

**The Importance of Regional Government: Positive and Negative  
Change in Deindustrialized Regions**

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Anne Cary  
Tiantian He  
Thomas Kleingarn  
Nathan Pysno  
Paul Sanderson-Cimino  
Charles Sweitzer

## **Introduction**

Modern industrial democracies face a number of challenges from the pressures of globalization. Institutional and electoral constraints can often prevent powerful democratic governments from responding to economic issues in sensible or direct ways. This is both good - the perfect economic solution rarely takes into consideration small details such as humanitarian principles – and bad – it is much easier to uphold such principles when both governments and citizens have some money in the bank. Thus democratic governments must strike a balance between free market forces and the social welfare of their citizens. An excellent case study for understanding this dilemma is the analysis of democratic governments and their response to industrial decline.

When an area undergoes severe deindustrialization, the government will almost always become involved in an effort to ward off the displacement of workers and encourage new economic growth in more promising sectors. The government becomes entangled in two difficult processes: the negative change of allowing outdated industry to fail while ameliorating the social side effects of such economic deterioration, and the positive change of promoting new growth.

Through a case study of the Ruhr Valley in Germany and of Scotland, we will show that political organs and actors at the national level are more able to effectively produce negative change by allowing market forces to deconstruct industries that have lost their competitive edge, while institutions and actors at the local, private, and supranational levels are more able to create positive change by promoting infrastructure and the growth of new business. Institutional structures of national governments constrain the power of sub-national governments in both regions. Institutional constraints

limit the actions of political actors at all levels of government, and economic and electoral concerns define both national and sub-national responses to deindustrialization.

The Ruhr and Scotland are two regions experiencing heavy industrial reconversion. Both regions exist in relatively powerful and affluent countries, but both regions have very different administrative histories and different outcomes. The German *Land* of Northrhine-Westphalia (NRW) held considerable power during the restructuring period, and successful constructive efforts in the Ruhr originated from the state, regional initiatives, municipalities, and private actors. In contrast, Scotland lacked a real regional government until 1999 when the Scottish Parliament was re-established after a hiatus of nearly two centuries. We find that, in accordance with our hypothesis, pre-devolution Scotland has been unsuccessful in initiating a sectoral shift, and as a result the abrasive nature of the negative change in that area has emerged. We will also examine whether or not a devolved Scottish government will be more capable of creating opportunities for positive change.

To better clarify our normative perspective we must now define some key terms. The term “negative change” refers to the process of industrial decline in certain sectors brought on by market forces, specifically the loss of comparative advantage in these sectors. We also assume that governments contribute to negative change when they allow these market forces to act, rather than intervening by offering extensive support or subsidies to declining industries. The term “positive change” refers to constructive measures undertaken in order to stimulate and renew an economy after the negative effects of de-industrialization have taken place, most often via sectoral shifts into high-tech or service sectors. Generally, attracting business and investment and promoting

organic entrepreneurship are key components of positive change. We define, generally, a “good” or “healthy” economy as one with positive macroeconomic indicators such as real GDP growth and reasonably low unemployment, but our caveat is that a “good” economy must be one that has diversified into industries with a promising future or developed other comparative advantages. It is more important to analyze potential growth of the economies in question because both are currently experiencing economic turmoil because of restructuring, and they have yet to achieve the goal of economic prosperity.

### **Cases - Economic History**

Scotland and the Ruhr are both former industrial regions whose economies declined sharply in the 1970s. The key difference between the two is that the Ruhr had a strong regional government while Scotland did not. These trends have started to reverse in each case, with Scotland acquiring regional power from the national government and the Ruhr losing it. This helps explain why Scotland experienced a greater degree of negative change than the Ruhr, accompanied by less support for positive change. Thus, the Scottish transition has been more dramatic, whereas the Ruhr has experienced more gradual deindustrialization and has shifted into more quality-differentiated sectors which has allowed the manufacturing sector to remain significant.

We must also note that from a political economic standpoint the UK is a liberal market economy while Germany is a coordinated market economy with a strong tradition of corporatist structures. Although unionization is actually higher in the UK than in Germany, this is a superficial indication: collective bargaining is much stronger in Germany. This complicates the analysis because it would also predict a slower, more

cautious transition in the Ruhr than in Scotland, but it does not change the fundamental thesis: the national governments of both countries have engaged primarily in the process of deindustrialization, while neither national government has caused positive change by encouraging economic diversification – regardless of when they began the process or how quickly they performed it.

At present, both regions have high rates of unemployment. Scottish unemployment seems lower by a few percentage points, but it has been noted that Scottish unemployment is deflated by an abnormally large number of people who falsely claim disabled status. Germany has about twice the long-term unemployment as the UK. In terms of wealth, Scotland is poorer than the European average, while the Ruhr is richer. The Ruhr's GDP and PPP continue to decline, while the Scottish numbers are rising, though not fast enough to prevent the gap with the U.K. to continue to widen.<sup>1</sup> Both regions are undergoing the process of deindustrialization, but national institutional structures differ between cases and this difference has led to different paths of deindustrialization.

### **National Institutional Structure in Germany**

The institutional structure of the *Bund* dictates that it concentrate its constructive economic development efforts on East Germany, whose standard of living still lags behind that of the rest of Germany. The German Fiscal Constitution (*Finanzausgleich*) states the *Bund* shall guarantee a “uniformity of the living conditions throughout the territory of the Federal Republic of Germany (Article 72 § 2-3 and article 106 §3-2.)”<sup>2</sup> To this end, the *Bund* has instituted two primary fiscal equalization schemes. First, German tax legislation is uniform and centralized. National control of tax legislation

limits fiscal competition among *Länder* and increases public spending competition. So the American notion of mobility, the so-called “voting by feet,” is inapplicable to Germany.<sup>3</sup> A second major fiscal equalization scheme of the national government began in 1995 with the first vertical grants from the *Bund* to the *Länder* (*Bundesergänzungszuweisungen*).<sup>4</sup>

These grants account for half of the German government’s fiscal equalization, but the state of North Rhine-Westphalia is exempt from all vertical grants because of its relative economic success.<sup>5</sup> So despite its severe industrial decline, NRW is still a net contributor to the *Bund* and therefore to Germany’s poorer regions. After all, from an institutional perspective, the *Bund* must prioritize and concentrate its economic development efforts.<sup>6</sup>

