EUROPEAN REGIONAL DISPARITIES: THE CRUCIAL SOURCE OF EUROPEAN UN-SUSTAINABILITY

Matjaz Nahtigal[1]

ABSTRACT

The ongoing European crisis has revealed many deficiencies in the existing European institutional architecture. One of the crucial deficiencies is the unsustainable European regional disparity between the most developed European regions and those regions that are falling behind—a gap that is growing. This pattern of development creates an unsustainable pattern for the future development of the EU. The gap between the advanced segments of society with access to up-to-date knowledge, skills, technology, capital, and other resources and the excluded segments of society is also growing within the advanced European regions. Such observations indicate the need for far stronger anti-dualist economic, social, and legal policy at all levels of European polity. The EU's response to the crisis has been inadequate as it has ignored the diversity of needs as well as opportunities for local and regional populations across the EU. Instead of focusing the economic, social, and legal reconstruction on a "one size fits all" model imposed from the top, the EU should spur local and regional innovations, initiatives, and development dynamics from below. Thus, in the EU, we need more policy space as well as more opportunities for economic, legal, social, and political innovations at the local, regional, and national levels. We need to create an EU that supports—not suppresses—diversity, sustainability, plurality, and the co-existence of institutional models.

The idea of subsidiarity, diversity, and initiatives from below should be revived in order to create a more sustainable future for the EU.

KEYWORDS: EU regional disparities • economic and social reconstruction • subsidiarity • regional institutional innovations

[1] Matjaz Nahtigal, Associate Professor, Faculty of Management, University of Primorska, Cankarjeva 5, 6104 Koper, Slovenija, email: matjaz.nahtigal@selih.si

Introduction

The ongoing European crisis has revealed many deficiencies in the existing European institutional architecture. One of the crucial deficiencies is the unsustainable European regional disparity between the most developed European regions and the regions that are falling behind. The gap between the advanced regions and the less prosperous regions is growing, and this pattern of development creates an unsustainable pattern for the future development of the EU.

The frequent response to the widening gap between European regions is that we need to create a transfer union, preferably according to the German constitutional arrangement. Leaving aside the feasibility of such a proposal, this article aims to show that such a recommendation is not necessarily the best possible approach toward alleviating the persisting European disparities. As the evidence from East Germany shows, the transfer union is not necessarily the most efficient way for allocating scarce resources across the EU. The reluctance of taxpayers in some core EU countries is an additional reason for being realistic about the transfer union idea.

Thus, the main purpose of this article is to explore alternative possibilities to address the widening gap between advanced and less developed regions in Europe. This issue is of crucial significance for the future of the EU project despite the fact that its importance has been underestimated in the last decade, marked by a carefree approach to cheap money and credit and liberalized financial flows from the core to the periphery—mainly to help create a property bubble, overinvestment in construction, and similar speculative financial activities. Yet if the transfer union is neither a realistic nor sufficient solution, if private credit flows from the EU core to EU periphery are no longer an option, and if we accept that austerity, with its perverse incentives for private and public investments, cannot secure the necessary economic and social reconstruction, what are the viable options and strategies for the European regions?

In its broadest sense we need to return sufficient instruments and policy goals to the European regions. We need to create a genuine policy space for European regions to be able to develop and implement their own development strategies. Different European regions with different comparative advantages should be allowed and stimulated to run different development strategies and, instead of imposing an ever-more shrinking policy space for European regions and European countries, we must offer maneuvering room to address the crisis and address the development potential of various European regions. Instead of imposing a single economic and social model from the top down on all European regions and countries, no matter how diverse and how differently they are developed, the EU should in the future encourage much more diverse development strategies and a development model developed from bottom up. Bottom-up development should be able to take into account different needs, comparative advantages, and initiatives much more narrowly tailored to the needs, opportunities, and aspirations of European regions and their citizens.

At first glance, such a change would amount to the Copernican turn of a European project. However, a closer look at the development of the European integration suggests that the most successful period of European integration was the period in which the variety of social and economic models co-existed. It was the early period of European integration, which successfully balanced the role of national and supra-national economic, social, and political institutions. The European authorities did not try to exert one single model on all the member states and their regions in what was then a smaller as well as more cohesive EU.

