



## RESEARCH BRIEFING

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# Panorama of the Basque Country and its Competence for Self-Government

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**ABSTRACT** *The aim of this article is to present a panoramic view of the Basque Country's capacity and competence for self-government. We have analysed the historical process of industrialization, the effects of the industrial crisis and new possibilities for development of the area's own regional policy based on new institutions (Government and Provincial Councils) that emerged from administrative decentralization in Spain after 1980. In the following section, we analyse the scope of authority in EU regions. Some of the cultural and transport infrastructure projects backed by these Basque institutions are studied. These projects have had a considerable impact on the Bilbao Metropolitan Area. The changes observed in the nation state, specifically in Europe, show contradictory effects. However, they have reduced the State's sovereignty but at the same time have prompted the State to retain powers rather than transfer them to lower institutional levels. This clashes with the desire of some regions or historical nations to access greater shares of self-government, such as the case of the Basque Country.*

## 1. Introduction

The historical Basque Country is currently divided between two States: France and Spain. Following the process of administrative de-centralisation carried out in Spain from 1980, the southern part of the Basque Country was divided into two autonomous communities: Navarre and the Basque Autonomous Community (BAC) which is made up of the historical territories of Araba, Gipuzkoa and Bizkaia.

In part two of this article, we will briefly analyse the process of industrialization the Basque Country underwent, with severe de-Industrialization in the seventies and eighties as a counterpoint. The new political institutionalization in Spain, which was a result of the reforms carried out from the previous regime, took place in this economic framework. We will analyse this issue in part three of this article. This process allowed the BAC (and also the Navarre Historical Community) to assume some competences which, together with their singular fiscal system, would enable them to manage issues related to industrial policy, innovation, infrastructures, culture, etc. Part four will deal with these aspects. The last two sections offer an analysis of the European framework in which the different economic, social and political agents must act, with special emphasis on regional government activities.

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## **2. From Industrialization to De-industrialization in the Basque Country**

The emergence and unification of the 'national' market in the nineteenth century brought about the loss of historical institutions in the different Basque territories. These characteristic institutions, which were the result of a differential historical process, conferred a considerable degree of sovereignty in different fields such as the capacity for tax collection and normative and legislative authority on different socio-economic issues.

Until the mid-nineteenth century, the Basque economy was fundamentally based on agriculture. From the mid-nineteenth century, the iron mines located near the Bilbao estuary were operated on a large scale by foreign and Basque firms in order to export these products to big European iron and steel industries, most of which were British. Profits from these mining operations were invested in other types of production (many were directed to the iron and steel industry), thus giving rise to a marked process of accumulation of capital. The Basque Country was to be the site for leading iron and steel firms, shipyards, shipping firms, iron processing, electrical, chemical and paper industries. Furthermore, the Basque financial sector became the most powerful in Spain with investments in all areas of the country. Productive specialization of Basque industry took place in this manner and was strengthened by intense accumulation of capital during the 1960s and first years of the 1970s (Etxebarria, 1993).

From the mid-1970s jobs in industry were lost on a constant basis. This was especially noticeable in the productive fields in which Basque industry showed the highest degree of specialization (iron and steel, ship building, machinery manufacture, etc.) Unemployment affected even the most stable jobs and large firms had to shut down. During the 1975–1985 economic crisis in the Basque Country, change in employment was negative (–2.1% annually). By sectors, industry dropped to account for 46.3% of total employment as opposed to 54.6% (Navarro, 1994).

High concentration in the productive fields which were to suffer most from the drop in international demand and competition from new industrialized nations made the industrial crisis especially acute. Certain inherent features of the process of accumulation in the Basque Country such as the concentration of industry and population, extreme environmental and urbanistic deterioration, poorly equipped productive and social infrastructures, etc. further aggravated the situation.

The causes mentioned above made Basque public authorities concentrate on attracting investments to compensate for the loss of autonomous investors and the Spanish public sector until well into the 1990s. Navarre was an exception owing to large foreign investment in the automotive industry's base of operations, its auxiliary sector (especially Pamplona) and the agricultural industry in the province (Franco & Etxebarria, 1995).

## **3. New Institutional System in Spain: The Legal Competence of Basque Institutions**

The current institutional system of the peninsular Basque Country was not set up until 1979 when a decision was made to form two regions endowed with a certain capacity to implement regional policy. The regional institutional system did not imply the creation of a Basque political and economic space. In effect, the Spanish Constitution of 1978 and the division of the autonomous communities separate Navarre (which is partly Basque speaking) from the other territories. This division was to become more marked with time. Despite historical, cultural and economic ties, institutional relationships between the two communities have been tense and scarce in recent years.