### **National Institutional Structure in Scotland**

In the case of Scotland, the U.K. parallels the *Bund*’s weak effort to spur constructive development. Scotland is a “serial underperformer,” or at least it has been viewed as such since World War II.<sup>7</sup> Scotland’s over-reliance on heavy industry became apparent when the UK began to close steel mills and shipyards. With little representation in Westminster, the “Celtic fringe” suffered the brunt of British industrial decline. The lack of autonomous regional control, coupled with a Parliament concerned more with affairs south of the border, has led Scotland into a difficult situation. When it was obvious that industry was on the decline, Scotland received substantial funding from the British Steel Corporation to upgrade its steel mills. However, the fall of international demand for steel and the subsequent closing of Scottish mills negated this investment. Once supports for the Scottish steel industry were withdrawn, the entire sector became

increasingly weak as efficient mills had been relying on the outputs of other, less efficient factories that were involved with related aspects of the steelmaking process, became less productive as well.<sup>8</sup>

Historically, Westminster didn't offer Scotland as much support for developing its own cities and towns and instead directed most funding and programs toward England. The Scottish Office was charged with making the views of Scotland known, but it had little power to do so. Dismantling heavy industry and forcing many companies to privatize, Thatcher's regime was highly effective at changing the face of the UK's economy; a look at a country such as Germany as it continues to struggle with those old industries suggests that the harsh reforms were necessary. Some suggest that the Thatcher reforms should have been enacted earlier with the goal of joining the European integration project.<sup>9</sup> Scotland failed to diversify its economy, however, and has continued to fall behind England and Wales, while Westminster has exerted little effort in ameliorating this persisting problem. The recent establishment of devolved government could allow Scotland to reverse its misfortune by addressing some of the shortcomings of Westminster.

### **Sub-national Institutional Structure in Germany**

We have illustrated the lack of federal constructive efforts, so now let us consider the institutional structures of municipal, state, European, and private actors and how they have served as the primary contributors to constructive economic development in the two case studies. While cooperation between municipalities has encouraged a sectoral shift in the Ruhr, competition among municipalities has served as the driving force behind constructive municipal development. A major complaint of city officials is the *Bund's*

unfunded mandates, such as their insistence that each German child attend kindergarten.<sup>10</sup> More controversy surrounds federal grants for the building of homes and tax-deductible commuting expenses for employed people, because, according to Dr. Hans Blotevogel, Professor of economics and geography at Dortmund University, such significant grants “fuel the outward migration from urban areas.”<sup>11</sup> The association of German cities, particularly through the KVR, promotes the abolition of these subventions in the interest of the larger cities. Competition among cities usually concerns attracting investors and companies and winning federal subsidies.

The institutional structure of the German *Länder* allows NRW to be the primary governmental actor in the economic restructuring of the Ruhr. With the fundamental goals of independence and participation, the *Länder* serve as the cornerstone of German cooperative federalism. The *Länder* are charged with the legislation and execution of policy involving education, cultural matters, broadcasting, internal security, and regional development. The state of NRW provides tax incentives and subsidies for high-tech companies to locate in the Ruhr.

However, the regional autonomy of the *Länder* is far from complete; the European Union threatens some of the *Länder*'s institutional powers. The most interesting story involving the relationship between the Ruhr and the European Union hinges not upon the structural aid that the EU gives the Ruhr region, but on the parallels between the German and European trends of centralization, bureaucratization, and “deparliamentization” (loss of power by the *Länder* parliaments). A highly-publicized trend concerning Europeanization is that national parliaments fear losing their decision-making power and becoming administrative units subordinate to policy made at the

European level. But the EU compromised the competency of sub-national governments, as well. Ultimately, it is not the German federal state, but the EU that is infringing on the sovereignty of the *Länder*.<sup>12</sup>

As the European Union threatens institutional powers, the *Bund* restricts the fiscal capacities of the *Länder*. The German Fiscal Constitution's guarantee of equal living conditions among the *Länder* is another obstacle to North-Rhine Westphalia's efforts at constructive redevelopment. This Fiscal Constitutional clause constrains the budget of NRW. Interstate horizontal fiscal equalization between the *Länder* (*Länderfinanzausgleich*) is the primary factor of interregional solidarity in Germany. After calculations of state and local fiscal capacities based on tax revenues, population density, and urbanization, North Rhine-Westphalia is a net donor to other *Länder*.<sup>13</sup>

It is these institutional and fiscal constraints that contribute to the relative success of private economic initiatives. While NRW has turned to traditional methods of attracting new industry, private interests focus on the "soft" criteria (attraction of industry through regional development) of regional economic growth, but NRW is left to fund much of the private initiative. For example, the primary private development firm in the Ruhr, IBA, boasts a low cost for planning and administration of implementation, but it has encountered strategic pitfalls in its attempts to restructure the Ruhr. A major problem was the funding strategy for the Emscher Landscape Park, whose follow-up costs were left to the public sector.<sup>14</sup>

Ultimately, German institutional structures guarantee the prioritization of crisis regions in national initiatives for constructive growth. Consequently, only the devolution

of issues concerning constructive restructuring can lead to the recovery of the Ruhr, and examination of the institutional structure in Scotland leads to a similar conclusion.

### **Sub-national Institutional Structure in Scotland**

The recent development in Scotland of a devolved government gives us the opportunity to see if devolution does indeed trigger positive restructuring superior to the outcome of unitary control. With the opening of the Scottish Parliament at Holyrood, Scotland now has the opportunity to direct its own economic fate. While the Scottish Parliament is unable to change many macro-economic policies or engage in substantial foreign policy, it is now fiscally autonomous. The sizeable budget Holyrood receives from Westminster will allow Scotland to reshape its infrastructure, education system, and regional planning. It is hoped that the Parliament will be especially effective in implementing these “supply side” areas of policy in order to promote Scotland's future growth and competitiveness.”<sup>15</sup> Furthermore, Holyrood has been experimenting with many new ways of connecting with business. One project involved replacement of Members of the Scottish Parliament for one day with businessmen to debate political business issues while another had businessmen compile a book of suggestions for Holyrood.<sup>16</sup> These new connections could lead to a much greater level of synergy and cooperation between public and private entities within Scotland.