If the enlarged EU with 27 member states and 271 regions on the NUTS 2 level is to once again become more prosperous as a whole, while avoiding massive transfers of wealth and avoiding massive immigration from poor European regions to the rich ones, the shift toward extensive decentralization is a crucial step. Only the regions and countries with sufficient instruments and broad policy space can start the necessary economic and social reconstruction. The fear that decentralization would damage the concept of a single market is not convincing. The single market concept is conceived in very abstract terms; it can be envisaged in other conceptual terms and therefore reshaped. No abstract, neutral, and unique presupposition exists as to how the genuine single market should appear. If the purpose of the single market concept is to secure the most efficient use of available resources, then we should not mix the instruments and goals. The single market is not a goal in itself. It is a means to an end, which is to create a dynamic, inclusive, and innovative economy and society. No ultimate presupposition exists in terms of how the single market should be organized to achieve this goal.

The processes in the EU before and during the crisis tend to go in the opposite direction: They lead to a small number of highly competitive and advanced regional economies and cohesive societies while a growing number of European regions are falling behind. The *European Regional Yearbook 2012* should be interpreted from this perspective of economic, financial, and competitive concentration in only a small proportion of European regions. The yearbook clearly shows that, with respect to unemployment, for example:

> out of the 271 NUTS level 2 regions in the EU for which data are available, the unemployment rate increased between 2007 and 2010 in 215 regions, remained unchanged in seven and fell in 49. (European Union 2012, 78)

The increase of unemployment in more than two-thirds of European regions during the crisis is only one indication of the growing and unsustainable gap between the advanced and backward European regions. To be precise, even in some of the most advanced regions, substantial disparities exist between the relatively successful segments of economy and society and the excluded population. Thus, this analysis focuses attention on the magnitude of economic, social, and political challenges at all levels of European polity.

European Social Cohesion between Rhetoric and Realities

The last European politician who was deeply aware of the need to create a more cohesive, more balanced, and more inclusive EU was Jacques Delors. He understood not only the need for a subtle dialectic between competitiveness and cohesiveness, but also the need to establish a European framework conducive to the faster development of less prosperous regions: "Solidarity, once again, between the more prosperous regions and the poor struggling regions. Hence the conformation of economic and social cohesion as an essential pillar of European construction" (Commission of the European Communities 1994, 15).

Delors was aware of the need to maintain the balance between competitiveness and cohesiveness in all of the European regions before and after the enlargements. Unfortunately, many of his efforts have been forgotten or only half-heartedly and therefore insufficiently implemented. The enlargement itself was not very well prepared in the sense that new member states—with few exceptions—entered the EU with weak domestic institutions unprepared to face European competition at the sufficiently high level to be able to pursue autonomous and coherent domestic development policy. Instead, they followed the path of dependency, narrowly tailored for the most advanced European countries and regions.

The structural and cohesive funds, no matter how important and welcome, cannot make up for other important missing elements, instruments, and development policy measures. In addition, the increasing regional disparities before and after enlargement met decreasing means to offset them (Huffschmid 2005, 158–9); other important policies that presented a pillar of successful development of many leading European economies, such the innovation and industrial policies, were inadequately developed at the EU level. At the same time, the restrictive macroeconomic framework (Huffschmid 2005, 38), the demanding state aid rules, and the demanding competition rules present an insurmountable obstacle for most of the new member states and their regions (Huffschmid 2005,115–27). Such a narrow and limited European framework restricts the policy options and development instruments for the new member states and their regions. Moreover, it further narrows the possibilities to carry out a comprehensive economic and social turnaround at the regional and national levels. This is not to claim that even this narrowly defined framework completely forecloses possibilities for the necessary economic and social turnaround of the new member states; rather, within the restrictive framework, the probabilities are much smaller. It would take a highly able, competent, and sophisticated public and private sector to carry out such a comprehensive and demanding task. With the partial exception of Poland and perhaps few other countries, to a limited extent there are no sufficient skills, capabilities, and leadership in the new member states for such a demanding endeavor.