The structure of the Autonomous Public Finance System in Spain is the result of a process

that began in 1979–1980 with the approval of the Statute of Autonomy which set down the powers to be transferred. This financing arrangement is conducted by the Basque Government and the Provincial Councils. Financing of Spanish autonomous communities is based on a dual system: The Common Legal System and the System of Historical Privileges. Due to historical reasons, only the BAC and Navarre have this arrangement. This decentralization, which endows the Basque Country with decision-making capacity to administer a large part of its earnings from taxation and public expenses, has allowed for more efficient management. Furthermore, it has enabled implementation of legal norms in the fields of economics and taxes.

### *3.1 The Economic Arrangement*

The autonomous communities to which the Historical Privileges System is applied have a financial agreement called the ‘Economic Arrangement’ for the BAC or the ‘Agreement’ for Navarre. This financing agreement endows these provinces with a certain degree of autonomy concerning management of income and expenses to exercise their authority.

The system functions as follows: The Basque Country has limited powers. The Basque Country must contribute to general State expenses which correspond to powers which have not been assumed. Thus, this is the current concept of ‘quota’; the transfer of revenues which correspond to non-assumed powers from the Basque Country to the State. However, as the Statute of Autonomy sets down, levying, management, liquidation, collection and inspection of all taxes except import–export duties are to be carried out within each historical territory by the respective Provincial Councils. Thus, each Provincial Council must deliver a part of the revenues collected (allowance) to the Basque Government. This allowance is determined according to different variables: Relative Cost of Assumed Powers, Provincial Revenue and the tax burden imposed by each Provincial Council.

### *3.2 Exercise of Competence*

The scope of competence that can be assumed by the BAC and Navarre is greater than that of other Spanish autonomous communities. This is due to both greater communitary awareness and historical reasons. Together with considerable claims, these factors have made it possible for the areas to set up their own tax systems which foster and allow for greater powers. From the beginning of the 1980s, the BAC began to receive the transfer of powers conferred in the Statute of Autonomy. In this manner, the BAC achieved a high level of normative and managerial autonomy in the fields of education, culture, public order, trade, health, etc. The degree of competence achieved in the fields of industrial, regional and technological policy is also relevant.

### *3.3 Industrial and Technological Policy*

During the first years of autonomous management, the autonomous government chose to aid SMEs which were experiencing great difficulties and in danger of shutting down owing to the prolonged negative impact of the industrial crisis on the Basque economy. In spite of its limited legal and financial authority, the Basque Government granted aid (as subsidies and loans) which was managed by SPRI (Society of Industrial Promotion and Restructuring).

SPRI, created in 1981, is subordinated to the autonomous government. Similar to regional development agencies, a great amount of the BAC’s industrial policy is channelled through it.<sup>2</sup> SPRI’s main objectives are to: (a) carry out actions focused on creating a suitable business climate; (b) encourage new foreign firms to set up in the area; (c) seek and identify new

products, processes or technologies in the world economy that may be applied in Basque firms. In order to fulfil these objectives, SPRI has been endowed with a series of programmes directed at creating incentives for industry while also supporting change and technological innovation. According to the Statute of Autonomy, the Basque Country has exclusive competence in the field of “scientific and technical research in co-ordination with the State”. However, transfer of these powers has not been settled. The financing the Basque Country receives from the National R&D Plan, the Centre for Technological and Industrial Development (CDTI) or the Plan for Technological and Industrial Action (PATI) is minimal in comparison to Basque funds.

The most relevant steps in the field of innovation have been carried out from two administrative levels: the Basque Government (through SPRI) and Provincial Councils. The first attempts to define a technological policy on which industrial policy was based took place in 1990 with the Plan for Technological Strategy. The Plan for Industrial Technology (1993–1996) (Gobierno Vasco, 1993) was later approved within the framework of technological policy and the last was the Plan for Science and Technology (1997–2000) (Gobierno Vasco, 1997).