In many ways, it is still too early to tell how effective the new Parliament will be at stimulating economic recovery. Many believe that it has failed, while others claim it has been successful, but not through the devolved government's use of supply side economics. At the very least, Holyrood has begun to change Edinburgh into a “full-fledged capital” and this has helped economic recovery. A new political industry has

been born in Edinburgh due to the opening of the Parliament, which has also attracted bankers and lawyers and raised land-values near the building.<sup>17</sup> Scholars claim that the establishment of the Parliament has had a “headquarters effect,” and provided enough of an economic impetus to avert a predicted recession in Scotland.<sup>18</sup> The Parliament has also drawn politicians and bankers to Edinburgh and has caused real estate to appreciate.<sup>19</sup> Clearly the benefits Edinburgh has seen from the mere establishment and actual building of the Parliament may be temporary, but there is also reason to believe that its presence may strengthen Edinburgh’s reputation and raise its profile thereby paving the way for future economic growth as well.

There is a key economic problem facing politicians at all levels of government: how should one measure economic success? It is popular practice to measure the success of a program by the number of jobs it creates; such a strategy was used by Scottish Enterprise to attract multinational corporations to Silicon Glen, an area between Glasgow and Edinburgh developed in an early attempt to establish a high-tech manufacturing sector in Scotland. This measurement is politically favorable, but it actually tells very little about the health of the economy. In the late 1990s, Scotland began to learn this the hard way as many multinationals closed shop and moved eastward.

Analysts and businessmen are now advising the government to allow Scottish Enterprise to pursue a more “thoughtful” approach of building “wealth” instead of jobs.<sup>20</sup> Businessmen hope that government agencies, national and local, will focus on providing infrastructure and funding for universities and allowing competition to take care of the rest. The problem with this approach is that the higher level jobs will not be useful to the many unemployed former factory workers. Perhaps Scotland will be in good position

now to tackle high-tech industry while letting Westminster take on the electoral burden of continuing to provide a welfare system. Again, this is an example of the national government focusing on the negative side of dismantling outdated industry by providing a safety net for unemployable workers while allowing regional actors to take the initiative in rekindling the economy.

Whether or not Scotland will take advantage of these new opportunities is uncertain. Perhaps Holyrood has no electoral pressure to advance the economy, but rather is pressured to pursue the socialist impulses long found throughout Scotland's working class.<sup>21</sup> There is a chance that these impulses will lead to the reopening of old mills and further government support of sectors which are no longer competitive in global markets, and which have no chance of becoming competitive again, a goal the Scottish National Party has pursued at times.<sup>22</sup>

Furthermore, there are problems with the new relationships between Holyrood, Westminster, and the EU. Its small economy leads many Scots to support the EU and the Euro since exports must make up a significant portion of its economy. Still, Scotland is on Europe's "geographic periphery" and its main export market is England. Other Scots support the EU government because it takes power away from Westminster.<sup>23</sup> It will take some time for these institutions to adjust to their evolving powers, and until then the efficiency of actors will be decreased as they compete against each other for responsibilities.<sup>24</sup>

### **National Electoral Aspects in Germany**

The Social Democratic Party (SPD) was founded as the *Allgemeiner Deutscher Arbeiterverein*, or the German Workers' Association, and its ties with the working class

have contributed to its history of success in the Ruhr and NRW as a whole. The CDU has been in power more often on the national level since World War II, but NRW has been a stronghold for the SPD since 1966.<sup>25</sup> Workers and union members supported the SPD because they believed it was working for their interests, but the decline of the coal and steel industries paralleled a decline in union membership and party support. In the Northrhine-Westphalian state election of 1995, 61% of blue-collar workers voted for the SPD, compared to only 45% in 2005.<sup>26</sup> The national government has pursued policies of welfare retrenchment and favored small businesses and the self-employed, which has undermined the interests of the working class and led to a decrease in support for the SPD. Those who would have voted for the SPD in the past either did not come out to vote, or voted for a different party. Support for the SPD has steadily eroded in NRW since its peak in 1985, and unemployment has remained persistent.

The state election of May 22, 2005 marked a loss power for the SPD in NRW. This can be largely attributed to the national government's many failed attempts to deal with unemployment. The ruling SPD/Green coalition government led by Chancellor Gerhard Schröder proposed the Agenda 2010 and Hartz reforms based on the advice of a special commission in 2002.<sup>27</sup> The reforms were targeted at decreasing unemployment and restructuring the welfare state, but were extremely unpopular with politicians and citizens and were met with strong resistance from both groups. There was even dissention within the SPD, and Schröder ultimately resigned as the head of the party in favor of Franz Muntefering.<sup>28</sup>

At the national level these types of corrective reforms, perhaps even destructive in the case of welfare retrenchment, come into effect because national politicians must

sometimes support policies that are unpopular but are deemed economically necessary. The SPD party platform in NRW is set at the national level, and for this reason federal policy is reflected in the policies of the *Länder*. Bernd Faulenbach, Chairman of the SPD in Bochum, maintains that Schröder's reforms were the main problem for the SPD in the NRW election. Few of his policies have been implemented with "enough strength to have any noticeable effect on the economic or social situation in Germany."<sup>29</sup> Uta Dreckmann, CDU candidate in the election, said "the SPD's reforms have come too late and are not inclusive enough."<sup>30</sup> Schröder proposed reforms because he knew something had to be done in order to save the German economy, regardless of electoral consequences, but few are willing to support reforms that will cause short-term hardship and can not necessarily guarantee economic improvement in the long-run. The German system allows the actions of the national party to hurt its chances at the state level. The SPD has lost power in NRW because of working-class defection, negative national reforms, and the CDU's capitalization on the ineffectiveness of these reforms.