The increasingly demanding European legal and regulatory framework was not always in place. In the past decade, most of the advanced European countries and their regions enjoyed a much broader framework and policy space in which to successfully pursue their development strategies. However, in this debate, it is crucial to look beyond the superficial debate between new and old member states, between European North and European South. Such a debate readily overlooks the important difficulties facing many of the core European regions as well. We can observe difficulties in many French regions in terms of high unemployment, lack of investments, and manufacturing closures. A closer look could show that even the most advanced German regions are not without serious economic and social difficulties. For example, even the traditional industrial base of North Rhine Westphalia, the most populous state and one of the most advanced German federal states, shows that many German states and localities are not immune from the long-term economic and social decline. One of the contemporary scholars of German economic and social development has pointed to the often overlooked socio-economic problems, which do not stem from the federal, but from the state and local levels:

> The really pressing problem lies not at the federal level but at the level of the German states and local government. In recent weeks, comparisons have been drawn between the situation of Greece and heavily indebted California. But as a share of local GDP, the debts of German states such as Berlin, Bremen or Sachsen-Anhalt are four to six times worse than those of Arnold Schwarzenegger's state.
>
> The situation at the level of the municipalities is truly dire. In North Rhine-Westphalia alone there are 19 cities fighting to avoid receivership. The problem afflicts not affluent Düsseldorf, but the likes of Bochum and Dortmund, Essen and Duisburg. Once synonymous with world-beating German heavy industry, they are now sinks of high unemployment, mounting social costs and plunging tax revenues. The most draconian provisions of the 2009 balanced budget amendment are intended to place a cap on the swelling problems of local finance. The states are the first port of call for desperate city governments. As of 2020, all new borrowing by these states will cease. It is against the backdrop of these stern measures of domestic consolidation that Berlin views disciplining the Greeks. (Tooze 2010).

In relation to the challenge of European cohesion, the observation about the pressing problems at the local and regional level in Germany and other core European countries tries to put forward the substantive argument that the crucial dividing line in the EU is not between the prosperous North and declining South, but rather between the relatively few advanced regional entities and the majority of local and regional entities in stagnation. Even in the advanced regions, a dividing line exists between the advanced parts of economy with access to new technologies, know-how, capital, and all other necessary resources and the large segments of stagnating economic sectors and disadvantaged employees. The growing number of precarious jobs and other poorly protected atypical work is characteristic not only of the peripheral European regions, but also of the core European region. This phenomenon is one of the most poorly understood facts, by both experts and politicians, of the EU-wide modern economic and social conditions. The OECD has warned that even Germany, which has relatively successfully coped with the ongoing crisis, has experienced significant increases in inequality and poverty (OECD 2008).

In the described circumstances, the idea of creating a transfer union as the complementary to the overly restrictive union is not realistic. We can take the German constitutional principle of fiscal equalization (*Länderfinanzausgleich*) according to Article 107 of the German constitution (*Grundgesetz*) and the principle from Article 106, which stipulates the "uniformity of standard living" across federal Germany, as an example. In real life, the differences in development between the German federal states and within the federal states, as well as the actual implementation of fiscal equalization, are a matter of great complexity. After adoption of the balanced budget rule in 2009, which required the federal and state budgets to maintain balanced budgets, the controversies between the German federal states might have even been exacerbated. The two most prosperous German federal states, Bavaria and Hessen, recently decided to challenge the system of fiscal equalization in front of the German federal constitutional court. The level of investments in Germany since the millennium as a percentage of GDP is lower than in any recorded history (Tooze 2012, 24). Public investments are lacking in higher education, the energy sector, environmental protection efforts, and elsewhere in many of the German federal states and municipalities.

When discussing German approach to the crisis, it has to be mentioned that its approach to the crisis was far more nuanced and sophisticated than the simple approach of non-discriminatory austerity. While the latter approach is prescribed as a key policy for EU peripheral countries, such as Greece, Spain or Portugal, Germany has during the crisis adopted wo stimulus packages in 2008 and 2009, in which all of the key federal ministries, for finance, economics and employment were actively involved. Substantial support for the car industry was also carried out (Schelkle in Bermeo and Pontusson 2012, 137). As pointed by international economic experts, Germany and other Nordic countries balance their budgets through high taxation, not low government spending, which enabled them to:

> to ensure universal access to education, job training, and modern infrastructure. They insist on environmental standards, not environmental deregulation. (Sachs, 2012).