- The Plan for Technological Strategy (PET-1990). The UET,<sup>3</sup> which defines the main technological areas and projects to be carried out, was charged with the task of drawing up the PET. A shift was made from the previous policy of spreading or assimilating existing technologies to a policy based on planning and selecting the most technologically interesting areas for the productive environment and placing priority on a generation of new technology.
- In 1993, the Basque Council on Technology (CVT) was created. It is currently called the Basque Council for Science and Technology (CVCT) and proposes actions related to Innovation Systems. The ultimate responsibility for management of technological policy proposed in the Plan for Industrial Technology (PTI) lies with the CVCT. The CVCT’s aims are focused on integration of public and private approaches in addition to organizing, coordinating and encouraging R&D in the BAC. The CVCT is to satisfy the technological needs of industry through technological policy and improve entrepreneurial competitiveness.
- In 1997, the Steering Committee on Science and Technology (CCT) was set up as an interdepartmental organ to coordinate the definition and design of scientific and technological policies. However, the Basque Government’s first general plan, known as the General Framework of Action in Industrial Policy (Gobierno Vasco, 1991), did not go into effect until the nineties.

This industrial policy, begun in 1991 and continuing at present, is most ambitious and focuses on grouping together the different areas related to industrial policy: investment, training, technology, etc. However, some aspects have been overlooked in this plan: infrastructures, territorial organization, social policy and housing policy, for example. Basic policies envisaged in this plan include:

- Competitiveness Programme: Focused on promotion of clusters understood as groups of industries and related entities that form a system of vertical relationships (buyers–sellers) and horizontal relationships (customers, technology, etc.) and offer mutual support. Examples include: machine-tool; white goods, supply sector for automotive and aeronautics; added value steel; agriculture–food. Emergent clusters include: energy and telecommunications.
- Horizontal aid for technology and innovation: this is channelled through SPRI and a policy to protect and foster new technology centres.

**Table 1.** Basque Government financial allocations

<b>Department</b>	<b>Year 2000 (%)</b>
Health	31.3
Education	26.9
Public Department	8.7
Interior	7.5
Justice, work and social security	4.5
Industry, trade and tourism	4.2
Transport and public works	3.9
Culture	2.9
Organization of territory, housing and the environment	2.3
Agriculture and fishing	2.1
Other	5.7
Total	100

*Source:* The Basque Government.

- Promotion of new investments: the objective is to attract foreign investment in view of the improbability of large new autonomous investments and foreign investors' caution when investing in the BAC. In this sense, norms and financial means will be adapted to achieve this objective.

#### **4. Infrastructures Projects: Competence Conflicts and Financial Autonomy**

If we observe the BAC's budget, and exclude the aspects related to innovation and industrial policy which we dealt with in the previous section, management capacity or autonomy in economic terms is basically explained by two aspects. On the one hand, the management of fields such as education and health, and on the other hand, the financing of infrastructures projects.

##### *4.1 Management of Fields*

Management of education and health absorbs a large part of the budget (nearly 60% of the Basque Government's budget for the year 2000, as shown by Table 1). These fields are, above all, human resources areas and the largest allotments are devoted to public servants' salaries. The possibility of having one's own educational system is of great strategic interest. Direct influence can be exercised on the objectives and contents the social system is to be endowed with. In this sense, bilingual education plays a key role as an element to enrich and organize Basque society.

It is important to highlight the structural deficiencies of the Basque University. In the past, these deficiencies have prevented the university from exercising its interface role in the Basque innovation and production system and this will continue to occur in future unless drastic measures are taken. These insufficiencies contribute to the systemic weakness of the Basque socio-economic system, as was stated in the European Commission report on Universities,

Technology Transfer and Spin-off Activities. The paper was based on analysis of several European regions, including the Basque Country (European Commission, 1998).

#### *4.2 Infrastructure Projects*

The second relevant aspect that justifies the development of self-government concerns infrastructures projects. Nowadays, any framework explaining infrastructures projects requires that we consider three related and connected planes as if they were stories in the same building. This involves considering the aspect of the infrastructure that contributes to the development and creation of wealth (efficiency), the perspective of contribution to sustainable development when focusing on social redistribution, quality of life and environmental parameters, and finally, the territorial cohesion perspective which can be aided by these projects. Nevertheless, the first of the perspectives, related to efficiency, has played the greatest role and continues to do so in policy implemented by Basque institutions.

A large part of the Basque Government's and the Provincial Councils' budgets is earmarked for the promotion of infrastructure projects to foster economic development. We can classify them as: (1) interurban and interregional communications infrastructures, (2) intraurban and local communications infrastructures; (3) cultural infrastructures, mainly with urban and metropolitan impact.

*Communications Infrastructures.* These work to link the territory while connecting a region or metropolitan area with other regions or metropolitan areas. In the Basque case, some of the most relevant transport networks are: the high speed train (known as the Basque 'Y'), the road and motorway network, airports (mainly the Bilbao airport) and the Bilbao superport.

