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# **Economic Governance in the Basque Country: balancing continuity and novelty**

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## **Introduction**

In regional development circles the Basque Country has become an international reference point for old industrial regions that need to find a new economic vocation when their previous roles are exhausted. This status was formally acknowledged by the OECD (2011a) when it reviewed the Basque experience as part of its regional innovation reviews. But this review was published in 2011 and the Basque Country cannot rest on its laurels because the mega-trends that we identify in the following section have created a dynamic and ever changing environment in which past success cannot be extrapolated into the future.

But the past is not something that can be discarded or jettisoned at will because institutions – both formal and informal institutions - are deeply embedded and social practices do not change overnight. Douglas North refers to it as “the artifactual structure” of societies. This artifactual structure is “the learning of past generations transmitted as culture into the belief structure of present generations.” (North, 2005: 50).

One of the main theoretical reasons why the Basque experience offers such an instructive case study is because of its twin commitments to cultural heritage on the one hand (understood in the broadest sense to include language, identity, landscape and industrial traditions) and to science, technology and innovation on the other (activities that are quintessentially associated with change and disruption). In other words, the Basque Country presents a compelling example of the classic developmental challenge that confronts all countries – how to strike a judicious balance between continuity and change or between what evolutionary economic theorists have called “the grip of history” and “the scope for novelty” (Castaldi and Dosi, 2004; Morgan, 2012).

But there are many more theoretical reasons for studying the Basque experience and we mention two in particular. First, the evolution of the Basque economy provides a perfect

example of the interplay of the “old economy” and the “new economy” and specifically how the former can be leveraged to provide assets for the development of the latter. As one seminal study puts it: “Old economy factors are crucial for new economy outcomes” (Bresnahan et al., 2012: 858). Second, the history of the past 30 years also illustrates the abiding significance of the state, in this case the regional state, which has played a hugely important role in catalysing and curating the process of industrial modernisation in the Basque Country, especially at a time when public intervention was deemed to be anachronistic according to neoliberal nostrums (Morgan, 2016; Valdaliso, 2015 and 2019).

These theoretical reasons for studying the Basque experience have policy and practice implications because policymakers everywhere are tasked with striking a balance between continuity and novelty in their innovation plans. Policymakers are also confronted by the perennial dilemma of how far the state should intervene to deliver support schemes that induce transformational rather than transactional responses from stakeholders in the public, private and civil sectors. As we will see in later sections, the Basque Country offers a robust example of a dynamic state-market relationship, where the regional state’s role has been described as “pervasive but not invasive” (Morgan, 2016). In other words, the regional state has respected the principle of subsidiarity, enabling and encouraging businesses to play a pro-active role in economic governance and industrial modernisation through such associational action as business clusters and the like.

Our analysis is based on a broad collection of qualitative information: official policy programmes and plans, reports, academic literature, and interviews with the most conspicuous agents of the Basque governance system -in both political and technical posts- conducted within different research projects developed over the last ten years.

## **1. Governance: global trends and the experimental turn**

Radically different forms of governance have been trialled over the past half century as all kinds of organisations - governments, firms and civil society bodies - seek to navigate the mega-trends that are re-shaping economy and society in every country. Burgeoning globalisation, accelerating technological change, the existential threat of climate change and ageing/immigration phenomena are arguably the most prominent and most disruptive mega-trends and no country is immune to them. These mega-trends have also triggered a

lively theoretical debate about the changing role of the state and its manifold relationships with economy and society. At one end of the theoretical spectrum we have the “governing without government” school of thought which argues that the state is now simply one among many actors in a broadly diffused system of “self-organizing, inter-organisational networks”, a perspective that downgrades the status of the state as the latter becomes progressively hollowed-out (Rhodes, 1996). At the other end of the spectrum there is the state-centric perspective that maintains that, far from being hollowed out, the state remains a central actor in the governance system of all countries even if its *modus operandi* has changed (Bell and Hindmoor, 2009).

Whatever their differences, all governance theories seem to agree that the changes wrought in advanced economies since the 1970s signal a growing trend for governments at all levels of the multilevel polity – national, regional and local – to experiment with new ways of working internally and new modes of interacting with their external interlocutors in the private and civic sectors. We can refer to this as the “experimental turn” in governance studies (Morgan, 2019).

In this section we consider two forms of experimental governance, beginning with the concept of *experimentalist governance* developed by Charles Sabel and his colleagues. The claim here is that hierarchical management and principal-agent governance have been compromised by the advent of mounting complexity and strategic uncertainty. The core of the argument runs as follows: one of the foundations of principal-agent governance is the monitoring of subordinate agents’ conformity to fixed rules and detailed instructions. But in a world where “principals” are uncertain of their goals, and unsure how best to achieve them, they must be prepared to learn from the problem-solving activities of their “agents”. As a result, “principals can no longer hold agents reliably accountable by comparing their performance against predetermined rules, since the more successful the latter are in developing new solutions, the more the rules themselves will change” (Sabel and Zeitlin, 2012: 175).

Although the concept of experimentalist governance might seem arcane and academic, it is actually one of the conceptual pillars of the place-based approach that was embodied in and championed by the Barca Report on the reform of Cohesion Policy in the EU (Barca, 2009). However, the Sabel and Zeitlin model has been described as “intellectually compelling but politically challenging”: compelling because it is predicated on a learning-

by-monitoring methodology that is deliberative and evidence-based; but challenging too because sub-national public bodies may not have the capacity to experiment given the centralised control exercised by national and supra-national bodies in EU's multilevel polity (Morgan, 2019).

The role of sub-national governments in multilevel governance systems tends to be misconceived in two ways. In the conventional *top-down misconception* the lower, sub-national level bodies are deemed to be the worker-bee agents charged with passively implementing the policy designs of higher level principals. But, as we have seen, this view supposes incorrectly that the principals have precise and reliable ideas of what to do and how to do it. This kind of unerring foresight is simply impossible in an age of uncertainty. For this reason, the process of local policy implementation must be a creative, problem-solving activity, not passive execution of higher policy designs. But the second, *bottom-up misconception* is to think that the empowerment of sub-national levels is sufficient for successful devolution, when clearly it is not because local knowledge is not a sufficient condition. On the contrary, local actors have to learn from what's worked and hasn't worked elsewhere: in short, they have to learn from the pooled experience of actors beyond their immediate experience, underlining the need for experimentalist polities to be conceived in multi-scalar terms (Morgan and Sabel, 2019).

A radically different form of experimental governance was inspired by and associated with the *neoliberal governance agenda* designed to deregulate the economy, introduce market principles in the functioning of the Administration and privatise public enterprises, a liberalisation process that led to the hollowing out and shrinking of the state. This neoliberal agenda was most famously championed by the Thatcher governments in the UK and, aided and abetted by the pro-market ideology of the Washington Consensus, it was emulated by many governments around the world. As one of the pioneers of neoliberal governance, the UK experience is instructive because, in recent years especially, the costs of this neoliberal strategy are perceived to have outweighed the benefits.

If privatisation has been the most conspicuous aspect of neoliberal governance, an equally important aspect is the scale of the outsourcing revolution as huge swathes of public sector goods and services have been contracted out to private sector providers. The hollowing out of the state has led to an enormous loss of public sector expertise, especially

with respect to procurement and project management skills, with the result that the state inadvertently outsourced its capacity when it outsourced its contracts.

The great paradox of neoliberal governance is that the hollowing of the state denudes the public sector of organisational capacity and skill sets at the very time when growing complexity in economic and societal affairs requires smarter and more joined-up governmental action. This presents one of the great governance challenges because the structure of conventional governments consists of vertically-organised and silo-based departments when complex problems demand cross-cutting actions that are synchronised – in vertical and horizontal terms - across many departments as the proponents of collaborative and experimental governance have argued (Levi-Faur, 2012).

Collaborative governance structures are beginning to emerge within government – to integrate departments that have hitherto evolved in organisational silos – and between government and their external interlocutors in the private and civil sectors, a global governance trend that is variously described as co-design and co-production (Morgan, 2019).

