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WHAT ECONOMIC SCENARIO FOR THE NINETIES?

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After a long period of pessimism, Europe regained hope and confidence in the second half of the eighties. For two decades - from the mid-sixties to the mid-eighties - the general conviction was that Europe was headed for a progressive and inexorable decline, dictated by its isolation from the new pole of world development, the Pacific Rim. The growth rates of income and industrial production of the Southeast Asian countries underlined the "sluggishness" of Europe, which seem destined to lose its share of international trade and industrial production.

Even the United States' relations with Europe seemed to be giving way to a general shift towards (and against) Japan. The economic crisis linked to the sudden increase in the price of raw materials, especially oil, made it clear that the decision-making centers were moving farther and farther away from Europe. On the other hand, despite enlargement to include almost all Western European countries, the European Community seemed to have resigned itself to managing a decline affecting many industrial sectors in which European companies had long acquired and consolidated a competitive advantage.

Finally, the communist bloc seemed increasingly closed, unable to evolve toward more democratic and open solutions, but at the same time, impervious to the crises shaking the West. The Berlin Wall, erected to maintain the border between East and West permanent and stable, sanctioned the existence of two distinct equilibria.

After an initial phase centered around the abolition of internal tariff barriers, the European Community had apparently exhausted its drive. Its centralized political structure seemed substantially stalled by a unanimous decision-making procedure; this was most certainly linked to the need to avoid that accelerated growth in some countries spurred by increased trade would translate into economic disequilibria in others, altering the delicate political balance among them. The right to veto provided a guarantee for the weaker countries, but it also allowed them to block the development of the system as a whole. The economic crisis brought the limits of this set-up into sharp relief, de facto forcing the Community to regulate the unbalancing effects produced by the crisis. Action taken in the agricultural and steel sectors was the most obvious proof that the Community was basically managing a decline rather than supporting growth. So-called "Eurosclerosis" was also evident in the kind of management the Community proposed.

This phase came to an end with the end of the crisis and the need to carry on with not only economic integration, but also a political plan for European growth. On the one hand, European business agreed that its development on the world market required a wider space within Europe, and on the other, the governments concurred that their weight in the world context could be increased if Europe were to grow. The rapid convergence and the subsequent enthusiasm about the plan for the construction of the single market can only be explained by general consensus on a more advanced phase of political and economic integration.

The second half of the eighties witnessed the Communty's substantial recovery, both economically and politically, in a period of general expansion. But expansion started to falter in early 1989; in the United States, in Europe and even in Japan, the first almost imperceptible signs of fatigue were recorded in many industrial sectors, although still almost imperceptible because of the favourable economic situation.

The changes in Europe are evident. Whereas Germany was in a very weak position at the birth of the EEC, at the beginning of the sixties, there were three economies of analogous size - France, Germany and the United Kingdom, one more backward one - Italy, and a number of minor economies. At the end of the eighties, Germany is dominant with France, Italy and the United Kingdom on a similar level.

In concomitance with the signs of fatigue mentioned above, other elements matured significantly contributing to the change in the world political and economic situation. They include a) the crisis of the communist regimes and their consequent opening of the Western economies; b) the American Congress' warning that the budget deficit accumulated by the administration had reached intolerable proportions; c) the collapse of the economies of the underdeveloped countries, in particular in South American and central and north African countries, resulting in substantial migratory flows towards the richer countries; d) the increased political turbulence and economic crisis in the Middle East.

The interaction of these elements makes long-term, but even short- or medium-term predictions very difficult. The nineties could witness acceleration of the growth process launched in the eighties, but they could also be marked by instability as in the seventies. What is of particular concern, besides the overwhelming debt of the Third World, is the persistence of budget and balance of payments deficits in various countries. Only economic growth can attenuate these disequilibria, while the crises accompanying them can be dealt with by the international cooperation which contributed to regaining control of the world economy in the eighties.

As for the future of Europe, the actual degree of development achieved to date must be assessed and the problems to be dealt with in the next decade analyzed. This immediately leads to a problem of units and parameters to be used for analysis.

Economic development indicators

In traditional economic analysis, and above all political and administrative practice, per capita income at constant prices is taken to be an adequate measurement of economic growth. Many authors have criticized this simplification. Giorgio Fuà has, for example, demonstrated that beyond a certain threshold, an increase in per capita income no longer results in a variation in life expectancy at birth, thus losing its significance as an indicator of collective well-being.

There has been a tendency in recent years to reconstruct synthetic indices from a number of factors that do not refer only to individual well-being, such as purchasing power, but also to the infrastructure of the country or the area in which the individual lives. Although there are still many doubts as to their significance, due to the difficulty in aggregating data which are sometimes heterogeneous, some univocal trends meriting analysis emerge.

