

Reports n° 4

**THE CONDITIONS FOR AN INCREASE OF THE
INVESTMENTS OF COMMUNITY ENTERPRISES
IN THE LESS DEVELOPED REGIONS OF THE COMMUNITY
ROLE OF INDUSTRY AND THE PUBLIC AUTHORITIES**

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INVESTMENTS OF COMMUNITY ENTERPRISES
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THE COMMUNITY -
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1. INTRODUCTION

Article 2 of the Treaty of Rome emphasises the aim of achieving a balanced economic development within the European Community. Regional problems existed, and have continued, precisely because economic development tends naturally not to be evenly balanced. There is a strong case for special measures to be taken to correct these regional imbalances, both for economic and social reasons. Hitherto the special measures have been taken by the countries concerned on an individual basis. The question now posed is the extent to which there can be Community policies, in addition to national policies, to encourage investment in these regions by both the public and private sectors.

In just a few months time, the Community is to be enlarged by the accession of Britain, Ireland, Norway and Denmark. This conference on industry and society therefore provides an opportune moment to examine regional developments and the direction of regional policy in the context of a wider Europe. Britain has a long experience of regional disparities and of operating policies designed to even out these imbalances. I am convinced that Community enlargement will strengthen the resolve of European nations to arrive at a fully effective set of regional policies by drawing on the resources and experience of ten member countries.

I am particularly glad to be able to present this paper to you. My own industry - coal - has for many years been in the "front line" of regional discussions, both in Britain and the Six. Unfortunately, this has generally been because coal has been contracting and concentrating on the most efficient coalfields: collieries have been closed, men have become displaced, thus creating serious regional problems of underemployment. This process has, however, contributed to a keen awareness within the coal industry of the problems in the regions and a deeply-felt concern to find real and lasting solutions.

2. EUROPE'S REGIONAL PROBLEMS

Regional problems have arisen because of uneven rates of economic development and the continuing process of structural change. Typically this is associated with the attraction of industry towards the major conurbations on the one hand; and the decline of traditional industries and the move of workers away from the land in underdeveloped agricultural regions on the other hand.

The symptoms of regional imbalance are seen in the gap between the growth rates in the more prosperous parts of a country and the "declining" areas. This is accompanied by wide differences in the levels of average wealth per head and in standards of living, and by relatively high levels of unemployment and emigration of population in the poorer regions.

I would like first to examine Europe's regional problems, country-by-country, starting with the U.K.

(a) United Kingdom

Regional problems in Britain are associated primarily with the need to adapt and rationalise traditional industries, and to this extent, they are rather different in nature from the regional problems found in most countries on the mainland of Western Europe. To find the explanation for this we have to look back to the days of the industrial revolution: "being the first nation to industrialise, it paid Britain to buy her primary products overseas,

/especially

especially in Commonwealth countries, and to specialise in the production of industrial exports, in which, initially at least, she had no competition".⁽¹⁾ In the late 18th century and throughout the 19th century there was a rapid build-up in industrialisation in Britain, and a corresponding reduction in agricultural employment. "British prosperity was thus built on exports of textiles, iron and steel, ships and coal and her agricultural population had fallen to a very low percentage of the total labour force even by 1930." Today less than 3% of the British labour force is engaged in agriculture, and this is the lowest figure in the world.

The regional problems emerged with Britain's decline from supremacy in industrial trade in the years after the first World War. "The over-valuation of the £ in the 1920's, the emergence of economic blocs in the '30's, changes in technology and competition from lower wage countries, all combined to produce a secular decline in the traditional export industries. When the cyclical effects of the great depression were added to these long-run trends, the result was acute economic distress and unemployment in the areas where these industries were concentrated".⁽¹⁾ Although these difficulties were alleviated by the demands placed on the traditional industries during the second World War and in the years immediately following, they re-emerged with full force in the later 1950's.