The trend towards collaborative and iterative forms of governance has implications for the mechanisms and instruments of coordination. The main coordination mechanisms that feature in the governance literature are markets, hierarchies and networks, each of which was thought to be appropriate for a certain kind of transaction – markets for open and arm's length transactions; hierarchies for regulatory transactions in governmental or corporate bureaucracies; and networks for loosely coupled information sharing transactions (Powell, 1990). But these classical coordination mechanisms are themselves changing as they are exposed to growing societal complexity and accelerating technological change. To take just one example: the role of government is morphing from a hierarchical command and control role in the industrial policy field to one of curating and catalysing the processes of innovation and economic development.

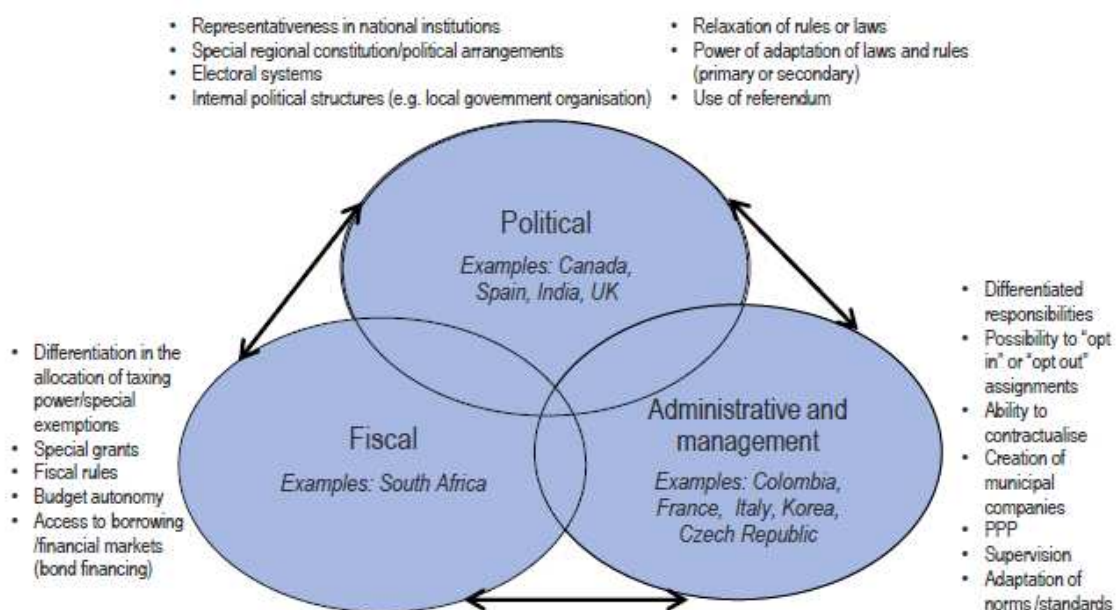
If the classical coordination mechanisms are in flux, the same can be said of the traditional coordination instruments, which range from formal instruments (such as laws, regulations, standards etc) to informal instruments (such as conventions, pacts and inter-organisational arrangements etc). All these coordination instruments are being reformed and refined in the light of a “silent revolution” – namely the growing trend towards decentralisation, one of the most significant territorial trends of the past 50 years

according to the OECD (OECD, 2019a). Mainstream governance theory has arguably paid too little attention to multilevel governance in general and particularly to the rise of the devolved polity, despite the growing social and economic significance of the subnational realm (see, for instance, for public spending, OECD, 2019a).

One of the most distinctive features of the “silent revolution” is that decentralisation has not been a uniform process affecting all subnational areas to the same extent. On the contrary, what we are witnessing in many countries is the growth of *asymmetric decentralisation*. Asymmetric decentralisation, according to the OECD, “occurs when governments at the same subnational government level have different political, administrative or fiscal powers. Political asymmetric decentralisation refers to situations where some regions or subnational governments have been given political self-rule that deviates from the norm or average assignment” (OECD, 2019a: 83).

While it can preserve the territorial integrity of a state, by conceding special arrangements to regions with special needs or interests, asymmetric decentralisation can also threaten such territorial integrity if other regions perceive it to be unfair or unwarranted (Morgan, 2019). Three main types of asymmetric decentralisation have been identified in the governance literature – political, fiscal and administrative - and these three types are illustrated in Figure 1 below.

**Figure 1: Three types of asymmetric decentralisation (OECD, 2019a)**



Two important findings stand out from the governance literature on the “silent revolution” and they concern (a) the costs/benefits of decentralisation and (b) the evidence-based guidelines for different levels of the multilevel polity. As regards the first finding, the evidence suggests that decentralisation is neither good nor bad in itself because the outcomes – in terms of democracy, efficiency, accountability, local and regional development etc – depend on the way that decentralisation is designed and implemented. As regards the second finding, the evidence suggests that there are robust guidelines to ensure that devolved polities can function effectively in a multilevel governance system and these include the following: (i) clarify the responsibilities assigned to different government levels (ii) ensure that all responsibilities are sufficiently funded (iii) strengthen subnational fiscal capacity to enhance accountability (iv) support subnational capacity building (v) build adequate coordination mechanisms among levels of government (vi) support cross jurisdictional cooperation and (vii) strengthen innovative and experimental governance, including citizen engagement (OECD, 2019a).

## **2. Current Economic Governance in the BAC**

### *2.1. Distribution of powers and coordination mechanisms among the authorities of the BAC, the Spanish State and the EU*

The BAC (Basque Autonomous Community) is a region that enjoys a high degree of autonomy, considered from an international comparative approach, thanks to an asymmetric decentralisation process that began in Spain with the 1978 Constitution. That process fundamentally started to meet the demands for autonomy from regions such as Catalonia and the Basque Country (“historic nationalities”). However, it ended up being extended to the remaining Spanish regions to give greater uniformity to a decentralised political system, even though they had different devolved powers and levels of self-government.

The First Additional Provision of the Spanish Constitution “protects and respects the historic rights of the territories with traditional charters (*fueros*)”. The Basque Statute of Autonomy was therefore able to include the autonomous police force for the Basque Country (Ertzaintza), an own financing system based on the Basque Economic Agreement and an administrative organisation at provincial level – the provincial councils

– with broader and more complex functions than those recognised by the Local Government Regulatory Act for the common provincial councils (those not covered by the charter system).

The BAC thus enjoys greater devolved powers in the economic sphere than those of the remaining autonomous regions (even greater than those of Catalonia). Compared to the traditional division in the EU into two large sub-state levels –the regional and the local, with the first prevailing over the second in Spain–, the BAC has developed a three-level –regional, provincial and municipal– juridical-institutional structure. Even though the prevailing level is regional, the provincial –or the historic charter territory– level has fundamental economic devolved powers, such as taxation. Finally, the specific devolved powers transferred to the BAC have forced, to a certain extent, the state institutions to accept the implementation of bilateral coordination mechanisms (for example, for the Basque Economic Agreement and the Ertzaintza), compared to the multilateral mechanisms (mainly, the so-called Sectoral Conferences) that have characterised relations between the State’s common institutions and the autonomous institutions in other Spanish regions.

The distribution of powers between the Basque institutions and the common ones of the State is not static and perennial, but rather the outcome of an ongoing tension: between the demands for greater degree of self-government and coordination mechanisms based on bilateral avenues, by the former; and attempts to standardise the powers of all the Autonomous Regions, to recentralise devolved powers and coordination mechanisms based on multilateralism, by the latter. In that ongoing tension, the processes to transfer devolved powers towards the BAC have advanced in leaps and bounds, once the initial transfer process was completed in 1985. Such advances have occurred when the dominant party in the Spanish central government has been forced by its weak parliamentary position to count on the votes of the Basque National Party (PNV) in the Spanish Parliament and to accept processes to transfer devolved powers that had been previously blocked (1996, 2009-11, 2019-20). In turn, the common institutions have seized on different opportunities offered by the Spanish Constitution (particularly Sections 149.1.1 and 149.1.13) or by the transposing of European community law into Spanish legislation in order to either regulate areas whose jurisdiction is deemed to be exclusively held by the BAC or to implement numerous actions duplicating ones that the Basque institutions were already deploying. In comparison to other international federal realities, the degree

of autonomy achieved by the BAC as regards devolved powers is very high, but that is not the case with respect to regulation (except for taxation and administration). Steadier coordination and cooperation between both Administrations and less dependent on the cycle or political climate would be desirable in this field.