### **National Electoral Aspects in Scotland**

In the 1980s, Prime Minister Margaret Thatcher led Britain through a painful period of industrial decline. Privatization of industry, reduced government spending, relative entrenchment of the welfare state, the weakening of labor unions, and a willingness to accept short to medium-term unemployment marked the government's actions during this time. While the entire British economy was affected by these changes, the Scottish economy, with its much greater percentage of working-class laborers, was hit particularly hard. Forty-nine percent of Scots, for example, are working-class, whereas only 34% of Britons are, and Scotland's largely working-class electorate roundly blamed

the Conservative Party for the economic woes that resulted from Thatcher's neo-liberal policies.<sup>31</sup>

It should be noted that Scottish politics are more leftist than British politics as a whole. Scotland has long supported the Labour Party, and this legacy was only entrenched by the Tories' rightist economic policy. The other two Scottish parties, the Liberal Democrats and the Scottish National Party also fare reasonably well in Scotland since they both are center-left parties that, along with Labour, vie for the support of the Scottish working-class. Mhairi Hunter of the SNP referred to Scottish politics as a "social democratic soup" because of the tendency of these three parties to be relatively similar.<sup>32</sup> Conservative support has waned considerably in Scotland since 1979. In the mid-1980s it received only about a quarter of the Scottish vote while Labour won 35 to 42%, the Liberal Democrats took 19 to 24%, and the SNP garnered 12 to 14%. In the historic Labour landslide of 1997, Labour won over 45% of the Scottish vote, sending 56 MPs to Westminster. The Liberal Democrats sent ten members with 13% of the vote, and the SNP won over 22% of the vote, but due to the UK's first-past-the-post single-member system, it only sent 6 members to London. The Conservatives, long Britain's strongest party (or at least one of its two strongest parties) managed to gain just 17% of the Scottish vote and did not win a single seat.<sup>33</sup>

Still, the U.K. national government has been unable to stimulate economic recovery in Scotland. Its unemployment rate remains higher than that of England, and affordable housing and underemployment are problems as well. Although Labour remains strong, Blair's shifting of the party to the center has not ingratiated Scottish voters. With the Conservatives too far to the right to gain much support in left-leaning

Scotland, the 1997 election results, along with recent election results in the Scottish Parliament, show that the SNP has become Scotland's second party, competing with Labour for working-class votes while also offering a nationalistic, pro-independence agenda. Still, the national government has not done much to specifically help Scotland's ailing economy while a nationwide economic recovery program is not needed since England's economy is in reasonably good condition. The industrial nature of the Scottish economy led it to be more affected by Thatcherite reforms, and the national government has not provided much assistance to help it re-grow.

### **Sub-national Electoral Aspects in the Ruhr**

Local governmental authorities are more able to stimulate local economic growth than are national-level authorities. Whereas national-level governments can rely on the electoral support of other regions during the restructuring of one region, paying too much attention and spending too much money to help a specific region recover might lead to too widespread a loss in electoral support. Local or regional governments, however, can cater economic programs specifically to the regions they work for, thereby maintaining electoral support.

City governments in the Ruhr and the state of NRW have made many attempts to stimulate economic recovery from deindustrialization, but some of their policies have proven counterproductive. According to Dr. Blotevogel, all city governments in the Ruhr are pursuing policies of diversification, but some began too late. Every city in the Ruhr has extensive strategies to bring about structural changes, but some have been more successful than others.<sup>34</sup> For example, the City of Dortmund, McKinsey & Company, and eighty private investors (most notably ThyssenKrupp AG) undertook the Dortmund

Project to attract investment, build new infrastructure, create incentives for companies to locate in Dortmund, and to create 70,000 new jobs in the region by 2010.<sup>35</sup> The city government has clearly made efforts to initiate and sustain cooperation between business and universities, but in most of Germany there is “consistently little” cooperation between these actors.<sup>36</sup> While the Dortmund Project has been very successful, constructive efforts in other cities have led to only marginal gains, but have still been more effective than corrective federal initiatives.

On some occasions German politicians at the city and state levels have little influence on policy because party platforms are set at the national level. This is the case with the Agenda 2010 and Hartz reforms, and voters are expressing their disapproval of the federal government through waning support of the SPD in NRW. Edgar Moron, an SPD spokesman in NRW, said, “We didn’t get much help from [the federal government]. In fact, they created several problems for us. The desire for change was too strong.”<sup>37</sup> In the end, despite efforts to attract new industries and investment by municipal and regional actors, unemployment remained at unacceptable levels, and changes to the welfare system only led to greater discontent with the federal government.

### **Sub-national Electoral Aspects in Scotland**

Historically, the Scottish Office and the Scottish Executive have been the only local forces with the authority to push for economic policy that was specifically catered to Scotland. In practice, these bodies only had the power to help Scotland retain a welfare state that was slightly more generous than the British welfare state.<sup>38</sup> Following their 1997 victory at the polls, however, Labour ushered in devolved Scottish government, with the Scottish Parliament opening in 1999. The Scottish Parliament has a vast

portfolio of powers; it controls all policy areas except defense and foreign policy, macroeconomic policy, and social security.

Theoretically, the Scottish Parliament should have the ability to undertake measures to stimulate economic recovery in Scotland. Job retraining, zoning, and investment initiatives are all policy areas that the Parliament could use to spur growth. The Parliament is new, and there is no conclusive evidence regarding economic benefits it has provided thus far. In the Parliament itself, Labour rules in coalition with the Liberal Democrats with the SNP making up the primary opposition party. There is some belief that Labour may lose seats in the 2007 election to the Scottish Parliament, perhaps to the SNP, if they do not pursue more aggressive economic plans.<sup>39</sup> The SNP wants to see the Parliament gain more control over economic policy while Scottish Labour sees the Parliament as a body that can find “uniquely Scottish solutions” to problems in the areas of health, education, and justice, but can do little to alter Scotland’s economic course.<sup>40</sup> It is clear that the Scottish Parliament would need even more powers devolved to it, such as greater control over corporate tax rates, in order to have a very significant impact on Scottish economic growth.

### **Comparison and Conclusion**

The institutional structure of both Germany and Scotland limits the ability of the national governments in both countries to effectively bring about positive regional economic change. In Germany the central government must direct its economic development efforts to *Länder* or regions whose economies are in comparatively worse condition than those of other *Länder*, so the central government is constitutionally prohibited from directing aid toward NRW. Scotland’s institutional structure is unlike

the German system, but the Scottish parliament is also constrained by the central government in Westminster and cannot implement potentially constructive policies or programs because of this relationship.