The areas that have been most seriously affected by this decline are those in which the traditional industries were most heavily concentrated - Northern Ireland, Central Scotland, South Wales and the coastal regions of Northumberland, Durham and Cumberland. The statistics in TABLE A clearly identify these regions as the main "problem areas" in the U.K. Unemployment in the North and Scotland is more than three times as severe as in the South East of England; in Wales it is 2½ times as severe; and in Northern Ireland it is almost 4½ times the South Eastern rate. They are also regions of generally low population density and slow growth in total population -

/indeed

(1) Gavin McCrone in "Regional Policy in Britain".

indeed in Scotland there has been virtually no growth in population over the years 1961 to 1969. A substantial migration of population away from these regions has, for many years, off-set a large part of the natural population increase.

Average personal income is below the national average in all the development areas, but the difference is significant only in Northern Ireland, where income per head is 84% of the national average. The problem of concentrated poverty in declining regions is, therefore, far less severe in the U.K. than it is in many other European countries (where agriculture remains the primary occupation in many regions).

In parallel with the decline of Britain's traditional industrial regions, there has been a growing concentration of newer industries in the Midlands and, particularly, South East England. This has produced a second major regional problem in the U.K. - congestion. The South East of England occupies only 11% of the total land area, but contains 31% of total population. The Greater London Council area alone contains $7\frac{3}{4}$ million people (1969 figure) and the outer metropolitan area a further $5\frac{1}{4}$ million. A total of 13 million people is therefore crowded into a very small corner of the U.K., making this by far the largest urban concentration in Western Europe.

Britain's regional problem is, therefore, two-fold. It clearly entails "raising the rates of growth in the less prosperous regions, so that their labour reserves can be more fully utilised, migration reduced, and the income gap between them and other regions closed. In the congested regions, the primary problem is to plan the expansion in such a way as to make the best use of space, minimise the social and economic costs of congestion and preserve the amenity of the environment. This means that some urban concentrations, such as Greater London, must be prevented from further population growth and expansion must be diverted to other centres."⁽¹⁾

/Britain

(1) Gavin McCrone: Op. Cit.

Britain does not suffer the problem of large under-developed rural areas, which is so widespread on the mainland of Europe. We do have examples of such areas in the Scottish Highlands and mid-Wales, but the population involved is so tiny that though they constitute a serious local problem, they cannot be regarded as major problem areas in a national context.

(b) France

Regional problems in France are more varied than they are in Britain. First, as in Britain, there is the problem of areas which had become heavily dependent upon traditional industries which are now in the process of adaptation. The industrial revolution in France was centred on the coal-field areas to the north and east of Paris - Nord, Pas-de-Calais and Lorraine. The run-down in coal, and in the textile industry which grew up in the same areas, has brought serious social problems in its wake. Although the coal industry has played a less significant role in the French economy than in either Belgium or Germany, these problems are considered to be more severe than in those two countries largely because the manpower in the French coal industry was drawn almost entirely from the local population whereas the Belgian and German industries employ a considerable proportion of immigrant labour (1).

Second, there are very large areas in France which remain very heavily dependent upon agriculture - often in small and, by present day standards, relatively inefficient farm units. The whole of the Western and South Western Regions, which together account for 35% of total land area, contain only one quarter of the country's population. These regions are suffering the effects of modernisation of farming techniques; substantial displacement of agriculture workers; large scale migration of population towards the more prosperous regions; remoteness from the main transportation networks (particularly in Brittany, Corsica and the South West); and, in many cases, an
/underdeveloped

(1) See "Regional Policy in Britain and the Six", PEP/Chatham House, 1970

underdeveloped industrial infrastructure. In Brittany, there is the added difficulty of the cultural differences between the Breton people and the remainder of the French nation.

Further, there is the problem of severe overcrowding and congestion in the Paris region. This occupies about 2% of the total land area, but contains 19% of the total French population. The excessive concentration of population and wealth in Paris is probably the most serious aspect of regional disequilibrium in France. The statistics in Table B clearly highlight the regional disparities in France. Compared with the national population increase of 11% between 1958 and 1968, Paris grew by 17%, while the West and South Western Regions showed an increase of only 6 to 7%. This indicates the magnitude of the net migration of population towards the capital. Population density is 780 per square kilometre in Paris, only one-tenth of this figure in the Mediterranean and Western Regions, and lower still in the South West. Nationally, 15% of total employment is in agriculture - it should be noted that this is more than eight times the figure for the U.K. In the South West and Western Regions, more than 25% of the total work force is engaged in agriculture.