*The Bid for the High Speed Train.* Since 1986, the European Commission has backed the high speed train, designing a European network for this purpose. The different administrations in Spain are trying to have their projects recognized within these trans-European networks.

The Basque Government has big stakes in this means of transport. In the preview of the Sectorial Territorial Plan on the rail network, at least 80% of the investments were earmarked for the High Speed Train (HST), to the detriment of conventional rail systems and existing lines. This is going to mean using large financial resources, without having reached a social consensus on the economic, territorial and environmental imbalances and impact that an infrastructure of this type can cause (Gómez, *et al.*, 1998, p. 256).

In effect, the HST accentuates territorial imbalances in favour of large urban concentrations and metropolises. In the Basque case, this imbalance would benefit the capital cities rather than the districts in the interior of the country. The approach consists of fostering a territorial conception based on a hierarchically arranged system of cities, organizing and using the territory to satisfy the metropolis's demands and interests.

If any project is and will be subjected to the political ups and downs of the Madrid government, it is the Basque HST. At one time, certain Basque political sectors managed to have it included in the overall State plans but they were not able to convince later governments to assume these commitments. In fact, the present government has other priorities such as the high speed connection with France via Catalonia. Furthermore, foreign relations are entirely in the hands of the central government which means there is no possibility of negotiating this issue with the Paris government (Gómez *et al.*, 1999, pp. 347–348).

This is stated in the yearly report published by 'Bilbao Metropoli-30', the association which is the driving force behind the "Strategic Plan for the Revitalisation of Metropolitan

Bilbao”: “The delay experienced by the so-called Basque ‘Y’ railway project is only aggravating the exclusion of Metropolitan Bilbao communication arteries and threatens to isolate it from the main Madrid–Paris artery” (Bilbao Metropoli-30, 1998).

*The Road Network and Territorial Cohesion.* The road network operates to connect and link internally and externally. These functions can boost territorial cohesion, one of the most interesting objectives for a country or region, although this may become a controversial issue. For example, the largest road communications macroproject, the Vitoria-Eibar motorway, may not be the most widely accepted by certain sectors which consider that it is more important to foster connections with the Mediterranean axis, one of the poles that attracts growth in the European scope. Furthermore, the planned motorway would mean a barrier to internal communications and would have considerable environmental impact. An alternative route would also be set out and would work as an international connection through the Basque Country without having to cross the Deba Valley. For all these reasons, different opinion groups propose improving the Deba Valley communications based on the present route, and backing the Bilbao–Durango–Beasain–Tolosa–Pamplona corridor which is considered the backbone of the peninsular Basque Country and has great integrating potential.

Moreover, the Vitoria–Eibar highway (or motorway, which has not yet been decided) involves high financing costs. The Basque Government and the Gipuzkoa Provincial Council have opted for its construction in spite of the fact that certain issues such as Brussels’ initial refusal to finance, the Madrid government’s lack of commitment to finance, or the Provincial Council of Araba’s (currently controlled by the same party as the Spanish government) hesitation concerning the construction (expressed through delays in approval of the project, changes in its status as a motorway, opposition to financing, etc.) have not been properly resolved.

*The Airports.* The economies of agglomeration and urbanization play such an important role in this field that they make it impossible to build and enlarge important airports in those areas which do not surpass a minimum size. The different amounts which are planned to be invested in Basque airports clearly show the trends towards concentration in large metropolitan areas. In spite of the central government’s latest cutbacks, there is a clear preference for the Bilbao airport over the other Basque airports (Gómez & Etxebarria, 1993, p. 311).

The Bilbao airport has confirmed its place among the group of leading European regional airports (the number of travellers in 1998 was 2,240,000; passenger growth stands at 42.6%). As stated by ‘Bilbao Metropoli-30’, this is the ideal moment to consider the need to start offering intercontinental flights, the feasibility of which is obvious from the growing number of North Americans who are attracted to the metropolis by the Guggenheim Museum.

*Urban Communications Infrastructures.* These can contribute to the internal cohesion of the different population centres. In the case of Metropolitan Bilbao, the Metro is contributing (and this effect will be reinforced with line two, currently under construction) to accessibility and greater cohesion between population centres. This positive contribution to social cohesion does not mean that other considerations related to the project need not be studied (costs, more universal access, fares and work conditions) (Gómez *et al.*, 1999, p. 345).

The streetcar (which will go into operation next year) can also play a role, although somewhat smaller, as a cohesive force. Nevertheless, it poses some uncertainty about whether or not the traffic problems in the centre of Bilbao will improve as they could actually become worse.