In contrast, sub-national institutional structure combined with the ineffectiveness of national governments to restructure industry in both regions has contributed to the success of local governments and private actors in bringing about positive change. Because of the mandatory prioritization of crisis regions at the national level in Germany, constructive change comes from the regional initiatives such as IBA or from city governments and private actors. Similarly, since the opening of Holyrood, Scotland has maintained a degree of fiscal autonomy and can pursue constructive change in the fields of infrastructure, education, and regional planning. Arguably, if the Ruhr could establish its own regional government, or if more power was devolved from the U.K. central government to Scotland, both regions could effect positive change with greater success.

National electoral aspects in both regions also limit the ability of national governments to cause positive change. The national governments experience regional problems indirectly and are less concerned with regional electoral issues because they cannot focus constructive policies on regions that are relatively economically stable in comparison to other regions. Working-class support of the SPD, the historically dominant party in the Ruhr, has declined because of policies decided at the national level that have negatively impacted the region, and in Scotland the large working-class population blamed the conservative party, the dominant party in England, for enacting reforms that disabled their steel industry.

Municipal governments have been more successful at positive change because they are directly effected by regional concerns, they are closely tied to the electorate, and reforms that they implement will consistently affect their performance in upcoming elections. National governments can ignore economic or social concerns in certain regions if they believe that electoral support in those regions is not crucial to re-election. They are able to make this distinction because they must be concerned with the health of the greater economy, and for this reason municipal governments are less likely to implement policies causing negative change if the national government must do so in order to improve the state of the entire economy.

Recent reforms from the national government in Germany were an economic necessity, but they had to come from the national level because local politicians would not implement policies that would likely cause them to lose office. Instead, local politicians have pursued policies of industrial diversification and development of infrastructure. The reforms of Thatcher's government negatively impacted the Scottish economy and ruined Thatcher's chances of re-election, but these reforms had to come from the national level because the Scottish parliament did not exist at this time. Currently, the Scottish Parliament does not have enough power devolved to it from Westminster in order to enact constructive reforms with the greater success.

A key question that remains is: where do the economies of these regions go from here? Both are seeking to diversify manufacturing and service industries into globally competitive sectors. The economic future of the Ruhr lies in the hands of the local politicians, businesses, regional organizations, and municipal cooperation. It is likely that negative national labor market and welfare reforms will continue in Germany's

future, and according to our thesis, positive change will come from sub-national actors. The Ruhr has slowly de-industrialized and is attempting to expand its industries in the manufacturing, service, and high-tech sectors. However, the Ruhr lacks a strong common regional identity, which weakens regional initiatives and inter-city cooperation. If a true regional development organization can be established in the Ruhr, it is likely that positive change will be the result.

Although its history has been different than the Ruhr, Scotland shares a similar economic strategy for the future. Scotland has some success manufacturing electronics and computer components in Silicon Glen and does have a promising future in renewable energy such as wind and tidal power. Still, its long-term economic viability probably depends more on services. Tourism is a potentially strong sector for Scotland and one in which the Scottish Parliament could promote growth through building infrastructure and through marketing. Banking is another possible sector where Scotland may excel. Scotland already may have a foothold in the financial services sector; its two largest companies are the Bank of Scotland and the Royal Bank of Scotland.<sup>41</sup> While the Scottish Parliament's role in promoting growth in these areas is still uncertain, there is certainly hope for economic prosperity in Scotland's future. If a common regional power establishes itself in the Ruhr, and if Scotland receives more devolved authority, both regions will be more effective in pursuing positive economic change in the future.

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<sup>1</sup> Eurostat. URL: [europa.eu.int/comm/eurostat/](http://europa.eu.int/comm/eurostat/)

<sup>2</sup> Laurent Guihéry, 2003, "An Economic Assessment of German Fiscal Equalization Schemes Since 1970: What prospects for a Unified Germany," University of Lyon: *Institute of Transport Economics*.

<sup>3</sup> Charles Tiebout, 1956, "A Pure Theory of Local Public Expenditures," (*Journal of Political Economy*, 64: 416-24).

<sup>4</sup> Paradoxically, the Gini coefficient—both organistic (which assimilates region to people without weighting) and individualistic (which weights by population the regional inequalities before and after redistributive transfers)—has worsened among the *Länder* since the institution of these grants. One reason for this phenomenon could be that the grants allow for more equal distribution of funds among the *Länder* but do not account for their internal distribution within each state (Guihéry, 2003, "An Economic Assessment of German Fiscal Equalization Schemes Since 1970.")

<sup>5</sup> The same is true for Hesse, Hamburg, Bavaria, and Baden-Württemberg.

<sup>6</sup> Guihéry, 2003, "An Economic Assessment of German Fiscal Equalization Schemes Since 1970."

<sup>7</sup> James Arnold, 2003, "Scotland seeks key to growth," BBC Online, URL: <http://news.bbc.co.uk/go/pr/fr/-/1/hi/business/3216059.stm>

<sup>8</sup> Peter L. Payne, 1997, "The End of Steelmaking in Scotland, c.1967-1993," *Scottish Economic and Social History* 15, 72-73.

<sup>9</sup> Alf Young, 2001, "Establishing Competitive Economic Advantage in the Scottish Economy," *The David Hume Institute*, Autumn Seminar Series, 6-7.

<sup>10</sup> Hans Bloetevogel, 2005, Professor of Economics and Geography, Dortmund University (May 20).

<sup>11</sup> Bettina Gausmann, 2005, Office for Economic Promotion, Business Development, and Foreign Trade and Payments, NRW Regional Capitol (June 2).

<sup>12</sup> In 1966 Hans Peter Ipsen sensed the infringement of the EU on the *Länder* and coined the term Landesblindheit to refer to the blindness of the EU to the status and role of the German *Länder* in the process of integration. The Single European Act of the mid-1980s exacerbated the angst of the *Länder*, which are working to maintain their remaining powers through *Bund* legislation such as the "Europa-Artikel." In one case, the state of Saxony refused Commission interference in its regional development policy. The most recent example of state resilience is the *Länder* supervision of the Kohl government's decisions about EU treaties. Although the resurgence of the *Länder* may initially strike scholars as defensive regionalism, it has led to a clear delineation of powers according to the principle of subsidiarity, which was mentioned in the first German federal constitution of 1871. It is from the German federal constitution, then, that various European Union treaties borrow the subsidiarity principle. (Hans Peter Ipsen, 1966, "*Bundesstaat in der Gemeinschaft*," *Festschrift für Walter Hallstein*, (Frankfurt: Klostermann), 248-265.)