Spain joining the European Community in 1986 and the progressive European integration process involved the transfer to European institutions not only of key functions that up until then had been performed by the state institutions (the so-called “hollowing of the State”), but also of some exclusive devolved powers of the BAC. It should be noted that, with the exception of the Directorate-General for Regional and Urban Policy and some purely advisory forums (for example, the Committee of the Regions), the European Union is basically the Europe of the States. Even though the regions have exclusive jurisdiction in the policy area of the community authority, in its decision-making bodies (or even, in the semi-public structures set up to implement their policies), only the participation of the States and of the linked organisation is recognised. Furthermore, a strengthening of the role of the States and a certain setback in the relevance of the regions have been seen in recent years, which has been accompanied by the growing focus of the community policies on another sub-state reality, the cities. This has had a very negative impact on the BAC, which does not fully meet what the literature calls the “city-region”, and which is neither a “regional-capital” or has a large city that can compete in the league of large cities.

The intense activity by the Basque Country’s Delegation to the EU and the endeavours to actively participate in European initiatives and programme have led to a higher profile for the BAC in Brussels. However, as participation in the EU decision-making bodies is reserved for the States, the BAC had to use the channel established by the Spanish State to gather all the interests of the Autonomous Regions to present to European institutions, – the Conference for Matters Related to the European Union (CARUE)–, a formula that is rather similar to the ones found in other decentralised member states. Both this channel and the more technical information and contact ones, set up by other state organisations in order to participate in European programmes (for example, the Redidi, for smart specialisation strategies, RIS3), have been hindered in recent years by the great instability and ministerial changes in the central government. This has made it difficult for the new authorities to keep up-to-date with the actual status of the community reality and for the autonomous region to identify those authorities as interlocutors for such issues.

## 2.2. *Distribution of powers and coordination mechanisms within the BAC*

As the CVFP (Basque Council of Public Finances) pointed out (2018), and leaving the framework rules at State level on one side, the distribution of powers between the Basque Government (GV), the provincial councils (DDFF) and the municipalities is ring-fenced by three fundamental pieces of legislation: the Statute of Autonomy for the Basque Country (EAPV, Organic Act 3/1979), the so-called Historic Chartered Territories Act (LTH, Act 27/1983) and the Basque Local Institutions Act (LILE, Act 2/2016). In addition to which, there is the sectoral legislation issued by the GV and by the provincial authorities of the provinces of the BAC (TTHH). As a result of which, the demarcation of powers between the common institutions (of the GV) and those of the TTHH regarding legislation is far more closed and there are not as many cases of regulatory duplication, compared to the relations between the State and the BAC.

In light of the total income and expenditure (Table 1), the DDFF absorb just over half of the budget of the public administrations of the BAC, the GV over a third and the local councils around 10%. However, if the transfers are excluded, the weight of the DDFF rises up to 90% of the income (particularly at the cost of GV, which falls to 1.5%), even though they only account for 15% of the costs (while the GV and the local councils stand at 59% and 15%, respectively). There is a notable imbalance in the public administrations of the BAC between those who obtain income not based on transfers (the provincial councils) and those whose expenditure is not based on transfers (GV and municipalities). In the case of the Spanish autonomous regions, there is an imbalance between the level of spending and the level of own income of the autonomous government, but that imbalance is there covered by the transfers from the central government.

**Table 1: Income and expenses of the public administrations of the BAC (non-consolidated data; 2017, %)**

	<i>Total</i>		<i>Total (without transfers)</i>	
	<i>Income</i>	<i>Expenses</i>	<i>Income</i>	<i>Expenses</i>
BAC	100.0	100.0	100.0	100.0
Basque Government (GV)	36.0	36.0	1.5	59.4
Provincial Councils (DDFF)	53.2	53.5	90.0	14.9
Municipalities	10.8	10.6	8.5	25.8

Source: Eustat, Budgetary Statistics of the Public Sector.

(\*) Includes the Autonomous Bodies.

Even though the demarcation of powers between the Basque institutions is quite clear from the legislative point of view, what happens in terms of organisational and executive duplications is another matter. There are great discrepancies regarding their relative importance and their impacts for the efficiency of the public sector and their spending levels (Gobierno Vasco, 2013 and 2014). In any event, and considering there are few pure exclusive devolved powers, it is a matter of increasing the coordination level among the different institutions and administrations.

Table 2 allows the different weight of each spending policy at each institutional level to be seen. Health and Education policies account for over half the expenditure at the GV; social services and social promotion absorb over a third of the spending of the DDFF; and local authorities focus on basic public services at local level. According to the CVFP (2018: 129): “spending by programmes of each Administration generally tallies with the distribution of devolved powers envisaged by law”. However, both Navarro (2017) and nearly all the stakeholders interviewed consider that, in those fields where different administrations are acting, and particularly in the field of economic stimulus, there is significant margin to improve coordination and increase the synergies of the actions of the different institutional levels; and that, furthermore, there has been little progress in the process to streamline and restructure the Basque public sector.

**Table 2: Consolidated expenditure by spending policies and institutional level (2015)**

	% of each institution				% of all the Basque institutions			
	GV	DDFF	Municip.	Total	GV	DDFF	Municip.	Total
Public debt	9.1	11.7	3.2	8.4	69.6	23.2	7.3	100.0
Judicial system	1.5	0.0	0.0	1.0	100.0	0.0	0.0	100.0
Public safety and mobility	5.7	1.7	8.9	5.6	64.6	5.0	30.4	100.0
External relations	0.5	0.0	0.0	0.3	100.0	0.0	0.0	100.0
Housing and urbanism	1.0	0.4	10.7	2.8	23.2	2.3	74.5	100.0
Community welfare	0.0	0.0	15.8	3.1	0.0	0.0	100.0	100.0
Environment	0.2	1.2	3.0	0.9	16.8	21.4	61.8	100.0
Pensions	0.0	3.1	0.0	0.5	0.0	98.8	1.2	100.0
Social benefits to employees	0.0	0.0	0.2	0.0	0.0	0.0	100.0	100.0
Social assistance and welfare	6.4	34.3	12.0	12.1	33.7	47.2	19.1	100.0
Employment	1.9	0.7	1.7	1.7	72.8	6.9	20.3	100.0
Health	34.3	0.0	0.6	22.1	99.5	0.0	0.5	100.0
Education	26.4	0.1	4.4	17.8	95.1	0.1	4.8	100.0
Culture	2.4	3.1	9.7	3.9	39.6	13.0	47.4	100.0
Sports	0.1	0.8	5.4	1.2	4.1	11.1	84.8	100.0
Agriculture, livestock and fishing	1.0	2.9	0.3	1.2	53.9	41.6	4.5	100.0
Industry and energy	0.7	2.5	0.2	0.9	48.2	48.4	3.4	100.0
Trade, tourism and SMEs	0.6	0.9	1.9	0.9	41.2	17.6	41.3	100.0
Public Transportation	0.0	4.9	2.5	1.3	0.0	63.3	36.7	100.0
Infrastructures	3.8	15.0	1.4	5.2	46.7	48.2	5.2	100.0
R&D&I	1.8	0.2	0.0	1.2	97.2	2.5	0.3	100.0
Labour relations	0.0	0.0	0.0	0.0	100.0	0.0	0.0	100.0
Other economic measures	0.3	0.9	0.1	0.4	51.7	41.3	7.0	100.0
Government organisms	0.5	1.3	1.7	0.9	35.7	25.6	38.7	100.0

General services	1.5	9.0	13.8	5.1	18.4	29.4	52.2	100.0
Tax and finance	0.4	5.2	2.6	1.6	14.1	54.5	31.4	100.0
Transfers towards other Administrations	0.0	0.1	0.1	0.0	-	-	-	-
Total consolidated expenditure	100.0	100.0	100.0	100.0	64.0	16.7	19.3	100.0

Source: CVFP (2018).

There are different types of instruments that enable public policies to be coordinated, as reflected in Section 1 of this paper. As can be seen in the literature and as one of the people interviewed graphically expressed: “coordination is easier when one knows where to go”; or, more specifically, when there is a known and shared **strategy or plan** to provide guidance and assistance for the activities of all the stakeholders. It should be noted, in that regard, that all the main Basque institutions, in general, have developed serious strategic planning processes,<sup>1</sup> in order to structure the action of their respective government.