Then again, it is increasingly evident, at least for Europe, that the individual states cannot be taken as units of reference in themselves, as their internal differences and the similarities among various territories in different countries would not be sufficiently represented. Some scholars have broken countries down into their administrative sub-entities, in search of a more significant unit of analysis.

Differences and homogeneity in the EEC

Various studies have taken this approach. Among them, the DATAR (1989) and Pirelli (1990) studies offer the greatest detail. The production of wealth varies considerably in Europe: examining Community data and considering the gross domestic product by region, expressed in terms of purchasing power standard (Spa), substantial differences can be seen among European regions. Setting the European average at 100, Hamburg rates 187.5 while northern Portugal rates 40. These figures are the result of very different conditions in infrastructure, production organization and demographic dynamics.

TABLE 1

The production of wealth in some EEC countries (EUR 12 = 100)

Region	Country	per capita GDP
Hamburg	Germany	187.5
Ile de France	France	165.2
Valle d'Aosta	Italy	156.7
Bremen	Germany	146.5
Liguria	Italy	133.9
Lombardy	Italy	133.5
Emilia Romagna	Italy	130.7
Hessen	Germany	128.8
Luxembourg	Luxembourg	127.1
Baden-Wuerttemburg	Germany	120.1
Bavaria	Germany	113.7
Alsace	France	112.0

Yorkshire	UK	95.1
Wales	UK	92.1
Brittany	France	89.5
Calabria	Italy	62.3
Murcia	Spain	61.6
Central Greece	Greece	59.0
North	Portugal	40.7

Source: Il Sole 24 Ore

The existence of a center and a periphery is obvious from this table. Setting 100 as the average value of the GDP per inhabitant (in terms of purchasing power), Hamburg, Ile de France, Valle d'Aosta, Brussels, the northern Netherlands, Bremen, Liguria, Lombardy, Emilia-Romagna, Hessen, West Berlin, Luxembourg, Piedmont and Baden-Wuerttemburg rate over 120. Below 80 are all of Greece, all of Portugal, all of Ireland, the south of Italy, and a large part of Spain. But vast areas of France and Great Britain are only slightly higher.

In demographic terms, Europe seems to be distinctly broken down into areas with different dynamics, ranging from areas with a negative demographic balance to areas with strong demographic growth, areas that attract populations and stagnant areas. The central European area has a high population density, but a falling birth rate; the periphery - except in the case of urban areas around capitals - have a lower density and a higher birth rate. The periphery does not attract immigrants. An exception seems to be the Italian south and especially Naples, which appears to have a high density, maximum birth rate and maximum attraction.

The Pirelli study offers the greatest detail on these demographic trends and provides a diagram explaining the migratory pressure from the countries of the Mediterranean basin. The resulting picture is one of serious problems in coming years: the demographic pressure in the south seems to be looming over all of Europe, yet it undoubtedly seems to have reached a breaking point in Italy.

Besides this analysis of the production of wealth and the demographic situation in the regions of the European Community, the state of infrastructure must also be taken into account. Here the differences among the various regions are even more evident. The Pirelli study considered roads, highways, railroads, harbours, airports, telephones, consumption of electricity and hospital beds. The DATAR study added light infrastructure such as fairs, conferences, cultural events, circulation of press, and the so-called activités technopolitaines. Both studies looked at research activity, universities and centers for advanced education, and the role of financial and banking centers in production activity.

Putting all these elements together, DATAR drew up various standings for European regions: international relations, communications, economic potential, research and technology, culture. Synthetically, it can be said that, besides the old center of industrialization including Belgium, the Netherlands, eastern France and northwest Germany, a line, defined by DATAR as Mégapole, can be drawn from London to Milan defining a single urban conglomerate that cuts Europe vertically into two progressively backwards halves. This Mégapole thickens around Frankfurt, with the old northern line of development extending towards Bonn and Cologne and on towards Amsterdam and Brussels and the southern line reaching from the Munich, Stuttgart, Zurich triangle to Milan. This somewhat strained but effective image, emphasizes the role of Paris and Hamburg; followed by the far more backward areas of Madrid, Rome and Vienna. Barcelona, Marseille, Lyons and the areas down to the Po Valley seem promising.

The rest is periphery, as already mentioned: the entire Iberian peninsula, aside from a few exceptions, the center-south of Italy, all of Greece, all of Ireland, all of Great Britain except for the southeast, Denmark, the extreme north of Germany, and, after excluding Paris, Lyons and Marseilles, what is left of France up to the Atlantic coast, which together with Cantabrica and Wales is dramatically defined as finis terres by the French authors.