<sup>13</sup> Guihéry, 2003, "An Economic Assessment of German Fiscal Equalization Schemes Since 1970."

<sup>14</sup> The apex of the Ruhr's industrial recovery was the 1999 IBA Architecture International Exhibition at Emscher Park. IBA cited structural problems of deindustrialization, devastation of landscape and cities, high rate of unemployment, and deficit of innovation potential as the factors motivating the project. IBA embedded the principles of competition and environmentalism in the exhibition. More than fifty contests challenged architects and urban developers to design projects based on strict ecological rules and aimed at the development of brown field sites. With a budget of 800 million DM, IBA's Emscher Landscape Park project was the largest program for renewal of landscape in Europe (International Symposium Rendez-vous Montréal 2002, Industrial Reconversion Initiatives Implemented by Actors in Civil Society, May 29.)

<sup>15</sup> Iain McMillan, 2003, "Lead Us Not Into Temptation," *The Scotsman* (May 4).

<sup>16</sup> Richard Kerley, 2000, "Scottish Business and the Scottish Parliament" in *The New Scottish Politics: The First Year of the Scottish Parliament and Beyond*, Gerry Hassan and Chris Warhurst, eds. (Norwich: The Stationery Office), 133-136.

<sup>17</sup> Chad Damro, 2005, Lecturer in Politics, University of Edinburgh (May 17).

<sup>18</sup> Peter MacMahon, 2005, "Devolution Helped Prevent Country's Slip Into Recession," *The Scotsman* (March 25).

<sup>19</sup> Damro, 2005.

<sup>20</sup> James Arnold, 2003, "The Death and rebirth of Silicon Glen," BBC Online, URL: <http://news.bbc.co.uk/go/pr/fr/-/1/hi/business/3249891.stm>

<sup>21</sup> Arnold, 2003, "Scotland Seeks Key to Growth."

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- <sup>22</sup> Mhairi Hunter, 2005, Policy Officer, Scottish National Party (May 17); Mark Aspinwall, 2005, Senior Lecturer in Social and Political Studies, University of Edinburgh (May 17).
- <sup>23</sup> Aspinwall, 2005.
- <sup>24</sup> Catherine Macleod, 2000, "Relations with Westminster" in Gerry Hassan and Chris Warhurst, ed. *The New Scottish Politics: The First Year of the Scottish Parliament and Beyond* (Norwich: The Stationery Office), 117 – 123.
- <sup>25</sup> Wahlen in Deutschland, 2005, "Landtagswahlen und Landesregierungen in Deutschland," URL: <http://www.election.de>
- <sup>26</sup> American Institute for Contemporary German Studies, 1995, "State Election in North Rhine-Westphalia," URL: <http://www.aicgs.org/wahlen/nrw95tables.shtml>; Forschungsgruppe Wahlen E.V., 2005, "Landtagswahl in Nordrhein-Westfalen," URL: [http://www.forschungsgruppe.de/Ergebnisse/Wahlanalysen/News1\\_Nord05\\_2.pdf](http://www.forschungsgruppe.de/Ergebnisse/Wahlanalysen/News1_Nord05_2.pdf)
- <sup>27</sup> *The Economist*, 2003. "Municipal Mayhem" (14 August): 2.
- <sup>28</sup> Schröder, of course, remained Chancellor and still is, as of this writing.
- <sup>29</sup> Bernd Faulenbach, 2005, Chairman of Bochum SPD (May 13).
- <sup>30</sup> Uta Dreckmann, 2005, CDU State Election Candidate, (May 13)..
- <sup>31</sup> Lynn Bennie, Jack Brand, and James Mitchell, 1997, *How Scotland Votes* (Manchester: Manchester University Press), 99.
- <sup>32</sup> Hunter, 2005.
- <sup>33</sup> Alice Brown, David McCrone, and Lindsay Paterson, 1998, *Politics and Society in Scotland* (London: MacMillan Press), 8-9. The Liberal Democrats' and SNP's interesting discrepancy between percentage of vote won and seats won also indicates the importance of targeting, that is attempting to win many votes in certain districts only rather than a few votes in a greater number of districts, in a single-member district political system such as the U.K.
- <sup>34</sup> Hans Blotevogel, 2005, Professor of Economics and Geography, Dortmund University (May 20).
- <sup>35</sup> Dortmund Project, 2003, URL: <http://www.dortmund-project.com>
- <sup>36</sup> Blotevogel, 2005.
- <sup>37</sup> Guardian Unlimited, 2005, "Unemployment Crisis that May Sink Schröder." URL: <http://www.guardian.co.uk/germany/article/0,2763,1490121,00.html>
- <sup>38</sup> Brown, McCrone, and Paterson, 1998, *Politics and Society in Scotland*, 13-16.
- <sup>39</sup> Hunter, 2005; Alice Brown, David McCrone, Lindsay Paterson, and Paula Surrridge, 1999, *The Scottish Electorate: The 1997 General Election and Beyond* (London: MacMillan Press), 10-14.
- <sup>40</sup> Marie Birchall, 2005, Policy Officer, Scottish Labour Party (June 2).
- <sup>41</sup> Damro, 2005; Aspinwall, 2005.