There is also a very wide disparity between regions in average wealth per head. The highest figure is naturally found in the Paris area where average wealth is 30% above the national mean. The poorest regions are in the West and South West, with average income in some areas barely half the Paris level: Brittany 72% of the national mean, Midi-Pyrenees 74%, and Poitou Charentes 75%.

The solution to France's grave regional problems requires a firm control of further expansion in the Paris region, the introduction of industries into the declining industrial areas of the North and East, and development of a new industrial base in the agricultural areas of the South and West.

(c) Germany

In contrast to the position in many other European countries, regional problems in West Germany are relatively modest. The rapid economic growth of the last 15 years has done a great deal to minimise the regional disparities which existed in the period following the war. Nevertheless, some problem areas do remain:-

First the division of Germany meant that some border zones were cut off from their natural hinterland by the frontier, leaving them remote from the centre of economic development in the Federal Republic. The problems in these regions were heightened by the large inflow of refugees from East Germany.

Second, there are certain predominantly agricultural regions in which industrial structure is generally weak, and farming is often relatively inefficient and unprofitable - Rhineland-Palatinate, Bavaria, Lower Saxony and Schleswig-Holstein.

Third, there are industrial areas which are heavily dependent upon traditional industries, notably the Ruhr and the Saar coalfields. While there have been difficulties in these regions, the successful stabilisation of German coal output in recent years has for the time being effectively solved the problem.

Finally, West Berlin presents very special problems because of its total isolation from the rest of the country.

Despite the existence of these problems, the statistics in Table C confirm a reasonably homogenous economic development throughout the Federal Republic. There are no excesses of unemployment. There are few areas which have suffered heavy population emigration. And while there is a fairly wide spread in average wealth per head between the richest and poorest areas, the sub regions with the lowest wealth per head are generally those with the smallest populations.

In general, "the Federal Republic provides a clear instance of the argument that high and increasing national prosperity is the best remedy for regional troubles".⁽¹⁾

(d) Italy

Italy's regional problems are undoubtedly the most serious in Western Europe. The contrast between the industrialised regions in the North and the underdeveloped South - the Mezzogiorno - is so marked that they could almost be considered as two separate countries. The Mezzogiorno covers some 40% of total land area and contains 36% of the total Italian population. Its economic development has been retarded by geographical, physical, climatic and historical factors.

The Mezzogiorno is characterised by poverty, remoteness and an inadequate industrial infrastructure. The contrast between this region and the Northern part of the country is highlighted by the statistics in Table D. More than 40% of the total work-force is engaged on the land in the Southern regions of Abruzzi, Molise, Apulia, Basilicata and Calabria, compared with only 7% in the industrial region of Lombardy. In Sicily and Sardinia agriculture accounts for more than 20% of total employment. Unemployment is high throughout the Southern part of Italy - generally between two and three times as severe as in the Lombardy region. It is, however, the enormous disparity in wealth between the North and the South which is the most distressing feature of Italy's regional problems. Nowhere in the Mezzogiorno is average wealth per head higher than two-thirds of the national average. In Basilicata it is only 57% of the average, in Molise only 54%, and in Calabria it is as low as 49%. These three regions alone contain three million people. In the industrial regions of the North average **per capita wealth** is considerably in excess of the national average - in Lombardy by as much as 50%. Average wealth in Lombardy is precisely three times that for Calabria.

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(1) "Regional Policy in Britain and the Six", OP. CIT.

These immense differences in income, and the lack of employment opportunities in the South, have stimulated a massive migration of population away from the Mezzogiorno towards the industrial North. Between 1951 and 1962 this population loss was estimated at 1.7 million people, and it has continued on a large scale right up to the present time. In the year 1968 alone 150,000 people moved away from the Southern regions. "This exodus deprives the South of valuable and enterprising manpower whose absence might be a major handicap in subsequent growth phases." (1)

Outside the Mezzogiorno the agricultural areas of Central and North Eastern Italy have a relatively low level of per capita wealth in relation to the industrialised regions of Lombardy and the North West, and have suffered from migration of population. But these problems are relatively insignificant when set longside those of the Mezzogiorno.