The geometry described in the Pirelli study is apparently different but essentially converges in establishing the "heart of Europe". The crux of this analysis is the consideration that the line of development lying along the Rhine and extending northward to the sea and beyond to London and southward to Milan includes different areas that must be distinguished; the old heart, lying in the Paris - London - Cologne triangle; and a new more southern triangle extending southward from Frankfurt, Stuttgart and Munich to Emilia and Florence and taking in Lyons, Marseilles and Valencia to the east.

In their simplifications, the two studies basically agree that the central line of development lies along the Rhine Valley, with well-developed characteristics in the north and signs of strong acceleration in the south. Then there is an area of growth along the Mediterranean arc, which DATAR significantly defines as "the North of the South".

Using synthetic indices for centrality made up of all of these data, the heart of Europe is found to be located in the three central Laender (Nordrhein-Westfalen, Rheinland-Pfalz, Baden-Wuerttemberg), the areas around the large North Sea ports and the metropolitan area of London and Paris. Surrounding these lies an area undergoing growth: the Bassin parisien and east France, the English Midlands, northern Italy and the rest of Germany. This is followed by another less developed area and, finally, by the periphery consisting of Portugal, the south of Spain, the south of Italy and Greece. This map of half of Europe can be juxtaposed to a parallel one of Eastern Europe, in which part of East Germany, Bohemia, the area around Budapest, Slovenia are hypothetically compared to the area of low growth in Western Europe, and the other eastern regions from Poland to the Balkans to the south of Europe.

The importance of large urban centers is clear, be they the German Mégapole, Paris or London. The drawing power of these metropolitan areas is confirmed by other studies on Europe, for example, very recent ones on Vienna. The development of tertiary activities connected to the financial management of the economy or to services calls for an urban continuum, which changes the social structure of the city but also underlines the advantages of concentration of activities with high value added, leading to greater urbanization.

The DATAR study points out the differences between European cities and, in particular, capitals: large communication infrastructure, the attractiveness for financial, insurance, management activities linked to efficient financial markets, and the wealth of cultural and promotional activities are all factors that rank the cities differently in standings. A large urban conglomeration with poor services, poor transportation infrastructure, demographic pressure and high criminality is not very attractive and its negative role reflects upon the entire sub-national or even national area dominated by it.

Of course, smaller cities can play an important role in attracting development, but this is only possible if they form a continuum of urban centers as in the Rhine Valley. In that case, as in the Po Valley, or the area between Valencia-Barcelona-Zaragoza, or in the south of France between Lyon-Marseille-Nice, the main factor in development is a policy of infrastructure linked to airports, highways, railroads and subways, as well as universities, research centers, fairs, coordinated development of production, cultural and educational activities at the international level.

The efforts of the French government to develop its southern triangle seem to be bearing fruit, consolidating an already well-developed area. The transfer of numerous research and university activities to the south (for example, of the Ecole Centrale to Lyons and of many laboratories to Sophia Antipolis) were a positive initiative supported by considerable infrastructural investments. Then again, the vast area lying outside of the mainline linking Paris to the Lyons-Nice-Marseille triangle seems destined to experience much slower growth. The areas in the west of France have a low population density, low demographic growth and low attractiveness. Areas in the north, such as Pas-de-Calais and the areas neighbouring on Belgium are still suffering a decline linked to a drawn-out restructuring of ancient industrial organizations.

The centrality of Germany and the development of large cities

One element has been instrumental in directing the changes in the balance of power between the areas and countries of the European Community: the economic development of Germany. It was pointed out earlier that the economies of France, Germany and the United Kingdom were more or less the same size at the beginning of the sixties; today that is no longer true. The Germany's GDP is far greater than that of any other European country, both in absolute and in per capita terms.

In evaluating Germany's role in the European economic scenario, mention must be made of the large surplus that has characterized the German economy for decades. This has contributed in a decisive way to the implementation of a policy of financial expansion and company acquisition that has further increased the weight of the German industrial system in the international context. Mention of the German surplus provides the opportunity to point out a peculiar aspect of many studies and assessments of the world economic situation: while the concerns of international observers (above all Americans), often voiced in alarmistic tones, are concentrated on Japan's trade surplus, scarce attention seems to be given to the fact that the German trade surplus is not just greater, but - considering that the population of Germany is half that of Japan - twice that of Japan.

Some thought must therefore be given to the reasons behind the centrality of Germany and the effects this produces on the process of political and economic integration underway in the EEC and on the transition of Eastern European countries and the Soviet Union to a market economy.