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## Appendix

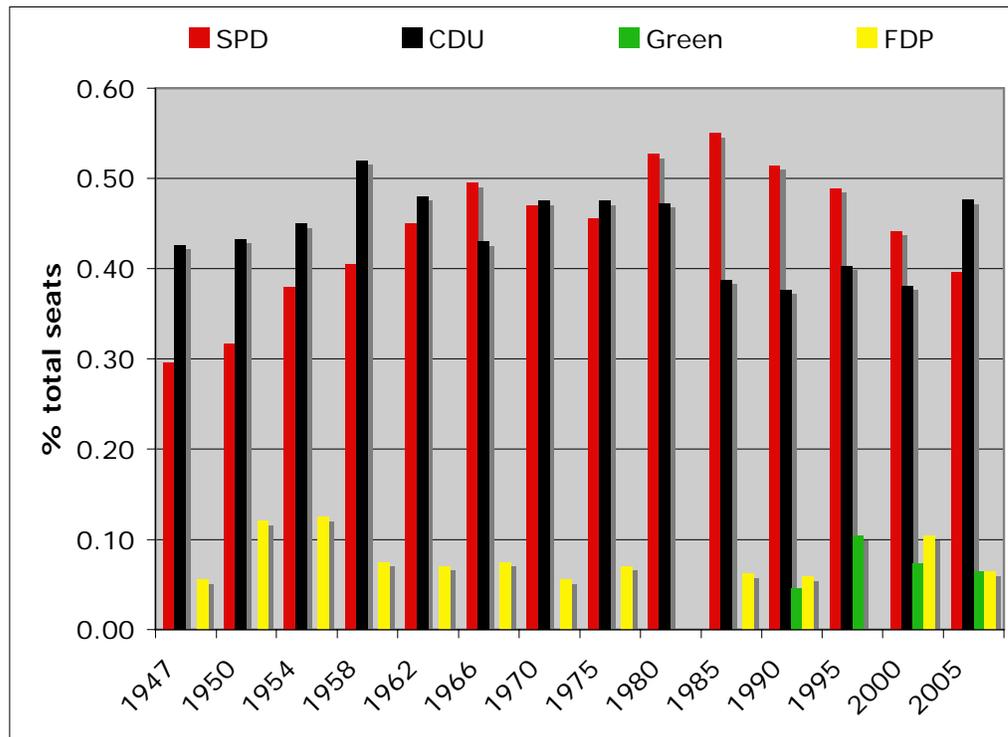


Figure 1. State (Landtag) elections in Nordrhein-Westfalen, 1947-2005. [AICGS]

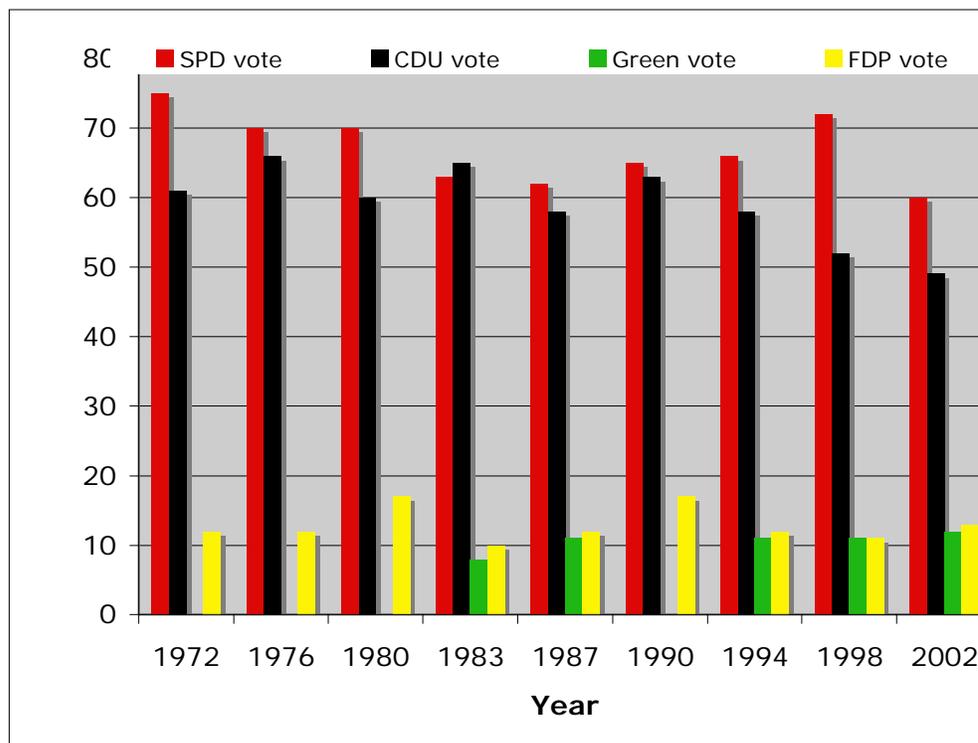


Figure 2. NRW vote in federal (Bundestag) elections, 1972-2002. [AICGS]

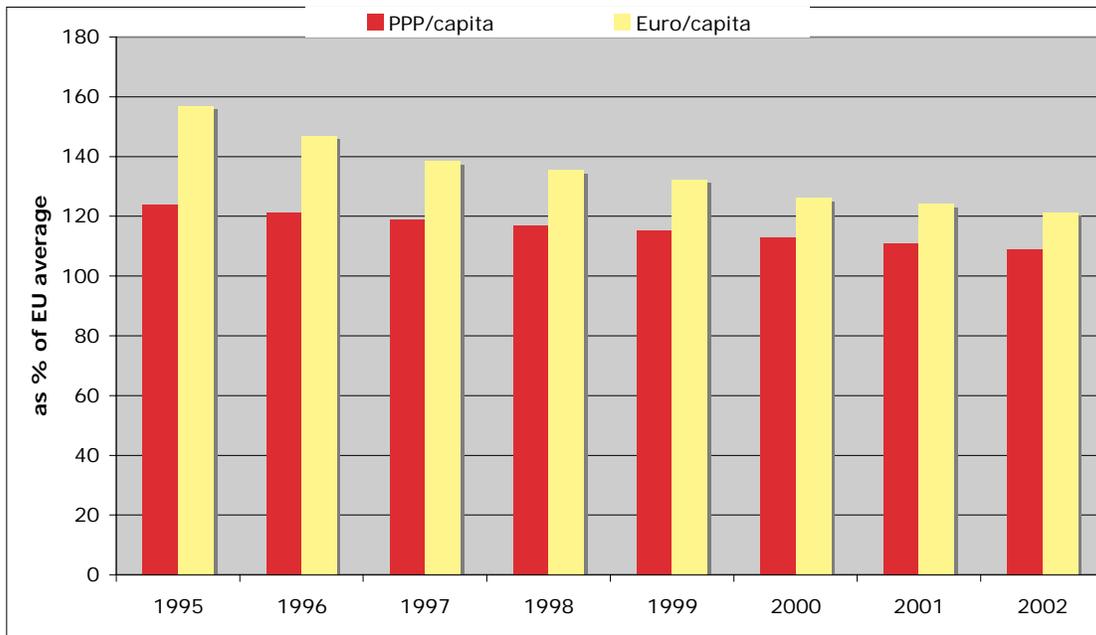


Figure 3. Recent GDP and PPP figures for Nordrhein-Westfalen. [Eurostat]