In parallel with the problem of the depressed regions of Italy, there is considerable congestion in the industrial regions of the North, particularly in the principal cities.

(e) Belgium and the Netherlands

Belgium and Holland are both relatively small, compact nations, and their economic development has tended to be reasonably homogenous. Regional disparities are not marked, and the statistics in Table E show that there is only a narrow spread in income levels between regions in the two countries.

Holland's main problem is one of congestion. It is the most densely populated industrialised nation in the world (an average of 349 people per square kilometre in 1968), and there is a heavy concentration into the Western region. This occupies only one-fifth of the total land area but contains almost a half of the Dutch population.

The agricultural provinces in North Holland have income levels below the national average, and suffer some migration of ~~popu~~ population towards the

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(1) "A Regional Policy for the Community",
Commission of the European Communities, 1969.

more industrialised areas. Holland does therefore share the problem of relatively underdeveloped agricultural areas, but these difficulties are fairly modest when considered on a European scale.

Regional problems in Belgium are generally more serious than in Holland, and stem from the changing pattern of industrial development. As is the case with Britain, Belgian industrial prosperity was based very much on the heavier industries associated with coal. There was therefore a concentration of population on the principal coalfields in the Southern part of the country. There has been a very sharp decline in Belgian coal production over the last 15 years from 30 million tons per annum in the middle 1950's to 11½ million tons in 1970. Belgium's Southern coalfield areas have therefore been in decline, and the country's main growth centre has shifted towards the Brussels and Antwerp areas. Unemployment has grown in the South and there has been some migration towards other parts of the country. The problem of the declining coalfield areas is compounded by the fact that they are situated in the French speaking Walloon region, whereas the new growth areas on the coast are Flemish speaking. The political and linguistic barriers between these two halves of the country make it difficult for workers displaced in the South to be fully integrated into the community in the North. The main regional priority in Belgium is, therefore, to attract new industry such as engineering, electronics and consumer goods into the Walloon heavy industrial area.

3. THE THEORY OF REGIONAL AID

We have seen the wide range of regional problems that exist in Western Europe today. The position of Southern and Western France and, particularly, the Mezzogiorno is undoubtedly the most acute. Indeed, writing in 1957, the American Economist Herbert Luethy said "one half of France is practically excluded from the modern economy and makes no appearance in the contemporary market either as a producer or consumer".⁽¹⁾ Rather less serious, though still complex, are the problems of the declining industrial regions of the U.K., and the special difficulties of Northern Ireland.

Having surveyed the scene, we should now examine how the public authorities approach the question of regional disparities.

The population in depressed regions clearly suffer considerable hardship and distress. In many countries the people in these regions are very much poorer than those in the more prosperous parts of their country, unemployment is high and the opportunities for employment are fairly limited. In addition, those regions which were the centre of 19th century industrialisation, and where traditional industries are now in a process of major adjustment, are generally characterised by a poor and ageing social capital. Housing conditions are often bad; hospitals, schools and road networks are often not up to modern day standards; and the regions are often scarred by large scale industrial dereliction left in the wake of once prosperous industries. These factors often combine to produce a most unattractive environment, which tends to discourage the establishment of new industries in these regions.

Gunnar Myrdal has shown that "if things were left to market forces unhampered by any policy interferences, industrial production, commerce, banking, insurance, shipping and, indeed, almost all those economic activities which in a developing economy tend to give a bigger than average return - and, in addition, science, art, literature, education and higher culture generally - would cluster in certain localities and regions, leaving the rest of the country more or less in a backwater".⁽²⁾ Once a region has entered the decline phase, growth in the more prosperous parts of the country

(1) Herbert Luethy, "France against Herself", New York 1957.