Despite the substantially different approach to the crisis by Germany and other Northern countries, even these attempts have important limitations. EU countries and regions have become too interconnected and too interdependent to be possible to successfully turnaround only a small number of core regions or countries, while large number of European regions and countries remain condemned to stagnation or even worse. This short detour into the difficulties and to the limited success of some of the core European countries and regions did not aim to portray the EU picture in the bleakest possible terms, but to show that constraints—both real and artificial—do not only exist in the EU peripheral countries and their regions. If we accept this underlying assumption, the approach toward the comprehensive economic, social, and political reconstruction across the EU should substantially change. Instead of putting forward empty promises to provide more solidarity and social justice in the EU in some vague, remote, unrealistic, and most likely insufficient form of transfer union, which could create only further tensions among the EU member states, we should explore the possibilities of other credible alternatives. In the present European context where economic orthodoxy in the form of austerity has prevailed over any other alternative—with the notable exception of unreserved support for the large European financial institutions—the academic and expert debate should focus on alternative approaches.

Forgotten Sources of Inspiration

Once we move beyond the debate on the transfer union as a solution to the ongoing European economic and social crisis, the question arises: What other credible alternatives remain? One possible alternative is to revive the lessons of successful European regional restructuring in the decades before virtual, toxic financial flows created the property and asset bubbles and ultimately contributed to the period of great moderation.

The sources of inspiration are, for example, the successful Irish local public–private partnerships, the example of successful and coherent Finnish policies that created a truly knowledge-based society, and the cooperative competition arrangement in Emilia Romagna. These examples as well as other successful European development regions have dissimilarities, but they also have certain similarities: They are examples of institutional innovations at the local and regional levels and successful, transparent partnerships between the public and private sectors; they are also examples of decentralized, participatory, democratic, and pluralistic models of development. They represent successful examples, where competitiveness of the regions is combined with high levels of social cohesiveness. They show that, even in the era of globalization and Europeanization, it is possible to maintain high-quality enterprises with high wages and high levels of value added. These regions have successfully escaped from the traditional Fordist-type of mass production that requires low-skilled, low-paid workers producing large quantities of standardized products. In its place, the post-Fordist type of production gradually emerged. Its characteristic is flexible specialization with high value added, with highly skilled teams of workers and experts producing in much more innovative ways than in traditional production schemes. Small and medium-sized enterprises can cooperate and compete at the same time, thereby successfully overcoming the difficulties of the traditional economy of scale. Public supportive institutions—educational, financial, and others—develop and progress together with the private sector.

Irish public–private decentralized partnerships

In 1991, 38 local public–private partnerships in urban and rural areas of Ireland were created to address the inadequate scope of the Irish central government in tackling the areas of unemployment and underemployment. These partnerships and their contribution to the broad-based and inclusive economic and social revitalization of urban and rural areas were analyzed by the OECD and some of the leading experts in this domain (the extensive and detailed report on the characteristic and contribution of the local public-partnerships was prepared by the group of experts, led by Professor Charles Sabel and assisted by the OECD Secretariat; Sabel 1995). The idea was to establish a new legal vehicle to foster development and welfare through new forms of public and private local coordination. Independent legal entities, supported by the central Irish governments and the EU structural fund, were established in such a way that their boards consisted of broad representation of local community interests, including the unemployed as well as representatives responsible for training, economic development, and social welfare. In pursuing area-based economic development the experts emphasized that the traditional legal distinctions between public and private, national and local, and representative and participative democracy have blurred (Sabel 1995, 13).

Urban and rural partnerships were very successful in developing innovative techniques for retraining and transferring marketable skills to vulnerable groups of people. In doing so, partnerships combined efforts in retraining with efforts to adjust social welfare programs in such a way as to broaden participation of various groups of people (Sabel 1995).

The legal framework for partnerships, adopted in 1991, led to the creation of area-based partnerships (ABPs) in order to address economic and social decline as well as the central government’s inability to address such decline. ABPs presented an institutional innovation, capable of addressing local needs and unexploited local economic opportunities as well as establishing representative and accountable bodies. They were not meant to replace local governments, but to complement them for the purpose of launching successful training programs, welfare programs, and enterprise-creating programs (Sabel 1995, 58–9). Because they were established in different urban and rural areas, their structure was somewhat different in order to suit the local needs of each of the areas in which they were established. As far as the formal structure is concerned, ABPs’ board members consisted of representatives from statutory agencies, social partners, and the community sector. As observed by experts who have studied the role of these partnerships, according to the Companies Act, the representatives in these institutional innovations were primarily responsible to the partnership, not to the organizations that nominated them. As such, they not only blurred the traditional distinctions between public and private, but they also became an efficient institutional mechanism of the imaginative recombination of existing local and national government programs (Sabel 1995, 58).