Despite the unquestionable progress that such programming means compared to previous periods or to the reality in other autonomous regions, such plans are not integrated or part of prior planning for the BAC overall, but have rather been prepared independently. Furthermore, they are not in response to a previous strategic reflection process that, based on an in-depth analysis of the major challenges faced by the BAC in a limited series of areas (such as demographics, climate change and energy transition, digitalisation, etc.), puts forward an integrated management model to overcome them (connecting the objectives set to instruments and budgets) and which are accompanied by appropriate assessment and monitoring systems. There are several reasons for these shortcomings. First, the lack of effective leadership in the general strategy of the GV, which should be down to any of the cross-cutting ministries –Lehendakaritza [Basque Premier’s Office], Governance or the Treasury–, preferably the first, and which is not happening due to an unclear distribution of responsibilities between the departments in question or, simply,

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<sup>1</sup> The GV strategy is set out in the Government Programme for the XI Parliamentary Term 2016-2020, whose commitments are organised according to the Sustainable Development Goals (SDG) (see <https://programa.irekia.euskadi.eus/?locale=es>). The strategy of Bizkaia Provincial Council is called Bizkaia Goazen 2030 (see [http://web.bizkaia.eus/eu/ahaldun-nagusia#p\\_com\\_liferay\\_journal\\_content\\_web\\_portlet\\_JournalContentPortlet\\_INSTANCE\\_X3HAvy8MH\\_XaN](http://web.bizkaia.eus/eu/ahaldun-nagusia#p_com_liferay_journal_content_web_portlet_JournalContentPortlet_INSTANCE_X3HAvy8MH_XaN)), which will be replaced by a new strategy in 2020: Bizkaia Egiten. That of Gipuzkoa Provincial Council (DFG) is concentrated in the Strategy Management Plan 2020-2023 (see [http://www.gipuzkoa.irekia.eus/es/gardentasun-xehetasun/-/asset\\_publisher/vKGEW9OM3Hqd/content/g\\_822\\_plan-estrategikoak/85515](http://www.gipuzkoa.irekia.eus/es/gardentasun-xehetasun/-/asset_publisher/vKGEW9OM3Hqd/content/g_822_plan-estrategikoak/85515)). And that of Araba Provincial Council (DFA) is contained in the Strategic Plan for the 2015-2019 parliamentary term (see <https://irekia.araba.eus/es/plan-de-gobierno/acciones-de-gobierno/plan-estrategico>).

down to a lack of time, resources and means to do so. Second, it is also down to the very institutional architecture of the BAC, with a level of government, that of the DDFF, with great political and economic power. The great autonomy of the DDFF, with a different political cycle to the GV's, and the greater frequency of bilateral meetings between the GV and each Provincial Council hinders the coordination of plans and policies and the implementation of that joint strategy, even when the GV and DDFF are governed by the same political party.

With regard to **legislative** aspects, the approval of the Local Authorities Act in 2016 has allowed the distribution of spending powers to be defined in quite a clear and organised way. However, as regards income, a reform would seem desirable that, by dividing the tax rates between the GV and the DDFF, would combine the fiscal autonomy of each level of government with separation of income; or, at least, that would endow decision-making capacity at tax level to all levels of government or which would link the level of income of each level to their declared global needs (Zubiri, 2018).

The **organisational structures** are a third important factor that can facilitate or hinder coordination (Braun 2008). A distinction should be made, in that regard, between those affecting coordination within each institution and those affecting inter-institutional coordination.

With respect to the *coordination within each institution*, the traditional central areas (Premier's Office, The Treasury and Public Administrations or Governance), the Basque Government Council and, generally, the Inter-ministerial committees linked to each plan play an important role in the GV and DDFF. The variations in the structure and composition of the different government teams do not seem to have led to significant changes in the level of coordination. As in other places and following the *New Public Management* recommendations, the Basque administrations, with the exception of the DFG (Gipuzkoa Provincial Council), resorted to setting up agencies to execute the designed policies and strategies with greater flexibility and to achieve greater outreach to end users. Agencies are more flexible and efficient instruments than the Administration, but they add a new level of fragmentation in the governance of the system. On the other hand, the subsequent application of the Public Procurement Act to governmental agencies has made them less flexible. In the case of GV agencies, and compared to the traditional division established by academic literature between a department leading and designing

the strategy and the policies and an agency implementing them, they have actively participated in the design of the policies. That has been, fundamentally, due to the lean staff structure of the GV ministries. The Government has resorted to private consultancy firms, in addition to the Agencies and sometimes with greater prominence, to develop their strategies and policies.

With respect to the *inter-institutional coordination*, a distinction has to be made between general and sectoral. With respect to the general, there is a lack of a body to discuss and identify the fundamental challenges facing the BAC overall and to define a joint strategy to allow it to overcome them, and on which the strategies subsequently developed by each of the institutions are based. The existing main inter-institutional organisational structure, in which three types of institutions participate –GV, provincial councils and local authorities–, is the Basque Council of Public Finances (CVFP), whose remit is fundamentally income, and that, among other aspects, determines the distribution of the taxes collected pursuant to the Basque Economic Agreement between the different institutional levels (vertical distribution model), along with the contribution coefficients of each province (horizontal distribution model). That is regulated by the so-called Contributions Act (Act 2/2007), which even though it was initially approved for 2007-2011, has not so far been able to be updated due to the lack of agreement between the provincial institutions, meaning that it has been extended.

As regards spending, there is no general organisational structure and the only existing coordination mechanisms are sectoral. In the case of really exclusive devolved powers (such as Education or Health), those coordination structures are not necessary in reality. And there is no common template in the case of shared devolved powers. In some cases, formal inter-institutional committees have been setup in which the three institutional levels participate (for example, the PCTI [Science, Technology & Innovation Plan] inter-institutional committee); in others, the structures are more informal (for example, bilateral meetings of politicians) or linked to specific projects (for example, boards of the Aeronautics Advanced Manufacturing Centre). Even though a certain degree of informality fosters flexibility and experimentation, the existence of certain formal structures in turn encourages stakeholders to be in contact and subsequently work together and a more systematic sharing of lessons learnt, so that it complements the former. In general terms, achieving a balance between formality and informality, seeking to consciously exploit the advantages that each offer and seeking to reduce their

disadvantages, would seem convenient. Thus, it does not seem logical that there is no permanent formal work and coordination structure, where the three provincial councils would periodically meet to share their experiences and lessons learnt systematically; but the number of inter-institutional committees generated by plans and programmes, many of whose activity is irrelevant, equally seems excessive, and committees could instead run that address larger areas and with more planned activity.

The **budget** may likewise have a clear coordination function, complementing the role of other mechanisms, such as that of strategy (Saliterer et al., 2018). Attempts at change regarding the traditional “incrementalism” of the budgetary operations can be glimpsed in the Basque institutions. The economic crisis and the great drop in income led the GV to abandon budgetary operations based on pure incrementalism (i.e. equal variations on the previous year’s budget for all departments) and adopt an adjusted incrementalism (where notably different variations are introduced by areas, even starting from the amount allocated the previous year in each department); and even to conduct budgetary prioritisation exercises (where the improved revenue collection are reserved for activities considered to be strategic, such as the Lehendakari’s commitment to increase the public funding of R&D by 5% a year during the last parliamentary term). Particularly noteworthy is the attempt by the DFG to link the priorities of the management plan to the budget, to progress towards a state where if a measure is not included in the strategic management plan, it cannot be included in the budget.

The make-up of the political and technical **staff** is another relevant factor affecting coordination. The literature has stressed staff mobility between institutions and between political and technical posts as a positive coordination mechanism. That mobility has occurred in the BAC in a limited way among political positions and is nearly non-existent among technical posts. Filling the political positions from among the technical staff of the Administration tends to foster the continuity and coordination of the policies rather than innovation and reforms, aspects that are easier to be undertaken by people outside the Administration. Given the growing difficulties to attract external professionals to political positions (due to politics being brought into disrepute, due to the low remuneration and strict rules regarding conflicts of interest...), an increasing reliance can be seen in the BAC on appointing political positions from among the technical staff. Yet, there is also a growing lack of interest among the technical staff of the BAC to be

promoted to political positions. Therefore, attracting more competent professionals to the political positions is a significant problem at the moment.