(2) Gunnar Myrdal, "Economic Theory and Underdeveloped Regions".

will naturally tend to draw resources away from the depressed region, thus encouraging a continuing decline. Left to themselves, these regions are likely to become poorer in relation to the rest of the country. Their social problems will intensify, unemployment will mount, and migration towards more prosperous areas will lead to gradual depopulation.

To stabilise this situation, Government intervention is necessary to restore the economic balance between the depressed regions and other parts of the country. There are two overwhelming justifications for this intervention - one social and one economic. First, by promoting economic development in depressed regions, Governments are actively seeking to raise standards of living and employment opportunities towards the level of the main growth regions. Second, if a region is permitted to remain in a depressed state, its labour resources will be substantially under-employed. If these can be brought into production, they will raise the national rate of economic growth, and so lead to a general increase in wealth.

The basic dilemma is whether the best and most effective policy is to encourage the establishment of new industries in depressed regions or to encourage people in the regions to move to other parts of the country where there are better employment opportunities - whether to take work to the workers or to take workers to the work.

It is clear that there will be some localised areas with an unusually poor and inefficient industrial infrastructure and, therefore, very little prospect of revitalisation through new industrial developments. In such cases, an attempt to reinvigorate the area might well meet with failure, and would probably represent a misallocation of resources. It would be better to stimulate a movement of the population into an area where development is more attractive, preferably within the same depressed region.

But such "hopeless" cases will be rare. As a general rule, there can be no doubt that the best solution to regional difficulties is to encourage new industries to establish themselves in areas where unemployment is high, standards of living are low, and traditional industries are /declini

declining. If the alternate course is adopted and workers are encouraged to move long distances to growth regions in other parts of the country - or, indeed, the continent - it is certain that the first to move will be those whom industry would regard as the most employable. These will be the most skilled workers, the best educated and the young. The older and the less skilled are likely to be left behind. This pattern of migration, by denuding the region of its best labour resources, will reinforce the process of decline, making the region less and less attractive for new development. The result will be an increase in the level of unemployment and a further reduction in wealth and standards of living amongst the people who remain. This is no solution for regional problems; new sources of wealth must be brought in to rejuvenate a depressed region.

Moreover, if there is substantial migration away from a declining region, this is likely to contribute to increasing congestion in the more prosperous areas which tend already to be overcrowded.

As we have seen, the problems of congestion on the one hand and of depressed and underdeveloped areas on the other, are two aspects of one problem - an uneven rate of economic development.

A regional policy will only be effective in evening out rates of growth across a country if it tackles the two aspects of this problem by fostering the development of depressed regions and actively combatting congestion.

It is, however, easy to understand why firms tend to be attracted to areas where the concentration of industry is already high. These prosperous regions will be the principal market centres for the firms' products, and there is often an advantage in locating close to main markets in order to minimise transport costs especially as industrial development is moving away from the heavier traditional industries. As industry concentrates in a growth area it generates a large pool of skilled labour and stimulates the growth of service facilities. These will then act as a magnet, with new industries being drawn in to take advantage of the favourable industrial environment.

There is also a large element of inertia in industrial location decisions. Once a firm is established in one growth area, there is a tendency for it to expand in the same area and not move elsewhere. As a recent EFTA report stated, "Many firms are located in particular places for purely historical reasons and expand there because, at least in the short term, it seems convenient to do so" (1)

It must be recognised that economies of scale apply to urban industrial developments just as they apply to the operations of an individual firm. A **certain** minimum size must be attained before it is economic to provide many of the services essential to modern industry - railways and a comprehensive road network; adequate and efficient schools and hospitals; and cultural and other leisure facilities. However, once an urban area exceeds a certain size, congestion sets in and diseconomies of scale begin to operate. The provision of social capital and industrial infrastructure becomes increasingly expensive because of mounting land prices and the physical difficulty of inserting these facilities into an overcrowded environment. There are also very real social costs associated with congestion - pollution, lack of amenity and the high costs and lengthy delays of transportation (particularly road transport).