*Cultural Infrastructures.*<sup>4</sup> Cities are making the most of their traditional assets—art and culture—in order to revitalize their centres. They are using museums, theatres, operas and auditoriums to promote economic development. These new cultural infrastructures are conceived to relate with other buildings and spaces within the widest possible framework of economic and urban regeneration.

The recent cultural evolution of Metropolitan Bilbao is characterized by intense investment, which has allowed it to successfully promote itself to foreign countries as a city closely associated to leisure and culture.

The Guggenheim-Bilbao Museum, the best example of Metropolitan Bilbao's backing of culture as a tool of revitalization and sector of the future, has welcomed literally flocks of visitors during its first year open to the public. With 1,300,000 visitors during 1998, it surpassed even the most optimistic forecasts and has spectacularly contributed to the international projection of Bilbao and the BAC as a whole.

The main challenge now lies in assuring that the most is made of the new cultural infrastructures, not forgetting those which already existed. This exploitation must preserve the long-term coherence of the different initiatives directed at associating the image of Metropolitan Bilbao to culture and art.

The recent inauguration of the Euskalduna Congress and Performing Arts Centre joins that of the Guggenheim-Bilbao Museum, therefore bringing a new centrality to the neighbourhood of Abandoibarra, an excellent example of the transformation being experienced by the Bilbao metropolis. After an investment of over 13,600 million pesetas (51 millions pounds, approx.), this emblematic building is, apart from a congress centre, the new headquarters of the ABAO Opera Season and the Bilbao Symphony Orchestra.

Alan Howarth, the British Minister of Culture visited Bilbao recently (September 1999) where he expressed his interest in the urban and cultural infrastructures and investments. He considers Bilbao's experience as a model for other cities and regions that have suffered the effect of crises and the decline of industry which is the case of some areas in the UK.

*Infrastructures and the Competence Framework.* The autonomous communities cannot develop their own infrastructure policy owing to their dependence on European and State frameworks. Nowadays, any infrastructure of a certain size depends directly or indirectly on the State government, either through competences [motorways, airports, telecommunications, the Spanish rail network (Renfe), etc.] or through financing. The largest capital investments over time are subjected to the contingencies and uncertainty that surround political negotiations and agreements with central governments. This is due to the fact that central governments will try to bring in infrastructures agreements in broader political negotiation packets that they will manage according to their overall interests. Any infrastructure can be bargained for in any political transaction, so it is impossible to make reliable predictions beforehand (Gómez *et al.*, 1999, p. 344). The most recent example (at the end of 1999) was the transfer of the A-8 motorway (which links Bilbao with San Sebastián and the French border) from State hands to the BAC. The Basque Government had claimed for the transfer for many years. This transfer was carried out in exchange for the PNV's (Basque Nationalist Party, the majority in the Basque coalition government) support in the Spanish Parliament for the State budgets for the year 2000, presented and defended by the Spanish government.

In any case, "it is essential to co-ordinate the different infrastructures in the European framework since internationalisation of capital tends to go beyond the context of State-national networks. This means, for instance, that transport of energy, motor way networks, railway networks and the transfer of data will be determined at an international level. For this reason, any demand for self-government or sovereignty must consider the limits imposed by



**Table 2.** Power indicators for Bilbao compared to other Spanish cities

<b>Field</b>	<b>Type of indicators</b>	<b>Level and position (compared with the rest)</b>
Quality of human resources	— Demographic	— Low
	— Rates of academic qualification	— Very high
	— Rates of work and unemployment	— Average
	— Poverty levels	— Average
Internationalization of the metropolis	— Export–import rates	— Very high
	— Air traffic	— High
	— Tourists	— Average to low
The society of knowledge	— Visitors to fairs	— Very high
	— Internet users	— Average to high
	— Information Technology (Market)	— Low
	— Publications	— Average
	— R&D Spending	— High
	— Technology parks	— High
	— Attendance to performances	— Very high
	— Travel expenditure	— Very high
Sustainable development	— Readership	— Very high
	— Gross Added Value Tax per capita	— Average to high
	— Air quality	— Low
	— Municipal cleaning expenditures	— Very high
	— Housing conditions	— High
	— Quality of life	— High
	— Household electric consumption	— Low
	— Libraries	— Average to high
— Assistance to persons	— High	

*Source:* Own study based on the above mentioned ‘Bilbao Metropoli-30’ report (1999).

co-ordination, and, in some cases, that it may even be impossible to develop some projects which have arisen from small areas like the Basque region” (Gómez *et al.*, 1999, p. 345).