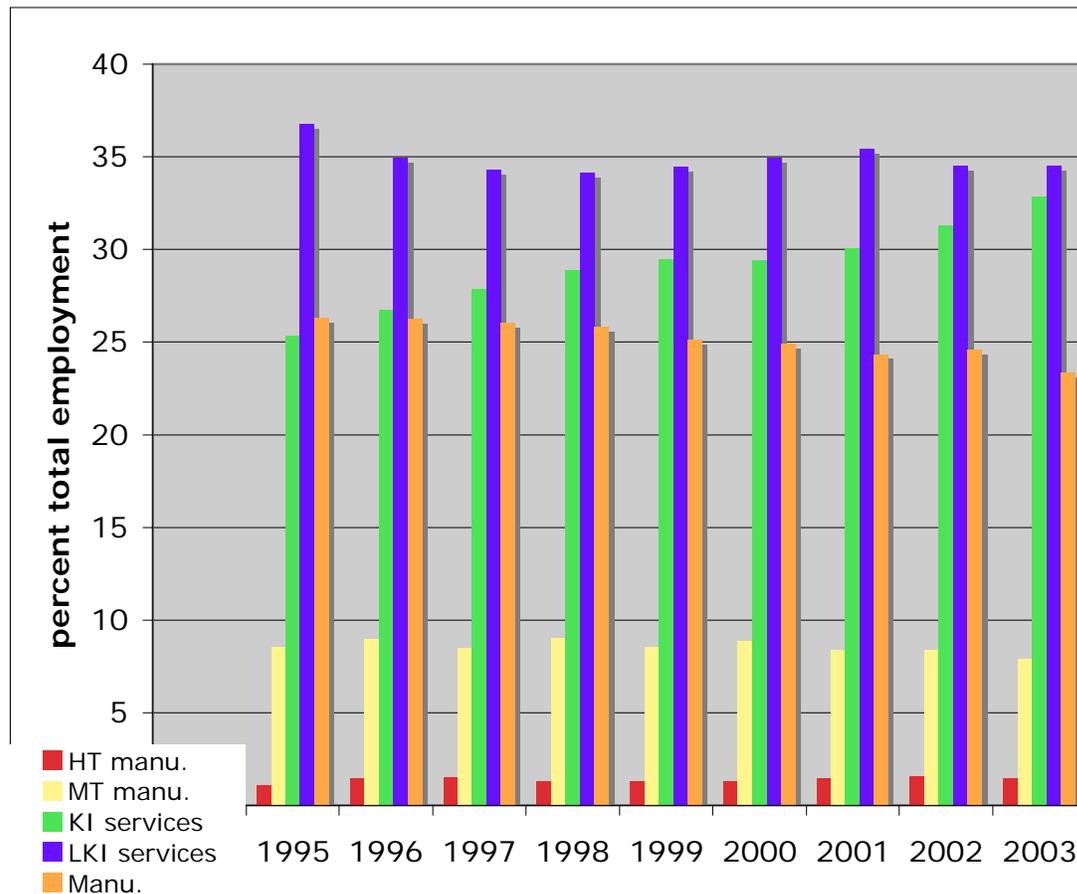


Figure 4. NACE data for NRW. (KI = Knowledge Intensive; LKI = Less KI.) [Eurostat]

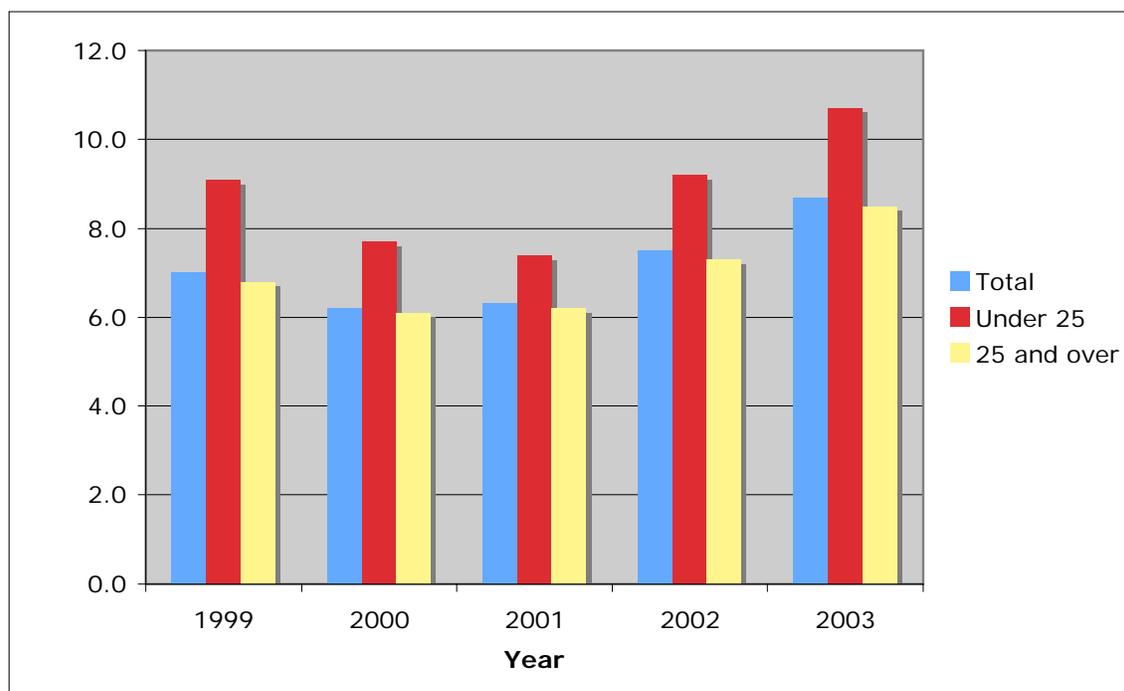


Figure 5. Unemployment in NRW. (This closely follows national trends.) [Eurostat]