Different partnerships were engaged in different programs. Some of the programs were launched by the central government and supported by the EU's structural funds; other initiatives came from other sources. These programs included, for example, the Pilot Area Programme for Integrated Rural Development (and subsequently LEADER) as well as other programs in the areas of rural development, technological advancement, environment, and social welfare (Sabel 1995 and O'Keeffe, 2009). At the heart of these programs was the key goal to reduce long-term unemployment at the local levels (id.).

Through these programs, innovative techniques of decentralized production comparable to the most advanced countries in the world gradually emerged. In this decentralized, participatory, and experimentalist manner, partnership programs significantly improved the competitive capabilities of the country and broadened opportunities for vulnerable groups of people. Partnership programs adopted measures on the supply-side of policies, which positively influenced competitive advantage and social inclusion (O'Donnell 1998, 15). Innovative institutional arrangement not only focused on the adoption of successful supply-side measures to improve the competitive advantage and social inclusion, but it also—an equally as important—offered an institutional innovation that encouraged the discovery and implementation of such measures (O'Donnell 1998).

Successful local public–private partnerships in Ireland were developed in the 1990s, but they seem to have been all but forgotten since the beginning of 2000, when Ireland turned to other, seemingly more profitable activities, such as speculative finance, real estate, and construction. Of course, the narrative of the rise and fall of the Celtic tiger is significantly more complex, but some of the institutional innovations, such as decentralized public–private partnerships for economic and social reconstruction at the local levels of the country, should be seriously exploited in the context of the badly needed recovery in the period of protracted recession and stagnation across Europe.

Another important dimension of the public–private partnerships in Ireland should be mentioned in the context of the emergence of the so-called public private partnerships (PPPs) that have emerged in the last decade in many of the Central and Eastern European countries, which are based on the British model. It is a substantially different model of public–private partnerships, both legally and practically. It is important to mention this distinction because many of the PPP projects in Central and Eastern Europe have been discredited due to poor management.

The example of Finland

Finland is another example of a peripheral country that has found its own way from the periphery to become one of the most innovative and competitive countries in the world. Finnish progress did not come overnight; it took decades of efforts, failures, and collective ability to learn from its own failures.

The core of strengths of the Finnish society and institutions are its world-class educational system, the transparency and high quality of its public institutions, the open and highly competent public debate about the strengths and weaknesses of the Finnish society, and the commitment to innovations and research in both the public and private sectors. The strong partnership between the public and private spheres is also crucial for understanding the ability of the country to develop and restructure itself.

One of the most popular professions in Finland is teaching. It is also highly prestigious as only about 15 percent of teacher training applicants are accepted. Becoming a teacher at the primary school level requires a post-graduate degree, which takes about five years (Pankakoski and Kaminski 2010). At the heart of the school system is trust: The society trusts teachers and teachers trust pupils more than in other countries (Pankakoski and Kaminski 2010). The key success of the educational system is that less successful pupils still have higher skills than students in other OECD countries (Pankakoski and Kaminski 2010). Thus, the Finnish school system demonstrates that, contrary to conventional wisdom, it is possible to both stimulate the most talented pupils in the classes and simultaneously improve and strengthen educational abilities of less successful children. This is why Finnish pupils outperform all other pupils across Europe in Pisa surveys. A closer analysis of Pisa surveys points to the remarkable achievements of Finnish pupils. The consistency of their performance is visible: "Results are remarkably consistent across the country … and there is little variation between schools in urban and rural areas" (Pankakoski and Kaminski 2010).

The success of the Finnish educational system did not come overnight; it is the result of a patient, thoughtful approach with a long-term commitment to build a truly knowledge-based society. This commitment stems from the belief that, in order to remain internationally competitive and socially inclusive, entire generations must be able to achieve high abilities in linguistic, numerical, and scientific competences. Professor Jouni Valijarvi, director of the Finnish Institute for Educational Research at the University of Jyvaskyly, offered crucial insights: "Emphasizing equality as well excellence of top pupils are not alternatives but rather objectives that support each other" (Pankakoski and Kaminski 2010).

