etc.. As we will expound in section IV, the selective assignment of competences to the regional scale fits wonderfully well in the – generally recommended – contemporary shift towards a version of the '*competition state*': "the contemporary transformation of the nation-state into a 'competition state' is one of the most important consequences and indeed causes of globalization." (Cerny 2000:117)

The downward jumping of scales of some competences which determines to a high degree the cost of production in that place implies an incitation of setting one location against the other. In view of the '*hypercompetitive context*' of (perceived) globalisation, where (national and regional) states – through their policy – have a very considerable role to play in the determination of the production costs, Martin Rhodes argues that "(...) with the more acute competition in goods and services stemming from the creation of the single market and the lowering of international trade barriers, there may be a growing degree of competition among regimes due to their variable social costs. This could conceivably produce 'social dumping', 'regime shopping' by footloose firms and 'social devaluation' by member-state governments." (Rhodes 1998:109) According to Rhodes, the existence of territorially dispersed authority over, for instance, social and fiscal policy creates the possibility of *competitive deregulation* as well as *regime shopping* by firms, which may have an important impact on national

and regional regulatory systems by forcing a fundamental shift in government intervention. This influence on the national and regional government intervention is complementary to the one that goes out from the EMU and which is aimed at the curtailment of the policy-area in which competition can take place, a curtailment which therefore reinforces the importance of other governmental measures. The ambition of each location (places on the same (regional) scale) to do better than the others in attracting new investment and keeping existing activities, could erode actual state autonomy in a number of ways. After all, it is not improbable that a slightly pathological form of the discourse of competition defiles the minds of leaders and masses, which are – according to Gérard Lafay (1996:7) – ‘confused’ by globalisation.

However, there is little new about suchlike conclusions. It seems to be a recurrent phenomenon that, during periods of great social, economic or political reorganisation and disorder – which we try to capture with the label globalisation – important processes of geographical re-scaling take place that interrogate existing power lines while constructing new ones, that put into question existing division of competences while formulating new ones. Swyngedouw (1996) underlines that changes in scales of production/reproduction can go either upward or downward, but will always express new power relations and shift the balances more to one side than to another. The EMU implies that the ‘high’ politics and economics of monetary and budgetary policies ‘jumped’ upward while in many cases (and with varying degrees of resistance) the regulation of ‘low’ politics and economics such as labour conditions and other cost-relevant competences moved downward, towards the regional level. Regulatory codes, norms and institutions as well as economic processes are spatially jumping from one scale to another.

In order to link the story of the EMU with that of the regional policy agenda, we have introduced the concept of ‘*jumping of scales*’ and have illuminated its power dimension. As political scientists, we indicated that the fact that the tendency of lowering the scale of labour market regulation towards the regional level goes together with a heightening of the scale at which the general framework of the economy is regulated, namely at the level of the E(M)U, is not a matter of coincidence but part of a process of ‘*glocalisation*’. The detachment of the regulation of different aspects of the economic cycle, which was assured under Fordism by a *national* social compromise and led to the virtuous circle of the ‘Golden Age’ (the period of prosperity and progress

between 1950 and 1970; see Maddison 1991) is what is changing the relevance of the scales under consideration.

IV. A changing policy agenda.

It is tempting in this era of ‘globalisation’ – as many have done – to predict the ‘withering away’ of the political authority and capabilities of the national state. For years, there seemed to be a widespread conviction among opinion leaders that the national state will be blown away by globalisation or that the national state will be undressed and hollowed out by the upward (European integration), downward (regionalism, devolution) and outward (privatisation) scaling of competences, or that, at least, the national state will be severely dislocated by the gentle breeze of structural transformations it has to go through in order to adjust to the ‘incentives’ of the ideology of competition. Indeed, the relative position and importance of the state starts shifting when the ‘global’ market imperatives become the most deciding ideological and political ‘legitimation’ of institutional reforms. That ‘silent revolution’, by which the Keynesian welfare state is gradually and almost imperceptible transformed in to a kind of ‘competition state’, is according to a substantial group of analysts generated by the trade and production changes that have often led to significant economic and social dislocations (e.g. McClintock 1996; Martin 1994). We will not ruminate the argumentation on that matter, explained with great craftsmanship by others (Burrows and Loader 1994; Bonefeld and Holloway 1991), but will only briefly comment the changed policy agenda for regional governments in the light of the EMU-construction.