*Comparison with other Metropolitan Areas of Spain.* In a study carried out by the association “Bilbao Metropoli-30” (1999), the Bilbao Metropolitan Area was compared with six other key areas of Spain: Madrid, Barcelona, Valencia, Seville, Zaragoza and Málaga. A set of indicators was selected in order to obtain a vision of each metropolitan area’s position in certain fields (Table 2).

Strategically, the Bilbao Metropolitan Area is in a good position in comparison to the other key metropolitan areas in Spain. Furthermore, it is important to highlight the role that

autonomous institutions, both the Basque Government and the Provincial Council of Bizkaia, have played in achieving these results. In part, this is due to the financial capacity of the Basque autonomous system which is based on the area's own fiscal system.

We also observe good positions in strategic sectors which indicate future potential. The tendency to concentrate resources in the area to the detriment of greater territorial cohesion and rationalization of the Basque Country as a whole is a point that could be criticized.

*The Search for an Alternative Project by Donostia-San Sebastián.* The centrality of Bilbao, achieved to a certain extent because the Basque administrations considered it vital, has awakened distrust and, at some moments, discontent in other parts of the Basque Country. Donostia-San Sebastián in particular has considered that its traditional role of Basque cultural capital has been questioned. The competition arising from this issue is a consequence of excessively localist policies rather than a focus from a country perspective. Therefore, it is understandable that performing arts and exhibition centres were built at the same time in Bilbao (Palacio Euskalduna) and in Donostia (Kursaal). These centres have similar cultural purposes and therefore, compete with each other since they are an hour apart by motorway.

Since 1993, the institutional relationship between the Provincial Council of Gipuzkoa and what was to date called the BAB District (Bayonne–Angelu–Biarritz)<sup>5</sup> has been much closer. The result of this cooperation is the Eurocity of Bayonne-San Sebastián,<sup>6</sup> within the framework of the European Transfrontier Cooperation Project, Interreg. The Eurocity's objectives include improving transport infrastructures, highlighting the possibility of extending the local rail line now joining San Sebastián and Hendaye to Bayonne. This extension would be like a light metro in a modern European city and would make up the backbone of the Eurocity. Another field of action the Eurocity will work on is organization of territory and housing.

This experience, which is now consolidating, attempts to find a place for small and medium sized cities through cooperation, as opposed to metropolises such as Bilbao. Observing the tendencies to concentrate economic activity and the attraction of metropolitan areas, the institutions backing the Eurocity project are trying to play a role and somehow compete with other cities to avoid being alienated and falling into urban decline.

## **5. Scope of Competence in the EU Regions**

Situations vary greatly concerning the scope of the competence in the EU regions and most developed nations. However, it is possible to identify a group of regions or nations without a State that show similar ceilings in the scope of competence. This is the case of Flanders, Scotland, Catalonia, the Basque Country and some German *länder* in the EU, in addition to Quebec in Canada. The level of competence this group of nations can reach is marked by a similar ceiling in the level of competence envisaged. Nevertheless, as we have seen, the Basque Country basically stands out due to its fiscal peculiarities; its financial agreement with the State which makes it a unique case.

The process which is now being finalized with the single currency, the euro, has led to the liberalization of strategic sectors, to European oligopolistic concentrations as opposed to 'national monopolies' and to the imposition of monetary decisions made by central European authorities as opposed to "national macro-economic (monetary and exchange rates) policy". In other words, the limits of 'national states' have been greatly modified. States have been reduced to mere managers in increasingly 'macro' fields and absolute sovereignty is limited to those fields of social, labour, internal order, culture, daily life, etc. where the State has greater legitimacy than in the supra state realm. Furthermore, in a framework where economic

efficiency is the priority objective, developing social policy on a EU level is assigned a secondary role.

In the EU the States maintain absolute sovereignty or shared powers mainly in the fields of:

- redistribution tasks in their territorial area, ranging from the tax system to social security,
- norms and rights of the workforce,
- international representation of all the territories within the boundaries of their sovereignty,
- basic norms for organization of the economy and society,
- construction and operation of general infrastructures,
- tasks related to maintenance of internal order and the nation's *status quo* on the international scene
- organization of public spaces in the fields of culture, communication, education, etc.,
- industrial and technological policy in the primary sector and for certain services.