There have been a number of studies which have attempted to quantify the ideal size for industrial cities. There seems to be general agreement that this optimum lies somewhere in the population range 150,000 to 500,000. (1) Whatever this figure may be for individual conurbations, it is clear that industrial expansion above this level will lead to heavy congestion and high social costs - and ought therefore to be discouraged. To quote again from the EFTA report: "What may be a sound location decision for the individual industrialist, when seen against the totality of location decisions taken by all individual industrialists, may not be so for society as a whole". (2)

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(1) EFTA, "Regional Policy in EFTA - Industrial Mobility", 1971.

(2) See Colin Clark in "Econometrica", 1945;
K.S. Lomax in "Journal of the Royal Statistical Society", 1943;
G.M. Nevtze, "Economic Policy and the Size of Cities".

The control of congestion is therefore an essential feature of regional policy. It should, however, be added that individual regions cannot necessarily be regarded as totally congested or uncongested. To take an example from Britain, the most crowded regions are the South-East and West Midlands, but the congestion is largely concentrated in the Greater London and Greater Birmingham areas. Other parts of the same regions are relatively free from congestion. Conversely, despite the generally low population density and declining industries of Scotland and Northern England, the cities of Glasgow and Newcastle are heavily congested. In stimulating the economic development of depressed regions, care must be taken not to reinforce the problems of overcrowding in their principal cities.

To sum up this section on the role of regional policy I would like to quote from the Commission's Memorandum on Regional Policy in the Community:

"The objective of procuring productive employment for the working population of all regions is an economic and social necessity. It is only by ensuring that all regions enjoy the fullest possible employment that sustained economic growth can be guaranteed.....

"Regional policy should enable the people to assist in their own development by eliminating the causes of economic inertia - by extending educational and vocational training facilities, by increasing their participation in the decision-making process, and by mobilizing and utilizing financial resources at regional level to a degree that will ensure the consistency of decisions at a general level."

We should now proceed to consider the instruments of regional policy employed in the Community and the U.K., and their effectiveness in dealing with regional problems.

4. THE INSTRUMENTS OF REGIONAL POLICY

(a) United Kingdom

Shortly after the Second World War, regional policies in the United Kingdom crystallized into the basic structure they have retained to the present day - control of industrial development in congested regions, and financial incentives to expansion in assisted areas. This system is often referred to as that of the "stick and the carrot". Over the years, there have been many changes in the precise policy measures employed but the dual emphasis on controls and incentives has remained throughout. The measures currently in force are as follows:-

The Government is able to control the pattern of regional development through Industrial Development Certificates (I.D.C.) and Office Development Permits (O.D.P.). In the South East and the Midlands, all office development requires an O.D.P. and all factory development in excess of 5,000 sq.ft. requires an I.D.C. In other parts of the country, O.D.P.s are not required, and I.D.C.s are needed only for factory developments in excess of 10,000 sq.ft. Permits for large scale factory expansion in the South East and the Midlands are not readily granted at times of high unemployment in the assisted areas, and this has been an important factor in directing firms towards the assisted areas.

There are three types of assisted regions in Great Britain - Intermedia Areas, Development Areas, and Special Development Areas. All receive financial incentives for industrial development at varying levels, depending on the severity of the regional problem. There are general incentives for industrial investment in all parts of the country, and it is against these that the effectiveness of the special regional incentives should be judged. Capital expenditure on industrial buildings outside the assisted areas qualifies for an initial allowance against tax of 30% (this is to be reduced to 15% from April 1972). Expenditure on plant qualifies for an initial tax allowance of 80% plus 25% of the reducing balance in later years

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(from August 1973 this will be reduced to an initial allowance of 60% plus 25% of the balance in later years).

The Intermediate Areas represent a new category of assisted region, established in 1970 following the recommendations of the Hunt Committee. They are areas which, though they do not suffer heavy unemployment and the problems of declining industries to any significant extent, have not shared in the prosperity of the main growth centres of the British economy. Their problems are intermediate between those of the depressed regions and the congested regions, but some special measures were considered necessary to encourage the growth and proper distribution of industry. The main areas in this classification are Humberside, the Yorkshire Coalfield, small parts of the East Midlands and North East Lancashire, the South Wales coastal strip and South West Devon. The first year tax allowance on plant is 80% as in the non-assisted areas, but the initial tax allowance on buildings is increased to 40%. In addition, all industrial projects in the intermediate areas - whether new projects or extensions to existing premises - qualify for a 25% grant towards the cost of building. In the case of firms moving into the area for the first time this grant is raised to 35% as an added incentive.