It must be clear, we do not believe the ‘withering away’ or ‘hollowing out’ thesis is correct: the state as an institutional structure per se is not withering away but is developing new and more complex structural forms and features. Therefore, it is a fact that the national and regional state is undergoing profound changes. The general argument is that increased globalisation, for instance translated in the EMU-construction, has actually influenced and circumscribed the extent of the autonomy that previously existed at the national and regional level. This does not mean that it has ended it. Regional and national governments continue to retain considerable leverage over the economy and their responsibilities towards the competitiveness of the local ‘human capital’ are unmistakable. Anyway, a redefinition of the role and function of the

state is the catchphrase. Redistribution, the mainstay of the fordist state, is increasingly being pushed into the background. The creation of a stable environment of accumulation – by providing financial stability, infrastructure, an educated workforce, a favourable tax system, etc. – comes first. The transition towards a ‘competition state’ is a complex process, not a linear one, and it is therefore characterized by unintended and unanticipated consequences. According to Cerny (2000), it involves the paradox that the emergence of the competition state does not lead to a simple decline of the state but instead necessitates the extension of de facto state intervention and regulation in the name of competitiveness and marketisation. Another paradox is that state actors and institutions themselves are promoting new forms of complex globalisation in the attempt to adapt state action to cope more effectively with apparent global realities. As a consequence of the growing tension between economic globalisation and embedded state practices, Cerny (2000) sees a new terrain of political conflict and a third paradox: “the development of this new political terrain problematizes the capacity of state institutions to embody communal solidarity or *Gemeinschaft*, threatening the deeper legitimacy, institutionalized power and social embeddedness of states (...)”. (Cerny 2000:118)

Indeed, in spite of the fact that the national and regional state is still political significant and retains much of its formal sovereignty, its capacities to project its formal power are weakened but not vanished. The general perception seems to be that these ‘remains’ of more glorious times must be brought into action in order to please the increasingly mobile (actual and potential) investors and that the tendency towards a SWS – or any other version of the ‘competition state’ – is inevitable since other states and regions are exhausting themselves to do the same, trying to snatch away existing and new investments (see the popularity of concepts such as ‘regime shopping’ or ‘competitive deregulation’).

The question is how much scope for policymaking there is left, or, more precisely, what kind of regional competences will predominate for the regional state in the EMU-area, in view of the changes of the objectives of regional policy which result from these positional transformations. It must be clear that we will select and emphasise those few particular regional policy-items that have gained importance in the context of the EMU. As we have stated in the above sections, the EMU circumscribes all the competences of

member states in which, secondly, regional authorities gave gained authority in several significant policy fields. The purpose of the following paragraphs is not to consider all possible regional policy fields, but only to highlight these particular regional policy instruments which gained importance because of the agenda-setting implications of the EMU.

In several EU-member states, the (multi-level) classic Keynesian Welfare State (KWS) is disintegrating and is slowly and gradually being replaced by a (weak or stronger) version of the '*competition state*', e.g. the Schumpeterian Workfare State (SWS). This version of the '*competition state*' is a different kind of state than the KWS. The basis of the '*competition state*' or the post-fordist SWS is flexibility¹: "rather than attempt to take certain economic activities out of the market, to '*decommodify*' them as the welfare state in particular was organized to do, the competition state has pursued *increased* marketization in order to make economic activities located within the national territory, or which otherwise contribute to national wealth, more competitive in international and transnational terms." (Cerny 2000:122-123) Although the general rule in mainstream economic theory is that the state should intervene as little as possible beyond maintaining the legal framework necessary for a working market system, state intervention can also be justified where it attacks or restricts obstacles to efficient market behaviour or counteracts market failure. All the forms of interventionism have one thing in common: they take for granted a fundamental division of function between the market, seen as the only really dynamic wealth-creating mechanism, and the state, seen as a hierarchical and essentially static mechanism.

It must be clear that the following descriptions relate to idealtypical categories, which as such do not occur in reality. The formation of such categories is therefore no more than the construction of an analytical tool, aimed at the clarification of some general but relative trends.