The nations or regions we refer to as 'top level' could subsidiarily share or administratively manage some of these powers which are exclusively held by the State. In this context, in depth analysis of the transfer of powers still pending from the central government to the BAC is called for. It is quite clear that the most important of these powers correspond to the fields of work and social security, which are also the most difficult to transfer. Firstly, this is owing to the fact that these are areas that involve the greatest amounts of revenue and are the specific areas that characterize the Welfare State (unemployment and social security). Secondly, these areas contribute to fostering national identity and unity that link the citizen not only to rights concerning official procedures but also to considerable material benefits and include all the nation's society as a whole. Thus, competence in these fields is a mechanism which is not limited to redistribution but fosters integration (Keating, 1996). Powers in the social field are a symbol and instrument of solidarity and national cohesion. Perhaps for this reason it is easier to understand that the transfer of social security competence from the Spanish State to the BAC is a highly sensitive issue which makes the process difficult.

## 6. Changes in the Nation State and Improvements in Self-Government

Spain's integration in the European Community and specifically the Maastricht Treaty now in force are bringing about a major change in the State's sovereignty. The Spanish Constitution is losing a relevant share of sovereignty.

In this stage of internationalization of capital, Spain is readjusting its degree of sovereignty. 'The borders of competence' are not fixed but now move to the rhythm of the commitments involved in belonging to the EU. The process of monetary unity is not exactly the most favourable scene for developing or maintaining a framework of competence like that of the BAC and Navarre (Gómez, 1998). In effect, tax harmonization in the EU, which is congruent with the free movement of capital, will affect Basque competence in the field of public finance.

Consolidation of self-government processes requires the existence of the area's own public sector, which is opposed to the EU tendency to improve private financial terms as opposed to public. Furthermore, the process of unity mentioned above leaves less room for manoeuvre as instruments which could favour joint anti-cyclical policies to fight against joblessness disappear.

Lastly, the European design, which grants the State exclusive representation in the European government (the Council of Europe), places the interests of the different community regions in a disadvantageous position as the regions cannot directly defend their own sectors. For example, the Cantabric Rim is alienated by Spain when improvements in communications infrastructures are designed or when livestock or fishing quotas are negotiated. This is

due to the fact that Spanish authorities act with a State perspective, frequently placing greater importance on centralist political and economic interests.

Administrative, legislative or governmental organizations should be the most appropriate to the institutional culture<sup>7</sup> that exists in a certain country. A culture deposited in a society's history can, throughout time, accrue 'social capital'.<sup>8</sup>

Culture is located in a certain territory. Culture may exercise a certain degree of influence on the economic and overall results that can be achieved in a certain space (innovation, growth, efficiency, etc.). It can be demonstrated that a relationship exists between a given institutional/cultural environment and a certain type of economic development.

The Basque Country is characterized by a higher unemployment rate, activity more focused on industry, a larger number of small firms, a higher population of retired individuals, etc. Furthermore, the need to promote the area's own language and the Basque society's great capacity to join together and cooperate require organizations that can better adapt to these features within a framework of singular policies which are appropriate to specific cultural models. From a progressive perspective, this would mean having organizations and parliamentary assemblies more closely linked to society, more infused with democratic values of transparency, showing greater solidarity with the unemployed.

A public sector more appropriate to its characteristics is needed if a more efficient economy is to be achieved. This culture/organizations adjustment pointed out above may have the following consequences:

- A climate more conducive to the development of certain business sectors since a greater degree of sovereignty could strengthen certain values that would improve the business environment (trust, cooperation, etc.).
- Improvement in the environment where firms partially acquire factors such as better access to information flows, greater capacity to influence strategic decisions, improvement of physical infrastructures, a wide range of choices in the field of training, better knowledge and lower processing costs when obtaining aid or subsidies or joining business improvement programmes.

Johnson (1992) maintained that the institutional system could contribute to the generation and improved diffusion of information, thus reducing the uncertainty derived from common economic and social relationships and improving cooperation.

Trust, cooperation, coordination, learning and social valuation of economic activities are the properties that characterize the relationships established between the different participants in the system. Improved functioning of the economic system is linked to the intensity of these values which express the capacity of systemic relationships.

A more cohesive space is expected to be more favourable to carrying out better institutional management. These more cohesive spaces will be easier to find in environments infused with principles of collective action and based on 'identity'. A legal and political framework for labour relations is determined by idiosyncrasy and a previously existing singular culture of relationships. However, the framework itself causes values linked to a specific culture of relationships to be believed, developed, fostered and maintained. How can inter-entrepreneurial cooperation arise in a world where market logic dominates and competition is the ultimate value? A political institutional system which is relatively close to society, which generates trust and strengthens certain cooperation values based on a specific type of leadership is needed, and must be based on common projects and institutions.