The advancement of the Finnish educational system is only part of the broader context of educational and research opportunities in Finland. It is a part of a system that has become known as the Finnish national system of innovation. The national system of innovation has adjusted to different periods of Finnish development. In the post-1990 period, the system committed:

> the state to supporting a national innovation system through a horizontal, public-private university collaboration and dialog at the national level. The Science and Technology Policy Council (STPC), which had been formed in 1987 to develop long term goals and systematic coordination of science, technology and innovation policy for Finnish industry, was at the apex of the new national policy-making system. (Sabel and Saxenian 2008, 68)

Equal to the gradual development of a world-class educational system, the success of the Finnish system of innovation was a result of the decades-long building of institutional capacities. As early as the 1970s and 1980s, the public sector was actively investing in building its domestic capabilities: The Ministry of Trade and Industry funded a variety of pre-competitive collaborative research initiatives, the PTO (a public telephone operator) stimulated demand through procurement of leading-edge telecom products, and the Department of Education expanded university-level education and research activities in electronics and information technology (Sabel and Saxenian 2008, 61). The authors of the Finnish system of innovation thus came to the conclusion that, perhaps most significant for the success of the system, was the fact that “the state contributed to the mobilization of a domestic network of skill and knowledge with expertise in the range of technical challenges” (Sabel and Saxenian 2008, 61).

The broad network of public and private entities, as well as their collaboration and coordination, was at the heart of the Finnish system. Another important agency responsible for the continuous growth of R&D and for providing incentives for research collaboration between the private and public sectors was the Finnish Technology Agency Tekes, which was formed in 1983. It became the source of Finnish national technological policy (Sabel and Saxenian 2008, 64–5).

The successful example of Finland presents a source of inspiration for other countries and regions. The successful transformation of society is not easy to achieve; it takes a lot of time, effort, failures, and the collective ability to learn. At the core of its success lies a highly competent, open, transparent, and strategic public discourse. Future strategies, opportunities, and constraints are constantly discussed in the Finnish parliament. This model cannot be easily emulated. The Finnish themselves also frequently remind any potential emulators that the success is never guaranteed in advance. It can also be easily turned into its opposite. Despite the fragility of the success, the key lesson is that only in the arrangement of high-quality public institutions can deliberative and sophisticated interactions between the public and private spheres and strong commitment to education and research create a more competitive and more inclusive society.

The example of the "Third Italy"

Another source of inspiration can be viewed in the so-called regions of the "Third Italy." These Italian regions, especially Emilia Romagna, offer another example of decentralized, flexible cooperation and partnership between private and public spheres. They created a system that became known as the system of cooperation competition, in which dense networks of small and medium-sized enterprises in industrial districts cooperate and compete at the same time in the same segments of production. It is a system that is perhaps not entirely compatible with the European rules of competition, but in the past decades it helped these Italian regions develop one of the most advanced systems of production, innovation, cooperation, and competition in the world. The system is highly inclusive, and it level of social cohesion is among the highest.

Legal, economic, and social institutional innovations deviate from the standard model of economy and society, which has found itself in the period of protracted crisis and stagnation. The model of cooperative competition in the area of production successfully combines the traditional artisanal craft production with the skills, technology, and innovation of post-Fordist production. Characteristic of this production is the production of small quantities of highly specialized goods with high value added that are tailored for customers. The production requires constant improvements and innovations, which requires highly skillful workers, experts, and managers who tend to work in small groups that promote a high level of collaboration among them. A competition among groups of workers occurs inside the firms as well as among the firms, promoting different methods to achieve best possible results. The experimentalist production, based on constant innovations, cooperation, and competition, is possible because of the strong institutional support from financial and technological spheres Unger 1998, 197–9).

Broad support from public institutions, supportive of constant advancement and innovation, is one additional important element of success. The dense networks of civil society associations participate and provide initiatives for the local and regional governments, where future opportunities and challenges lie. Entrepreneurs, experts, salesmen, and others who follow and observe developments around the world by attending fairs around the world, travelling, and gathering information also present a valuable source of knowledge and understanding about the future developments as well as how to remain at the cutting edge of production and innovation.

Local government, local financial institutions, professional and commercial associations, trade unions, universities and research centers, and social networks all participate and have a stake in permanent improvements of their regions. They are an example of dynamic, competitive, innovative, and cohesive regions. They also show that it is not possible to overcome the gap between the advanced and backward parts of the economy and society without the deliberate action of public institutions (Unger 1998, 198).