The Development Areas are the regions of generally high unemployment which are suffering from a decline of traditional industry. They include almost the whole of Scotland, the North of England, Wales, and parts of South West England which are remote from the main stream of economic development. In these areas, the first year tax allowance on fixed plant is 100% and the initial allowance on buildings 40%. New buildings qualify for a building grant of 35% (45% in the case of projects new to the area). In addition, manufacturing employers in these areas received regional employment premium at the weekly rate of £1.50 for each male worker employed (less for women and young persons). This premium is to be discontinued from September 1974.

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Since 1967, those parts of the depressed regions with the most acute problems of unemployment have been designated as Special Development Areas. Originally these were the areas that were being hardest hit by colliery closures, but the classification has since been extended to include other parts of development areas where unemployment has remained at persistently high levels. In these special development areas there is an additional incentive of a 30% operational grant towards the cost of salaries and wages during the first three years of operation by a new industrial project.

In the Intermediate and Development Areas firms may, for projects new to the area, opt for a 2-year rent-free period in a Board of Trade factory as an alternative to receiving a building grant. In the Special Development Areas, a 5-year rent-free period is available as an alternative to the building grant and the operational grant.

In all the assisted areas grants are available towards the cost of training and transferring workers. In the Development and Special Development Areas removal grants and loans for general purposes are also available.

The self-governing province of Northern Ireland, which has the most serious regional problem in the U.K., offers a more extensive range of financial incentives to encourage industrial development. In addition to the normal Development Area incentives, capital grants ranging from 20% to 40% of the cost of new machinery and equipment and from 35% to 55% of the cost of new buildings are available to projects which are regarded as especially attractive to the region. There are also grants towards the cost of transferring plant into the region, and towards the cost of establishing operations.

Throughout the United Kingdom, grants are available to local authorities for improving the industrial infrastructure and for clearing industrial dereliction. The provision of new roads (also hospitals, schools, etc.) feature strongly in public expenditure programmes at national and local level. While there is no specific element of regional assistance in this expenditure,

it is the assisted areas which generally have the poorest infrastructure and the worst dereliction. Consequently, expenditure in these fields tends naturally to be concentrated in the assisted regions.

(b) France

The three principal objectives of French regional policy are the de-centralisation of industrial and commercial activities away from the congested Paris region, the establishment of new industries in regions where traditional industries are in decline (particularly the Nord, Pas-de-Calais and Lorraine coalfields and the Vosges textile area), and the introduction of modern industry into the under-developed agricultural regions of the West and South West.

Regional planning has been an integral part of national economic planning for the past decade. The fourth plan, beginning in 1962 set target rates for the development of each region within the framework of national growth.

Controls over industrial development in the most congested regions feature strongly in the instruments of French regional policies. A Government permit is required before any industrial building covering more than 1,000 square metres can be erected in the Paris or Lyons areas. There is also a continuous review of the functions of the various Government departments in the Paris region, with a view to identifying those which could conveniently be re-located in other parts of the country. De-centralisation grants are payable to firms which decide to move away from the Paris region - in the case of industrial operations this grant amounts to 60% of total re-location expenditure.

In the depressed regions, the establishment of new industries is encouraged by the payment of investment grants - at rates up to 25% for new projects and 15% for extensions. The highest rate of grant goes to the four "special conversion zones" where it is hoped genuine new growth points can be successfully established - Nantes-St. Nazaire, Bordeaux, Limoges,

and Montpellier. In the development regions, loans are available from the Economic and Social Development Fund at a reduced rate of 6% for periods of 10-15 years; and regional development corporations may take holdings of up to 35% of a company's capital for up to 15 years.

There is a total or partial exemption from business tax for a maximum period of 5 years under the regional de-centralisation and development programmes, an amortisation rate of 25% for capital expenditure in the West and a reduction in the conveyancing tax on the purchase of land or buildings.