Data show that the conglomeration of the urban fabric along the Rhine Valley has created a long and continuous structure that, however, lacks a center of attraction like Paris or London. Almost all the efforts of the country have been concentrated on this area. Although penalized by a forced division, the country has benefitted from this concentration into a relatively convenient area of ancient settlement served by the extraordinary external economy of the Rhine River, which directs and thus orders all trade.

It must be recalled that, prohibited like Japan from investing in defence, Germany was able to devote all its energies to reconstruction of the industrial apparatus, or rather, was able to enjoy all the advantages deriving from the development of war industries without having to pay for them in terms of public debt as has occurred in the United States.

Applying a dualistic scheme of analysis of regional development - by which the country is divided into two regions with the growth of the two progressively differentiates owing to the drain by the more dynamic region of the resources of the less dynamic one - the separation of the Laender has led to the paradoxical situation in which the area in expansion drained human resources (above all qualified technicians) from the more backward zones (the eastern Laender), but did not have to pay the cost of rebalancing, as these backward regions were incorporated into another, totally separate, country. Real expansion was carried out by relying heavily on poorly qualified manpower which, unlike in Italy, was foreign and, therefore, separate from the national labour force and could easily be brought into association. The recent phenomenon of migration differs from earlier experiences in that the migration previously came from the former colonies with the consequent obligation on the part of the respective colonizers.

The solidity and performance of the German economy are to a large extent the result of an industrial system backed by a high level of education, above all in applied technology, and a constant flow of technological innovation. It is important to point out that the productivity of labour in Germany takes advantage of resources and expenditures in research and development, while the number of hours worked per week are below the European average.

Behind this is a solid institutional arrangement that has linked the different forms of representation of the system, of the banking structure, of the local governments and of the trade unions in a social-political whole that is able to manage rapid change without lacerating the country.

The reaffirmation of the centrality of Germany has in some way led to the re-emergence of scepticism about the future of Europe, summarized by Alan Minc in his book "La grande illusione". The thesis is that there is no European question, just a German one. Germany's reacquisition of its role, which is neither in the East nor in the West - it is at the center of Europe - does not throw doubt on the democratic values or the market economy of Germany, but shatters the classic European dream.

Analysis and evaluation of the political effects of the reunification of Germany and the reaffirmation of the centrality of the German state are not of interest here. Attention will be focussed on the economic effects of these events. Minc claims that the single market will not be able to create an economic identity, nor would the latter be able to create a common destiny.

This pessimistic theory maintains that the single market will be beneficial to the Germans, but much less than the opening of the markets in the East. The most probable scenario is a substantial and constant flow of investment from West to East (above all to the former DDR) and use of the specialized manpower, which will be cheaper than in the West, until the labour market has found a new equilibrium.

The flow of investments decentralizing German production cycles or stages of production to countries with lower labour costs has already been rerouted towards Eastern Europe and, in particular, towards Eastern Germany, where links with some companies that actually belonged to West German industrial groups before the Second World War can be reactivated.

The railway line passing through Eisenach and representing the main link between the eastern and western parts of a reunified Germany was opened again last May. Since then, it is estimated that approximately 200 convoys per day travel the route carrying passengers, goods, ideas and capital.

Although the rerouting of investment may cause problems to the peripheral economies of the EEC and of those countries, like Turkey, which often benefitted from German capital, it is not likely to increase the rate of unemployment in the weaker EEC countries, since the economic integration of the two Germanys is expected to produce results that will counterbalance the effect of the increased manpower supplied by East Germany.

Many research institutes have considered the economic effects of German reunification. The message of the five most prestigious German economic research institutes is definitely less pessimistic than may seem at first glance, both for Germany and its traditional trading partners.

As part of their conclusions, they see the German economy as the driving force behind the world economy, with growing imports and a consequent reduction in the trade surplus, the effects of which were mentioned earlier.

As far as East Germany is concerned, three signs are reassuring. First, the introduction of the Deutsche Mark on July 1 has been less traumatic than seemed to be the case from the initial effects. Many prices have stabilized and some have even dropped.

Second, the flow of investments from the West has accelerated. This is obviously the result of political unification which has eliminated many former legal problems. In recent months, almost all major industrial groups in West Germany have made investments in the East; among them, Volkswagen, Daimler-Benz, BASF. According to a survey carried out in Germany, by the end of 1991, fifty per cent of German firms will have invested in the former DDR.

The third element that seems to reassure economic analysts is the number of small companies that sprouted in East Germany during the first months of 1990: over twohundredthousand. While most of them are small shops, they nevertheless attest to an entrepreneurial spirit which the communist influence suffocated.