The **parties** can likewise play a coordination role and to overcome departmental and institutional fragmentation (Bolleyer, 2011). That task is, in principle, more likely when it is the same party governing the different institutions (Peters, 1998), which is the current case in the BAC with the PNV, even when that government is in coalition with another political force (generally, the PSOE [Spanish Socialist Party]) in those institutions. There are two other features, characteristic of the party governing the main Basque institutions, that significantly affect institutional governance and coordination: on the one hand, the dual nature of the posts of the PNV, meaning that the people holding institutional posts cannot be in the entities of the party tasked with monitoring and controlling that institution; and, on the other hand, a structure organised by TTHH, meaning that the political posts of each institution answer to the executives and assemblies of the TTHH to which the institution belongs. That results in greater filters or controls of the activity of each institution, so that in addition to the standard ones of any democracy (i.e., the control work performed by the Court of Audit and the Parliament itself), there is the work carried out by the territorial structure of the party. Furthermore, as the income of each institution is subject to scrutiny by the remaining institutions in the CVFP, that territorial structure of the PNV, with its own interests, leads to that possible control being effectively exercised. Yet on the other hand, when the discrepancies between the interests of each territory are very pronounced, as in the debate regarding the so-called Contributions Act, the central structures of the party do not always play the balancing role that the system requires.

Finally, the **parliaments** or general assemblies do not seem to be playing a significant role in the BAC to shape joint approaches or in the work to control the budgetary and political action of the governments. It is not usual in the BAC for members of parliament to be involved in preparing “white papers”, in the implementation of “budgetary offices” or similar. Parliamentary questions and scrutiny of the government is more sporadic and frequently reflect the coverage that certain issues have generated in the media. In general, the parties in government act in parliament rather as transmission belts of their governments than to represent the constituency to which they have been elected.

### 2.3. *From government to governance*

In the same way as in other advanced societies, steps have also been taken in the BAC for the strategy and the public policies to be the outcome not only of the action of the Government, but also for other social stakeholders to be involved. Within the participation of the latter, that of the citizens should be distinguished from the participation of organised stakeholders.

The participation of the citizens in the public policies and strategy has traditionally occurred through voter turnout, which endorses the election manifesto of the political forces voted into government. That election manifesto is then turned into a government programme, which frames and structures the government's strategy and policies.

Yet apart from that channel, governments have been driving mechanisms to foster the free and transparent access of the citizens to the information of the public administrations and for the former to be involved in public affairs. The first steps were taken in that regard with the setting up of private-public organisations such as the 2015 Basque Competitiveness Forum (2004), Innobasque (2007) or, at provincial level, the Gipuzkoa Berritzen platform (2007). But it was from 2010 onwards when the citizen participation methodologies in the design, implementation and evaluation of the public strategies and policies at the different levels of the Basque administration were intensified. The majority were overseen by Innobasque and developed with a very considerable degree of experimentation. The most outstanding initiatives include, in the sphere of action of the Basque Government, the Irekia portal and the Housing Social Covenant, winners of UN awards, and the Democracy and Citizen Participation White Paper, recognised by the United Regions Organisation; as regards the Provincial Councils, the processes for preparing territorial strategies (Bizkaia Goazen 2030, Etorkizuna Eraikiz...); and at municipal level, different projects with Eudel and some Basque municipalities.

As regards the participation of the different organised stakeholders, what stands out in the BAC is that there are no organisational structures specially designed to enable their participation in the cross-cutting or more general strategies. The Basque Social Economic Council (CES), the main participation body of the organised stakeholders of the BAC (namely, trade unions, employers' confederations, other socio-business stakeholders and civil society and experts) have had representation problems, key areas excluded from their sphere of action (for example, fiscal and labour) and, ultimately, their activity has been

rather reduced. Some of the interviewees noted that, even while still sticking to the business world, there is such a diversity of interests that no organisation is accepted as the general representative of that group and that they have to rely on very broad and barely operational forums.

In sectoral areas, by contrast, the Basque institutions have been creating numerous spaces to enable the participation of the stakeholders most directly related to the areas envisaged in the relevant plans or programmes (see, for the example, the PCTI-2020, which is discussed below). The BAC is noted, in that regard, for a high degree of private-public partnership. In comparison to other places, the participation of the university and of the social partners (general business associations and, particularly, trade unions) has been lower, and that of cluster associations and technology centres, greater. Yet, as in many other places, the achievements are relatively small regarding the participation of the other organised stakeholders of civil society (consumer associations, NGOs....).

### **3. Governance of the transformative strategies**

In recent years, particularly since the last major economic crisis, industrial policy has been overhauled in the OECD area as an instrument to respond to the great systemic challenges arising from technological change, globalisation and climate change, among others (Morgan, 2018). Within the EU cohesion policy, this new industrial policy has adopted the form of the so-called RIS3 (*Research and Innovation Smart Specialisation Strategies*), which stress the need for the territories to establish vertical or thematic specialisation priorities. The RIS3 do not only seek to speed up or improve the conditions for innovation, but also to influence the direction or pathway of that innovation. They are, in the words of their creators, “economic transformation agendas” (Foray et al., 2012).

The RIS3 also required a new mode of governance, due, precisely, to that positioning to establish vertical priorities. The government lacks the necessary knowledge to determine and implement the thematic priorities. These must be the outcome of an “entrepreneurial discovery process”, *bottom-up*, in which, companies, knowledge organisations and civil society, in addition to the government, –the so-called quadruple helix–, would be part. A greater role is given to the regional perspective in the governance of the new policies, and within that new scale, to the different administrations and levels of government, and to multiple stakeholders. On the other hand, given the considerable margin of

experimentalism of the entrepreneurial discovery processes, the need is assumed for a systematic monitoring and assessment of the management of the processes and their results (Morgan, 2018).

As many authors have stressed, the GV has been applying smart specialisation strategies since it was set up in 1980 (Valdaliso et al., 2014; Navarro, 2015; Morgan, 2016). Article 10 of the 1979 Basque Statute of Autonomy granted the GV the sole jurisdiction in the area of industry and research & development (R&D). In that last area, its powers had to be executed in coordination with the Central State Administration (AGE). The agreement of the R&D transfer had to wait, however, until 2009, even though right from the start, the GV decided to exercise the power, even without the transfer of the relevant resources (Aranguren et al., 2012; Valdaliso, 2019). In general, the international literature (Koschatzky & Kroll, 2007; OECD, 2011b) considers that, even though the promoting of innovation may be perfectly driven by the sub-national administration, the R&D jurisdiction is more inherent to the supranational or national level, meaning that the BAC stands somewhat apart from the prevailing paradigm in science and technology policies. Furthermore, within the BAC, even though the R&D jurisdiction seems attributed to the GV, the DDFF and the provincial capitals finance a significant part of the R&D, particularly the former with the tax incentives to R&D.

The specialisation strategy of the BAC has always focused on industry and combined technological modernisation with diversification and related variety. The Basque Government's Ministry of Industry (currently, the Ministry of Economic Development and Infrastructures-DDEI) and two government agencies under that Ministry, SPRI and EVE, were initially responsible for that strategy, even though different social stakeholders were involved in the design and application: trade unions and business associations in the 1980s, cluster associations and other public-private institutions from the 1990s. From 1999 onwards, the GV embarked on a new productive transformation and diversification strategy based on science. That was far more cross-cutting and involved bringing onboard new stakeholders –universities and research centres– and Government Ministries, and a greater role played by private-public institutions – either existing ones, such as the Basque Council for Science and Technology (CVCT), or newly created ones, such as Orkestra, Innobasque or Ikerbasque– in the design and implementation of the policies. 2010 saw the start of an important change in their governance, as the leadership of the PCTI 2015 was shifted from the Ministry of Industry to the Lehendakaritza and, within that Office,

to a new figure, the Commissioner for Science, Technology and Innovation (Valdaliso, 2015 and 2019).

The Science, Technology and Innovation Plan – PCTI-2020, unveiled by the BAC in 2014 and approved by the EU as the Basque RIS3, marked the culmination of that advance towards innovation-based transformation policies. The very plan in itself is one of the main governance and coordination mechanisms. Even though there has been positive progress, involving establishing the final goals, setting priorities, extending the plan to the greatest number of departments and institutions, it still continues to have certain limitations, including:

- Its focus is nearly exclusively on economic competitiveness, with barely any consideration of the great social and environmental challenges.
- It is a GV plan, which barely contemplates the plans and actions of other Basque institutions (DDFF and city councils of the provincial capitals, particularly), meaning that it does not fully integrate the activities of all the institutions. However, given that the R&D&I activities of the DDFF and of the city councils of the provincial capitals take the PCTI indirectly as a benchmark, its indirectly exercises a coordinator effect in that regard as well.
- It is fundamentally an R&D plan, formally on the same level of other plans or strategies prepared independently of it and which significantly impact innovation or any strictly linked factors (Industrialisation Plan, Internationalisation Strategy, Employment Plan, University Plan, VET Plan, Energy Strategy...). Yet here as well, beyond the formal cross references made in such plans, the PCTI and the relevant RIS3 can be seen to have been a key reference point for many of them, so that there is a certain alignment with the RIS3.