The SWS is, in some way, '*smaller*' than the KWS but does not in any sense indicate the end of the state responsibilities, competences or capacities: "In abstract terms, its distinctive objectives in economic and social reproduction are: to promote product, process, organisational, and market innovation in open economies in order to strengthen as far as possible the structural competitiveness of the national economy by intervening on the supply-side; and to subordinate social policy to the needs of labour

market flexibility and/or the constraints of international competition. In this sense it marks a clear break with the KWS as domestic full employment is de-prioritised in favour of international competitiveness and redistributive welfare rights take second place to a productivist re-ordering of social policy.” (Jessop 1994:24)

The ‘Schumpeterian’ element refers to the idea that political authorities should concentrate less on demand-side measures, such as full employment or a redistribution policy, should less try to preserve old industries but instead focus on the encouragement of promising activities, on the construction and management of a favourable investment climate (supporting ‘creative destruction’). In other words, political authorities should focus more on a supply-side policy (e.g. education, R&D, infrastructure, re-skilling processes, etc.) stimulating the international attractiveness of the local – especially the immobile – production factors. ‘Workfare’ – the ‘activation’ and thus heightened selectivity of social benefits – refers to the greater responsibility of the individual, both for its own success or failure (e.g. policies encouraging, in several ways, the unemployed to make great efforts and to take initiatives in order to improve their chances on the labour market). Workfare is based on a claim of reciprocity, on the view that social rights are conditional on labour obligations, since rights (to income) should be matched by duties (to labour or learn). Workfare – the ultimate policy of labour control – has been spreading in Europe, in part through the tightening of conditionality and the drift to means and poverty tests: “workfare represents a movement away from the insurance principle of social security without strengthening the right to work or income security. It is the outcome of the move away from universalism, and the drift to ‘targeting’ and selectivity (...).” (Standing 1999:334) So, the post-fordist SWS stands for an important change of (regional) state responsibilities and for a different method of operation in order to achieve these central aims.

Since there is a great European diversity of regional competences and of the political context in which these occur, in the next paragraphs we will mainly refer to the case of Flanders, one of the three regions of Belgium with – from an European point of view – relatively extensive competences and a relatively high degree of ‘autonomy’. It is worth mentioning that many socio-economic and political actors and processes and important competences – such as unions, employers’ organisations, political parties, collective bargaining, employment policy, educational policy – are organised at a regional level too and that Flanders can, within political and juridical boundaries,

pursue its own foreign – including economic – policy (cfr. Flanders Foreign Investment Office). These competences are used with the intention of stimulating the international attractiveness of the Flemish region and its immobile ‘human capital’ in particular.

As in many regions, in Flanders the call for more fiscal autonomy is widespread and present in many divergent political debates and organisations. In Flanders, the general consensus indicates that these (expected and present) regional fiscal competences – another reform of the state is planned in the next few years – will be used to lower tax levels in order to, amongst other reasons, strengthen the international attractiveness and thus competitiveness of Flanders and its labour forces. In other words, these (new) competences will be deployed in order to stimulate economic activity, to retain existing investments and to attract new investments to the region, for instance by making the production factors more cost-competitive.

The Flemish government and the Flemish social partners elaborated many, diverse, measures and plans in order to make the labour market and labour regulation more flexible and the deployment of labour more attractive: the lowering – through a variety of regional policy instruments – of the price of labour, the extension and financial support of day nursery enabling, as much as possible, (both) parents to work in flexible working hours or the modernisation and reorganisation of the Flemish employment office and labour legislation, which must, amongst other objectives, enable to ‘activate’ some difficult categories, such as the older and low-skilled unemployed. The introduction of what is called ‘service cheques’ can also be seen in the light of the heightening of the activity rate. It is no longer politically acceptable that unemployed stay at home, passively, waiting for better times to come. The (regional) state should provide (or subsidise) all sorts of education programs or usefull activities which can be part of, or support, the economic activities of that region.