The persistence of distinctive values may mean inhibiting possible change. A society which is wary, less willing to reach agreements, where rivalry rather than cooperation is the norm, will not be able to set up institutional changes needed to achieve better results.

The values that prevail at a given moment in a society condition the economic results

which can be achieved. However, a country may also need a certain level of self-government to achieve specific results. There may be some objectives for improvement and progress that require access to a greater number of administrative political powers and would mainly require certain changes in values. In general, many of the results would require collaboration of both factors; in other words, changes in values and a higher degree of self-government. We can apply this thesis, for instance, to the priorities and actions to be undertaken in a region like the Basque Country to achieve qualitative improvements in innovation.<sup>9</sup>

However, transfer of this normative-legal capacity is required to pass and change labour and social laws and values (Medina, 1997; Monereo, 1996)<sup>10</sup> in order to access certain socio-economic objectives from the BAC (for example, drastic reduction of unemployment, a shorter working week, permanent jobs) proposed by some social sectors.

The bases through which the EU convergence process is being designed involve giving priority to certain objectives that keep jobless rates at approximately the same levels as the present, as reflected in the Amsterdam Treaty (1998, p. 276).

In some of the nations without a State observed (Scotland, Quebec, the Basque Country), the social sectors and sometimes political sectors most inclined to the demands of self-government are those most interested in improving overall well being and labour relations in particular. For this reason, they pursue control of labour and social laws.

## 7. Conclusion

The BAC has reached a level of competence similar to that of regions with greater capacity for self-government. What makes the Basque case unique is its almost absolute sovereignty in the fiscal field and the area's capacity to prepare its own technological and industrial plans.

Development of the area's competences and the availability of financial capacity from Basque institutions through specific policy that has given priority to setting up and developing private activities in certain spaces have led to their concentration in urban areas. This has particularly enabled the Bilbao Metropolitan Area to transform from its traditional economic base, in decline until a short time ago, and now aim to become a modern centre of growth based on services, finance and culture, with good quick connection networks with other surrounding areas of growth and Europe. These changes are taking place at a moment in which the European scene recognizes a recomposition of the States' scope of competence, together with greater claims for autonomy and sovereignty from historical regions and nations. The latter often have greater social cohesion, based on a historical culture of relationships.

In future, reinforcement of the values held by society (trust, cooperation, etc.) jointly with progress in the field of institutions for self-government could propitiate better socio-economic results (innovative efficiency, diversification of the economy and creation of jobs). This could be the case of the Basque Country and other European nations and regions.

## Notes

1. Concierto Económico, Ley 12/1981: Norma Básica. BOE No. 127, 28 May 1981.
2. SPRI (various years) *Informe anual*.
3. Unit of Technological Strategy (UET): Created in 1989 within SPRI, the unit draws up proposals for technological strategy and selects projects.
4. The information used to draw up this section was obtained from the 'Bilbao Metropli-30' web page.
5. The BAB District, which joined Bayonne, Angelu and Biarritz for 27 years, became an Organization of Agglomerations at the end of 1999, thus aiming to broaden its competences and sources of financing.

6. The Bayonne-San Sebastián Eurocity has a population of 613,000. 430,000 people live in Gipuzkoa and 183,000 in Lapurdi (The French-Basque Coast).
7. In this paper, culture is understood as a 'significant system' in the meaning set forth by Williams (1982), in other words, as a system intrinsic to all political, economic and social systems without renouncing comprehension of the cultural system itself as an object of study. The definition of the concept of culture offered by Parés and Tremblay (1990) and Keating (1996) corresponds to what other authors call institutions. Keating understands culture as "the customs, habits, traditions, beliefs, ways of life, ways of thought and behaviour that exist in a community and subjectively the sense of belonging to a society that shares the same history" (1996).
8. Putnam (1993, p. 67) links this concept to social organization understood as a set of norms and organizational networks united by trust which make it possible to improve social efficiency by facilitating better coordination of the different relationships and actions undertaken in its innermost realms.
9. The result would be that in some cases a change in values (such as cooperation) would be needed to improve 'Basque regional innovation' conditions while in others greater institutional capacity for self-government or a combination of both would be needed (Cooke *et al.*, 1997; Cooke & Gómez, 1998; Comisión Europea, 1995).
10. Codifying legislation of the Workers Statute, Article 3 of the order in Council 1/1995.314.5.

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