Moving on to the *organisational structures* facilitating coordination and governance, Figure 2 sets out those envisaged by the PCTI-2020.

The Basque Council for Science, Technology and Innovation (CVCTI), chaired by the Lehendakari, is in the upper level and provides strategic guidance, participation, advice and promotes the R&D&I policies. In addition to the Lehendakari, currently its members include five GV ministers, the three Provincial Council Chairs, the Chancellors of the three Basque universities, one representative of the technology centres of the BAC, four

business representatives, the Chairs of Ikerbaske, Innobasque and Jakiunde (the Basque Academy of Arts & Sciences), and the general secretary of the Basque Premier's Office.

The Scientific Committee, made up of relatively young people, with different profiles and with a marked technological profile, plays an advisory role, not only to the CVCTI, but also to the GV. Furthermore, it is a body that is periodically renewed.

The Commissioner (a figure assumed by the general secretary of the Premier's Office) and the technical secretary of the CVCTI actively link and coordinate the different stakeholders and energise the plan.

The Inter-ministerial Committee was set up to correct the functioning by "silos" in the field of R&D&I denounced by previous studies (for example, OECD, 2011a and Morgan, 2013). In addition to the commissioner and the technical secretary, its members include the deputy ministers or directors of the departments most closely related to the RIS3. This body provides an overview of the RIS3 process, facilitates the identification of possible synergies and contacts and requires each department to report on or update on the main advances in their area. Even though its dynamics do not facilitate the strategic debate, the committee does satisfactorily provide information and foster subsequent bilateral contacts between its members.

The Inter-institutional Committee was set up to coordinate R&D&I activities and support programmes of the GV, DDFF and municipalities (represented by Eudel). The information provided in the Inter-ministerial Committee is usually submitted from a rather top-down perspective. The DDFF thus have advance knowledge of the key themes to be subsequently discussed at the CVCTI and, in that regard, possible controversial topics can be considered beforehand. According to Aranguren et al. (2016), the lack of participation of the provincial capitals in this committee is a constraint.

The pilot groups (GP), created to conduct the "entrepreneurial discovery process" in the implementation phase, are at the base of the RIS3 governance building. Seven groups, linked to the three strategic priorities and the four niches of opportunity selected by the RIS3, were created. As their names indicate, the first with greater business and science-technology capabilities; and as regards the second, with possible opportunities to explore, particularly in the cities. Aranguren et al. (2019) point to, however, that instead of this semi-hierarchical and dichotomous framework of priorities, another framework would be

preferable that distinguishes those that, according to their base, match existing strengths (Advanced Manufacturing and Energy), emerging capacities (Health & Bioscience and Food) and urban ecosystems (Urban habitat and Cultural and creative industries).

Be that as it may, as Aranguren et al. note (2019: 13-14), “there has been almost total unanimity by all of those interviewed that during this most recent phase of the RIS3 strategy the initial mistrust and relative scepticism around the principles and prioritizations of the RIS3 have disappeared as the agents started to participate in the different governance arenas”. However, taking into account the sectoral employment projections for the BAC using the *Futurelan* model, Navarro & Estensoro (2019) expressed the need for the RIS3 prioritisation to explicitly consider services to knowledge-intensive companies, whose employment, unlike industrial ones, show a strong growth trend for highly qualified jobs.

Given the great variety of existing situations, even within the two types of GP mentioned, the GV only established which stakeholders should initially make up the GP and a minimum level playing field. The groups themselves would subsequently establish their governance and who else they would invite to the GP or to their task forces. In that regard, there was notable experimentation and “learning by doing” and, consequently, the organisation of the GP has varied overtime. Yet, furthermore, the lack of a precise definition of the role of each member of the GP (for example if they are there on their own behalf or that of the organisation to which they belong, their undertaking to participate in the GP...) has led to certain confusion and lack of practical results.

As regards the types of participating stakeholders, companies and cluster associations and the scientific-technological stakeholders of the RVCTI also took part in the GP, in addition to the Administration.

- In general, there was a shift from intense participation and leadership of the Administration in the design phases of the RIS3 to greater participation and involvement of other stakeholders in this implementation phase. The DDEI was responsible for three of the four main GP (Advanced Manufacturing, Energy and Food) and different Basque Government offices were in charge of the each of the remaining GPs. The participation of the DDDF and provincial capital city council was notable in the niches of opportunity, but small in the strategic priorities.

- Technology centres have played a particularly notable role among the stakeholders of the Basque Network of Science, Technology and Innovation (RCVTI). The University, which felt rather overlooked in the setting up of the RIS3 and which has a greater presence in the GPs of the niches of opportunity than in those of the strategic priorities, reacted very proactively, realigning its new university plan with the RIS3 and with initiatives such as 4GUNE in the Advanced Manufacturing GP, which should be extended to other GPs.
- Representation of the *companies* has been channelled in some cases by the companies themselves (generally, tractor firms) and in others by cluster associations. Yet there is growing awareness that the companies most in need of the activity of the GPs are the small and medium sized ones (SMEs), but the GPs are not managing to reach them. Therefore, in order to reach that collective, intermediary stakeholders of the system, close to the SMEs but previously ignored by the science and technology policies, such as the local development agencies or the network of VET centres coordinated by Tknika, have begun to be used.
- There has been practically a total lack of representation of civil society (trade unions, consumer associations, NGOs....) in the GP.

A lack of large and integrated business projects, with cross-fertilisation capacity between priorities, has been noted in the dynamics of the GPs. In general, the activities considered are closer related to horizontal competitiveness factors affecting the companies of the group: skills training, new business, entrepreneurial or internationalisation models. In the first two, there have been barely any practical advances. As regards entrepreneurship, there have been innovative initiatives such as BIND 4.0 with a certain impact. And where the advance has been most evident has been in the participation and presence in EU initiatives: H2020, Vanguard, S3 Platform, EIT Food, EIT Manufacturing, EIP-AHA, etc.

The RIS3 has allowed a joint visualisation of the different public programmes and instruments, both of the GV and of the DDFF, which impact R&D, and even, in the case of some of their projects (for example, the Aeronautics Advanced Manufacturing Centre), an alignment of the different instruments for their financing. However, the coordination and alignment of the different instruments and programmes still need to be more systematic and, above all, a new wave of instruments is needed, along with multi-annual financing. Subsidy-based instruments are practically pretty well exhausted and more

demand instruments, such as innovative public procurement, need to be developed. Attempts in that regard have not been successful.