The strategical switch towards a version of the SWS emphasizes the importance of (regional) policies concerning the ‘human capital’. Since regions are increasingly entitled to regulate aspects (such as education) that are of huge importance for the force of attraction of the immobile production factor ‘human capital’, regional authorities have – even in a post-fordist accumulation regime – an important,beit a changed, part to play in the maintenance and improvement of the attractiveness of their inhabitants in the global market of production sites. Amongst other priorities, this implies an extensive and flexible investment in education oriented towards the changing needs of the market

and the promotion of life-long learning programs. Special attention in the educational policy is paid to the (ICT-)skills which are considered essential in the knowledge economy (computer sciences and informatics). These measures are additional to the promotion of e-commerce and internet-applications in small and medium business, the development of regional programmes of employee participation in profits and enterprise results (e.g. stock-options for employees, cf. Pepper-reports), the support of (new) growth sectors by the Regional Investment Agency of Flanders and the Regional Development Agencies (RDA's) or the construction and growth of (e.g. speech or bio-) technology 'valleys', islands and networks of concentrated and specialised knowhow, infrastructure and capital.

V. A critical remark.

The splitting up of public governance – or the downscaling of specific competences towards the regions – leads, from an objective point of view, to the increase of the number of political authorities which need to compete (regime competition) in a political and economic context where capital mobility (regime shopping) is one of the most important – through its 'empirical' or perceived, assumed reality – structuring elements. Since these regions are given the competences, they have some – as yet not all of them – tools, instruments to compete. What is more, the EMU has increased the importance of these competences in the competitive struggle since, as is expected, this struggle will to a greater extent be waged on the ground of these competences. Most of the European regions are, for all kinds of reasons (e.g. efficiency, homogeneous policy packages, cultural, social or historical autonomy-claims, subsidiarity or 'a policy close to the citizens'), asking for more of these tools. Such an interpretation could lead one to consider the devolution or decentralisation process, or the famous 'f-word', as a (deregulation) project of the political and economic right, stimulating the mechanism of 'policy competition' and resulting in selective deregulation and the 'flexibilisation' of welfare state regulation.

We must acknowledge that the above-mentioned remark is no more than an wild, speculative abstract hypothesis. We simply want to mention this theoretical supposition with the intention of drawing attention to a mere possibility. Since one must not always follow the beaten tracks, we think that such a research programme should be considered: in political science research, one must at least consider the possibility that

the EMU-construction (upscaling), combined with the indisputable tendency towards more regional competences (downscaling), is part of a economic and political project which serves some political and economic interest and weakens others. This 'project' takes place at the moment that the rethinking of the welfare state is one of the main headlines of the contemporary political debate, that several clauses of the 'social contract' of European welfare-states are under discussion.

VI. Conclusions.

To bring this discussion to an end, it is clear that the regional authorities have various tasks to fulfill (e.g. Porter 1990), ranging from the support of R&D, the promotion of new sectors creating innovative technological capacities, education, infrastructure, labour market regulation, the subordination of welfare policy to the demands of flexibility, ... to all kinds of other activities concerning the management of the process of internationalisation (European competition) itself, in the hope of minimising its harmful domestic repercussions and securing maximum benefit to the home-based firms and production factors.

So, it is clear that the regional authorities in a globalised EMU-area are not without assignment, requiring at least a sizeable remainder of the previous state power of government. The upscaled competences influence, to a high degree, only laterally and indirectly the above-mentioned – since competences of the EU are mainly designed to shape the general (fiscal, budgetary, monetarily, competition, social, environmental, etc.) framework of the European economy – but, on the other hand, have increased their importance in the game of economic and regime competition. This is the central these of our contribution: on the one hand, the EMU has an important impact on the use of regional competences while on the other hand, the EMU has increased the economic, political and thus strategic importance of these competences.

Furthermore, the E(M)U-framework leaves sufficient room for determinative national and regional competences, and thus differences, but has obvious agenda-setting consequences and (dis)empowering effects.

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ⁱ Post-fordism can be defined as a flexible production system based on flexible machines or labour systems and an appropriately workforce. As a stable mode of macro-economic growth, post-fordism is based on the dominance of a flexible and permanently innovative economic accumulation. As a social mode of economic regulation, post-fordism involves supply-side innovation and flexibility in each of the main areas of regulation. The predominance of micro-electronics-based information and communication technologies, flexibility and permanent innovation are the solicitudes of the SWS.