Conclusion

The European "one size fits all" approach, with a distinctive economic, social, and political narrative, tends to ignore, marginalize, and narrow the policy options and initiatives from below. The attempt to reconstruct the EU from the top down according to a single economic, social, and political institutional model, based on the standard model of economic orthodoxy, is undermining the rich tradition of European innovation in the area of economics, social welfare, politics, and law. Many of the recently adopted restrictions, such as the European fiscal compact, present additional impediments to the initiatives and development in the growing number of European regions. Instead of reducing the gap between advanced and backward European regions or reducing the growing gap within the regions, the standard EU model does the opposite: It reinforces the inequalities and imbalances that are not sustainable. It has established a policy of economic and social dualism as rule to which only the few most advanced European regions have been able to escape.

The European regions that successfully escaped the economic and social dualism present the exception to the rule. Certainly other successful regions exist beyond the examples of Ireland, Italy, and Finland discussed herein, including regions in southern Denmark, in some of the most advanced German states, and elsewhere. Yet these are not enough, and the *Eurostat Regional Yearbook 2012* confirms this socio-economic fact and fate of Europe.

In order to overcome the grave outcome of the European project, the EU should allow genuine economic, social, legal, and political reconstruction from below. It is a program of close partnership and cooperation at the local and regional level, which is closer to the real needs of people. It is a program which Roberto Unger (1998m 198) calls "more-than-private and less-than-public," assuming the possibility of many new forms and many new institutional innovations in the public and private sphere.

EU experts have internalized the idea of the end of history in the area of economics, social welfare, law, and politics. At the opposite end lie the most advanced European regions, which contradict this dogma. The sooner the EU experts, experts in the EU countries, and European civil society at large recognize the many alternative possibilities for more balanced, more diverse, and more inclusive development, the greater the chance for a more successful approach to the ongoing crisis and the closer we can study and understand the advanced European regions not as a source of mechanical emulation, but as a source of inspiration and encouragement for the excluded parts of society.

References

Bermeo, N. and Pontusson, J. (2012). *Coping With Crisis*, New York: Russel Sage Foundation.

Commission of the European Communities. 1993. *Growth, competitiveness, employment: The challenges and ways forward into the 21st century* [White Paper]. Germany: OOPEC. http://europa.eu/documentation/official-docs/white-papers/pdf/growth_wp_com_93_700_parts_a_b.pdf.

European Union. 2012. *Eurostat Regional Yearbook 2012*. Belgium: Publications Office of the European Union. http://epp.eurostat.ec.europa.eu/cache/ ITY_OFFPUB/KS-HA-12-001/EN/KS-HA-12-001-EN.PDF.

Huffschmid, J. 2005. *Economic Policy for a Social Europe*. Palgrave Macmillan.

OECD (2008). *Growing Unequal?: Income Distribution and Poverty*. Paris: OECD Countries, Country note: Germany. http://www.oecd.org/social/soc/41525346.pdf

O'Donnell, R. 1998. *Ireland's Economic Transformation* [Working paper no. 2]. Pittsburgh, PA: Center for West European Studies, Pittsburgh University. http://aei.pitt.edu/27/1/Odonnell.pdf.

O’Keeffe, B. (2009) Regional and Local Devolution in Ireland – the Potential of LEADER Partnerships to Provide Municipal Government. *Lex Localis* 7 (3) pp. 257-282,

Pankakoski, K. and I. Kaminski. 2010. “Why Finnish pupils are top of the European game.” *EU Observer*, December 8. http://euobserver.com/education/31458.

Sabel, C. 1995. *Local Development in Ireland—Partnership, Innovation and Social Justice* [OECD report]. http://www2.law.columbia.edu/sabel/papers/ IrelandFinal.pdf.

Sabel, C. and A. L. Saxenian. 2008. *A Fugitive Success—Finland's Economic Future*. Helsinki: SITRA Report. http://www.sitra.fi/julkaisut/raportti80.pdf.

Sachs, J. (2012). We must move beyond growth versus austerity. *Financial Times*, May 12.

Tooze, A. 2010. “The message from Berlin that Europe failed to grasp.” *Financial Times*, May 4.

Tooze, A. 2012. “Germany's unsustainable growth.” *Foreign Affairs* 91, no. 5.

Unger, R. 1998. *Democracy Realized*. London: Verso.