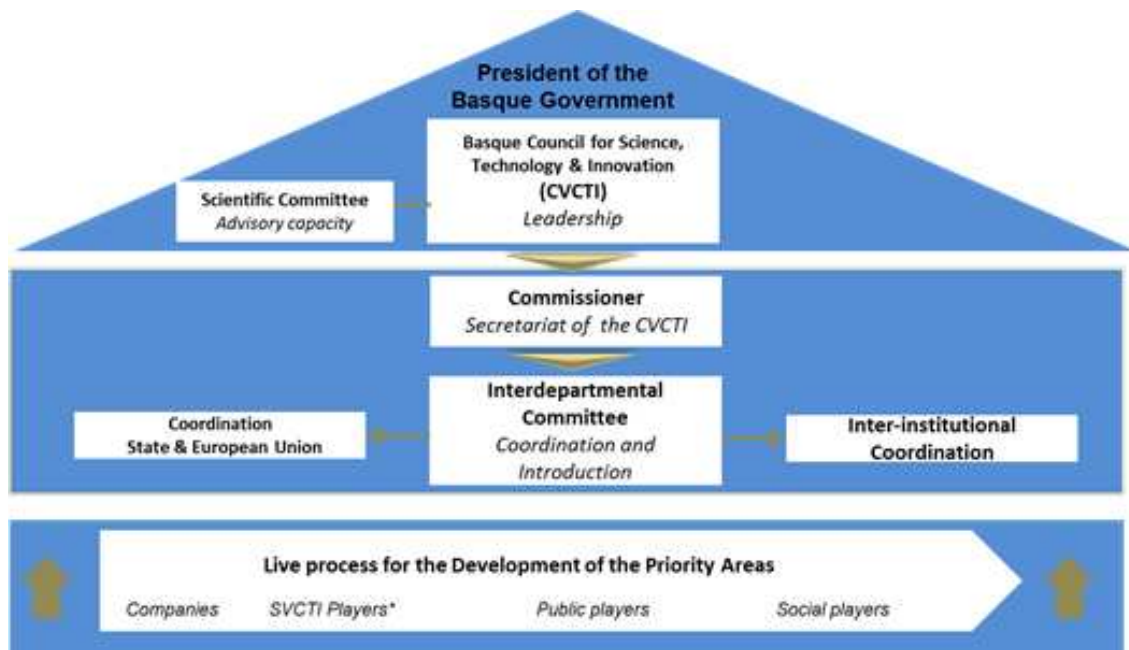
In keeping with experimentation policies such as the RIS3 being needed and in response to the crises that the previous Basque policies had raised in the reviews of the OECD (2011a) and Morgan (2013), great emphasis has been placed on developing internal and external monitoring and assessment mechanisms.<sup>2</sup> However, as Aranguren et al. (2019) pointed out: “These advances in evaluations should be pursued to establish a system of indicators that clearly distinguishes different levels of indicators (expected changes, results, programme and policy outputs and inputs), so that both the strategy as a whole, and each of the thematic and horizontal priorities dispose of their own indicators.”

The evaluation reports so far show a high degree of compliance of the programmes and the budgetary forecasts. The main deviation is in financing and implementation of the R&D by the companies, which has remained rather below the budgeted amount, which shows that the real degree of commitment of the companies (particularly the large ones, where there has been the greatest drop) to RIS3 has been less than desired. Furthermore, the benchmarking analyses performed using the *European Innovation Scoreboard* (EIS) and the *Regional Innovation Scoreboard* (RIS) have clearly shown the great weakness and lack of advance in the BAC in non-technological innovation, particularly in the SMEs.

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<sup>2</sup> A compendium of the monitoring and assessments performed is available at [https://www.euskadi.eus/web01-a2lehpcet/es/contenidos/informacion/monitorizacion\\_evaluacion\\_pcti/es\\_def/index.shtml](https://www.euskadi.eus/web01-a2lehpcet/es/contenidos/informacion/monitorizacion_evaluacion_pcti/es_def/index.shtml)

**Figure 2: PCTI-2020 Governance Model**



Source: PCTI 2020.

#### **4. Future scenarios for economic and transformative governance**

##### **4.1. In the EU**

Advanced societies are currently experiencing a period of low GDP and productivity growth (OECD, 2019b), along with growing economic inequality (Piketty, 2013). Additionally, certain global trends (demographic, climate-energy, technological....) have accelerated. Although they were present in past decades, they will have a greater impact in the near future and will require urgent responses by public policies. Even though addressing those large challenges will require more than innovation policies, there is a growing school of thought that, along with Mazzucato (2018), argues that mission-oriented innovation policies are the key instrument to do so. As has been discussed in the first section, this requires new modes of governance.

More specifically with regard to the RIS3, it should be noted from the announcements made by European Commission representatives for the new period (see Berkovitz, 2018) that the RIS3 should pay greater attention to: (i) the main challenges and transitions for sustainability;<sup>3</sup> (ii) interregional cooperation (particularly in the development of

<sup>3</sup> According to Hassink & Gong (2019), the smart specialisation strategies applied in the EU so far have not addressed the main challenges and the transitions to sustainability as science and technology based

European value chains); (iii) synergies and complementarities with other community programmes and instruments (particularly with Horizon Europe and industrial competitiveness policies); and (iv) the consideration of developing skills (to be financed by the ERDF).

Yet in addition to the aforementioned aspects – aspects that were not fully contemplated in the initial RIS3 framework – reference should also be made to a series of attributes (“heroic assumptions” according to Marques & Morgan, 2018) that the EU predicted for the RIS3 and which, in practice, have not occurred in the majority of cases. Those “heroic assumptions” envisaged that the RIS3 would:

- prioritise transformation and diversification (avoiding lock-in or continuing to do the same thing)
- incorporate a broad innovation model (not restricted to the STI model, based on science and technology)
- be based on the participation process of the Quadruple Helix (incorporating civil society and going further than the so-called Triple Helix).
- function with multi-territorial or multi-scalar coordination
- be evidence-based throughout the cycle (design, implementation and assessment)
- be driven by governments with appropriate financing mechanisms and capabilities to do so.

As many analysts have indicated (Marques & Morgan, 2018; Hassink & Gong, 2019; Aranguren et al., 2019; Navarro & Retegi, 2018), those assumptions, necessary conditions for the RIS3 to really meet the assigned purposes, have not generally occurred in practice. Seen in this light, the RIS3 of the post 2020 period should aim to address these shortcomings.

## **4.2. In the BAC**

With respect to **general economic governance**, Section 2 refers to those questions where an entirely satisfactory solution has not been found to BAC governance. In the future scenario for governance, these questions must be addressed and solved as a matter of urgency. Yet if we exclusively focus on those questions that the EU considers to be key

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innovation models (STI) and pure economic competitiveness goals have prevailed there, ignoring other means of innovation and achieving ecologically and socially sustainable transitions.

and which would be applicable to the Basque case, special mention should be made of the following:

- Establishing a *joint strategy* for all Basque institutions, which responds to the great social challenges facing the BAC. Apart from containing a “Basque” reading of the main global social challenges, the strategy must equally seek to identify the regional social challenges as such.
- *Organisational structures* in which the set of institutions (and directly the large cities) effectively coordinate their policies and encourage learning from the different explorations conducted by each one.
- Creating spaces or forums where, in addition to the general public, different *organised stakeholders* from the Quadruple Helix can take part in all the strategy phases.
- Determining the *budgets and new instruments* (in particular, innovative public procurement, green taxation and price policy, and regulation) linked to that strategy.
- *Monitoring and evaluation* mechanisms of the policies.

As regards the future scenario of the **governance of the smart specialisation strategy**, reference should be made to the *PCTI Euskadi 2030. Core Economic and Strategic Lines* (LEEB, hereinafter), approved by the CVCTI in December 2019. By comparing what is proposed therein with what the future RIS3 should include (see section 4.1 above) and with the state of development achieved by the RIS3 of the BAC, the areas can be identified where substantial changes should be introduced with respect to the existing situation or plans. Such a comparison is summarised in Table 3, meaning that we will here focus on the main future challenges for the governance of the RIS3.

The greatest of the future challenges probably consists of the main social challenges being incorporated in the current RIS3 as that, in turn, implies far-reaching challenges and changes in all the other plans in Table 3:

- The economic activities or sectors where impetus is needed to address the demographic problems are more in line with what is called the “*foundational economy*”, than with the industrial activities currently prioritised in the Basque RIS3 (Morgan, 2018).

- The inter-institutional coordination needs vary, with the supranational authorities and large cities having greater importance.
- Greater relevance of Basque Government Ministries such as Employment & Social Policies and the Environment, Territorial Planning & Housing, which had been absent or with a marginal presence in the Basque RIS3, and, in general, greater crossing-cutting and a need to coordinate the programmes.
- Social and non-technological innovation has grown in importance and new competences and skills are needed, both in the population and in the RIS3 managers.
- Incorporating the fourth component of the Quadruple Helix (civil society, the main user or recipient of those policies) is unavoidable.
- The increased uncertainty and the need to experiment requires impetus to be given to “experimental agencies” and politicians’ attitudes, to be clearly different to existing ones.
- A better policy mix is needed, where greater importance is given to innovative public procurement and regulation (the latter, not transferred in the key fields to the BAC).
- A whole other set of indicators is required to monitor the policies (to a large extent, not available in the current regional statistics) and different evaluation mechanisms as well.<sup>4</sup>

In the face of this, what the LEEB document suggests for the coming RIS3 is limited, as none of the four types of operating objectives can be seen to refer to those main social challenges. Yet it envisages driving innovative public procurement and social agents being included in the GP and, additionally, three cross-cutting tractor initiatives to be established (healthy ageing, electric mobility and circular economy), in which specific working groups will be set up

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<sup>4</sup> Even though they are specified for the sub-national level, Mazzucato (2019) refers to the changes of governance required by mission-oriented policies aimed at responding to main social challenges: intersectoral & inter-institutional coordination; development of agencies with autonomous regions; experimentation capacity and risk taking; involvement of new stakeholders (citizens and civil society), avoiding uptake due to “*vested interests*”; primacy and alignment of instruments such as innovation public procurement, public prices, regulation...; new and dynamic monitoring & assessment mechanisms; multilevel governance with great importance of the supranational plan...