The South of Europe

For analysis, southern Europe must also be broken down into areas undergoing growth and areas in decline (Ismeri, 1990). The situation in Portugal, Greece and even Spain is quite different from that in the south of Italy. While Portugal and Greece, like Ireland, seem to be wholly underdeveloped, there are areas of rapid growth in Spain, such as Madrid, Barcelona, Valencia and Zaragoza. The Italian South, on the other hand, is only one area of a country divided into three distinct areas of economic growth, albeit with corridors of development towards the south.

What attractiveness do these areas have for investment? It seems that attractiveness can be quite different within seemingly similar areas. For example, the Seville-Jerez de la Frontera/Cadiz-Huelva triangle has shown a dynamism which Bilbao seems to have definitively lost, while the Cantabrica region still seems inactive. Nevertheless, the growth in Andalusia must be seen in the framework of general economic growth in Spain, in an ancient sector (construction), of renewed industrialization and of great attention to the development of high level universities.

In this context, the South of Italy seems to lose drawing power because of its lack of urban structures. This is confirmed by the flow of international investment which systematically avoids the Italian South, preferring Spain (Ismeri, 1990).

While the Italian South is hindered by lack of infrastructure in communications and a need for urban restructuring, it is unlikely that the government will be able to undertake action to bridge this gap, given the huge Italian public debt.

The countries of Eastern Europe

To these internal imbalances of Western countries have now been added the problems of the regions of the Eastern European countries and of the Soviet Union. With the changes that took place in 1989, culminating in the German reunification on 3 October 1990, the Eastern regions have made their entry into a well-defined European sphere.

The low per capita income was not the only reason driving the governments of Eastern countries towards market economy systems. It is often emphasized that being poor is quite different from being impoverished by communist regimes. Which areas seem to have good chances of coupling onto the area of strong growth? What problems will this generate? What effects will it have on the EEC as a whole?

In order to answer these questions, a glance must be taken at the economic situation of Eastern Europe before it started to gravitate toward the Soviet sphere of influence. This step backward is required because the differences among COMECON countries are not a recent phenomenon; they were already there before the Second World War.

For example, between the two wars, Czechoslovakia belonged to what are now called the industrialized countries; it share of European industrial production at the end of the thirties was equal to its share in population.

In the period between the two wars, the countries of central and southeast Europe recorded average annual growth rates in industrial production above the European average. Although this was due partly to the low starting levels in some countries, the fact is significant nevertheless, not only quantitatively, but because it attests to the existence and the development of an industrial culture which forty years of communism eliminated, or at least did not further.

In the light of the foregoing, it is evident that with the help of foreign capital, the traditionally more industrialized areas have a better chance of becoming a part of the European production structure. Their advantage is often connected to geographic factors. Exploiting natural resources such as rivers or others which can be made accessible through infrastructure, the central regions of Europe can be more easily integrated into a vast trade area.

It must not be forgotten that these countries, like the rest of the Eastern countries, offer advantages in terms of lower labour costs; in Hungary and Poland hourly wages are below those of Portugal, which is the EEC country with the cheapest labour. For this reason and others linked to the potential growth of demand, many industrial groups have already made direct investments, setting up new plants or restructuring existing ones.

Of particular interest is the data relative to the automotive sector. Almost all major car manufacturers in the world have already, in one form or another, established themselves in Eastern Europe. In some cases, investments were made by rerouting to the East projects that were originally aimed for the "Sun Belt".

Political structures and development needs

The revival enjoyed by the Community with the Single European Act, was based on a courageous and not trite assumption, which was however, insufficiently proven: the European economy could recover if the remaining tariff barriers were removed. Through the creation of a common space, the more efficient companies would be able to compete more easily and thus, reduce costs and prices, to the benefit of the collective well-being. In this scheme, it was taken for granted that some peripheral areas, unable to compete with the stronger ones, would be penalized. To correct this eventuality, rather than continue with aid, the Community approved the reform of structural funds to provide instruments with which to induce these weaker areas to accelerate their development and establish the conditions to be able to compete on an equal footing by 1992. The reasoning was that structural problems existed in some peripheral, particularly southern areas, but that they were marginal and could be solved through a relaunching of production, creating in these areas the same social conditions that fuelled the development of the stronger areas, from Baden-Wuerttemberg to Emilia-Romagna.

Unfortunately, the error in this reasoning is now obvious: the structural problems are not marginal and entire areas of Europe, in both the East and the West require restructuring; in the meanwhile, immigration from North Africa continues to be strong, dramatically accentuating social problems. And all this is set in a difficult international situation.