On the specific question of economic competitiveness, driving diversification and overcoming lock-in situations implies, in the Basque case, impetus being given to knowledge-intensive business services (KIBS) and crossed fertilisation phenomena. This also deeply affects all the others plans of the GV (see Table 3). For example, KIBS companies do not form part of the RVCTI and, in general, the RIS3 GPs, and the R&D support programmes, which are the ones that absorb the majority of the public policy resources, are not suited to the unique knowledge-gathering and generation process of the KIBS companies or the non-R&D innovation services that they provide; and, furthermore, KIBS companies are fundamentally located in the large cities (in Greater Bilbao), a territorial level that does not directly participate in the Basque RIS3 governance. The LEEB document rightly addresses the need for cross-cutting tractor initiatives (for which task forces, parallel to the GP, will be created) and for advanced and technological digitalization and communication service companies to be incorporated; however, changes will also have to be considered in the majority of other RIS3 plans.

Finally, different learning and innovation models from the traditional Science, Technology and Innovation (STI) one being incorporated in the RIS3 is of paramount importance. Yet again, the LEEB document thus proposes it, by recognising, on the one hand, the great weakness of the BAC in non-technological innovation shown by international benchmarking; and, on the other hand, incorporating talent as the fourth intervention strategic cornerstone. However, as previously indicated, that will have little practical impact if it is not accompanied by changes in the other RIS3 plans. Thus, for example, that recognition of the key importance of talent and of skills should be accompanied by recognition of a higher profile of the agents involved in its generation (universities and VET centres, without forgetting the companies themselves) and of the GV ministries on which they depend (Education, in the case of young people, and Employment, in the case of adults).

**Table 3: Comparison between the future challenges of the RIS3 in the EU, the current situation in the BAC, and PCTI30 proposals**

<b>Future RIS3 challenges in EU</b>	<b>RIS3 Situation in the BAC</b>	<b>LEEB Proposal of the PCTI2030</b>
Great social challenges	Exclusive focus on economic competitiveness	Link with five SDGs and incorporation of triple transition (digital-technological, energy-environmental and social-demographic). Linked to the latter, 3 cross-cutting trail-blazing initiatives have been established (healthy ageing, electric mobility and circular economy), in which specific working groups will be set up
Fostering diversification and avoiding <i>lock-in</i>	Inclusion of niches of opportunity, but industrial supremacy, little crossed fertilisation and lack of SEIC.	Refining the specialisation areas, launch of 3 cross-cutting trail-blazing initiatives (see above), deployment of the cross-cutting core technology map, and incorporation of advanced and technological communication and digitalisation service companies.
Multi-level coordination	Plans of other institutions not integrated or contemplated	No new aspects
Programme alignment	Not integrated with other plans of the GV, although there is a certain spontaneous alignment with the RIS3	Greater coordination with other GV plans, within the GV's Agenda Euskadi Basque Country 2030
Broad innovation model	Main focus on R&D, despite the greater weakness in non-technological innovation of SMEs	Greater relevance of SME non-technological innovation targets and indicators
Skills consideration	No skills targets set and relatively secondary role of the Basque Ministry of Education and of universities and VET centres	Recognition of Talent as one of the 4 strategic cornerstones (along with scientific excellence, industrial-technological leadership and open innovation)
Interregional cooperation in the EU	Good positioning of the BAC	Strengthening the positioning and search for synergies with regions with similar commitments
Quadruple Helix	Triple Helix model (absence of civil society), with a lower profile given to universities and difficulties to involve SMEs	Target to incorporate social agents in the GP
Government Training	Strength of the BAC, even though can always be improved	No express reference
Budget and financing	Downturn in private funding and increase in public funding. Multiplicity of programmes, aligned with specific projects. Lack of demand instruments and multi-annual financing.	Commitment by the GV to increase financing to R&D (> 6% a year), and forecasts of smaller increase of private funds. The instruments will be specified in the Plan, but announcement of impetus for innovative public procurement.
Monitoring and Evaluation (M&E)	Establishing internal and external M&E mechanism, but without attaining a diagnostic monitoring	The mechanisms will be specified in the Plan, and announcement of prioritising international benchmark indicators (Regional Innovation Scoreboard...)

Source: authors' elaboration.

## 5. Conclusions

As there is no space here to address the full implications of the foregoing analysis, we use this concluding section to highlight some strengths and weaknesses of the Basque trajectory of economic development and the challenges it is likely to face in the near future. But the positive side of the ledger must begin by reminding readers of the enormous achievements of the past 40 years because, if we look back to the grim economic realities of the early 1980s, the conventional wisdom predicted a sombre future for the Basque economy given its reliance on mature industrial sectors and its inability to attract foreign direct investment on the scale of other transition regions in Europe (Cooke and Morgan, 1998). That the Basques confounded this conventional wisdom owes much to their *collective capacity* to leverage the assets of the past to reinvent a viable economic future through a trajectory that struck a fine balance between continuity and novelty, between a deep respect for cultural heritage and a tenacious commitment to science, technology and innovation.

Striking a judicious balance between continuity and novelty is a challenge that all countries face when they design and deliver their economic development strategies. Arguably, the most important continuities in the Basque case were threefold: (a) a widespread political consensus about industry as the main source of wealth and prosperity for the BAC, and a remarkable continuity in the political and technical teams responsible of that field at different government levels; (b) an assiduous commitment to public investment in science, technology and innovation; and (c) another source of continuity can be discerned at the operational level, where the RVCTI furnished a stable and predictable institutional landscape that helped to keep firms abreast of commercial and technological change. As regards novelty, the Basque Government has played a major role in introducing a series of novelties – with respect to new sectors like biotech and nano-tech; new innovation and talent-related agencies like Innobasque and Ikerbasque; new research centres like the Basque Excellence Research Centres and Cooperative Research Centres; and new deliberative spaces for inter-firm collaboration like Cluster Associations and Entrepreneurial Discovery Spaces (Aranguren et al., 2016; Morgan, 2016). But this experimental ethos could be curtailed by two elements: on the one hand, by the growth of national regulations in Spain that are designed to counter the virus of political corruption, even though the Basque Country is one of the least corrupt regions in the country; on the other hand, by the relative comfortable economic situation currently

existing in the region, what is not conducive to risk-taking experiments, compounded because the negative impact of the grand societal challenges are not clearly noticeable yet.

With respect to the weaknesses our analysis suggests that two problems need to be addressed as a matter of urgency. The first concerns the weakness in *non-technological* innovation. The weakness of the BAC in non-technological innovation is a very important issue given the fact that future innovation models are about grand/societal challenges in which citizens will need to be agents of innovation in their own right, especially if societies are to solve problems such as climate change, dementia, obesity and mental health etc, where behavioural change is as much if not more important than technological change. Although the Basque Government is aware of the importance of *social innovation*, along with its stakeholders it needs to devote much more time and effort to mobilising civil actors in its innovation activities.

The second weakness concerns the agents/institutions that have been under-represented in the Basque “governance house”, mentioned precisely in sections 3 and 4. Two of the most conspicuous in this respect are cities and universities. When the Basque RIS3 was originally designed there was little or no thought of involving the cities as co-authors, even though the *urban realm* is now acknowledged to be a critically important testbed for a new generation of services (like 5G) and new mobility technologies (like electric vehicles). In its plan for the renewal of Zorrotzaurre, for example, Bilbao City Council has embarked on one of the most ambitious “smart city” projects in Europe and therefore the Council ought to be given parity of esteem in the Basque innovation conversation. Similarly, the Basque universities should be given a more prominent role in the innovation system because, in the past at least, they felt themselves to be outsiders in their own country. Neither of these weaknesses should be seen as fatal because, if there is one quintessential feature of the past 40 years that deserves to be singled out, it is the Basque capacity for collective action.

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