In certain parts of Western France subsidies are available which reduce the price of land to 6 francs per square metre. Natural gas is available at reduced prices in the South West, and there are reductions in the price of electricity for new industries in Brittany. Training grants are also available in the development regions.

In an attempt to make the industrial environment of the depressed regions more attractive for new industrial development "a number of semi-public companies have been set up in France to carry out major regional infrastructure projects in the agricultural or tourist fields, or for the generation and distribution of hydroelectric power. Projects of this kind have been completed, or are in progress, in Provence, Languedoc and the South West" (1).

(c) Germany

Regional policy in Western Germany is directed towards easing the problems of the primarily agricultural areas, the frontier zones, and the coalfield areas. Since 1958 a number of growth centres have been established "to absorb migrants from the land by the industrial development of small and medium sized towns located in the countryside at a sufficient distance from the big conurbations, and to provide a counter weight against the pulls exercised by the latter" (1).

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(1) "A Regional Policy for the Community".

The main instruments of regional policy are:-

- (i) investment grants ranging from 10% of total investment for industrial rationalisation projects to 25% for the establishment of new enterprises;
- (ii) loans to companies covering up to half the total investment cost of the project at low interest rates;
- (iii) grants covering up to 60% of the cost of developing industrial land;
- (iv) subsidies paid to offset the high transport costs incurred by companies situated in the frontier zones;
- (v) an investment allowance of 10% of capital expenditure against tax;
- (vi) the Federal and Land Governments stimulate the improvement of the industrial environment in the regions by substantial infrastructure investment.

(d) Italy

In its five year economic programme for the period 1966 - 1970, the Italian Government set the objective of closing the development gap between the under-developed regions - particularly the Mezzogiorno - and the most advanced regions within a period of 15 to 20 years. As we have seen, regional problems in Southern Italy are the most serious in Western Europe.

The principal agency for assistance to the south is the Cassa per il Mezzogiorno (the development fund for Southern Italy), established in 1950 with the task of promoting the modernisation of infrastructure, agriculture and industry. The principle instruments of regional assistance are:-

- (i) capital grants of 20% for investment in industrial buildings and 30% for plant and machinery;
- (ii) loans at low rates of interest;
- (iii) firms setting up in the south receive an exemption from corporation tax for a 10 year period;
- (iv) a 50% reduction in turnover tax, excise duty on motor fuel, and in certain railway freight rates.

/Over

Over and above these incentives, the Government now allocates at least 40% of total public sector investment to the south. This includes the nationalised industries, which play a major role in Italian economy.

The Mezzogiorno is such a large area that it has been considered wise to concentrate industrial development in a number of favourable locations, rather than spreading the available resources too widely and too thinly. In consultation with the E.E.C. Commission, this theory has been developed into the concept of a large integrated industrial growth centre, and the Bari-Taranto-Brindisi area has been selected to fill this role.

Regional incentives are also available to encourage industrial development in the agricultural provinces of north and central Italy, but they are generally not as extensive as the incentives in the Mezzogiorno.

(e) Belgium

Although there is a general commitment in Belgium to assist the more depressed regions, the objectives of regional policy have, according to "A Regional Policy for the Community", never been clearly defined.

The principle instrument of regional assistance is a rebate on normal rates of interest. Capital grants are also available for new industrial projects, ranging up to 30% for factory buildings and 10% for plant and machinery. Investment in the development areas can be depreciated at an accelerated rate for tax purposes, and there is a 10 year exemption from real estate tax.

(f) The Netherlands

Dutch regional policy is aimed at developing those regions which are still heavily dependent upon agriculture, introducing new industry into areas where coal-mining and textiles are in decline, and limiting congestion in the main conurbations.

Regional Infrastructure improvement occupies a key place in regional policy, and the bulk of expenditure in this field has been concentrated in the agricultural provinces of the north. New industrial projects in

the development areas receive a capital grant of up to 25%, based on the amount of factory floor space provided. There is also a 50% reduction in the purchase of land acquired for factory development; and interest rate rebates are available in Limburg.

(g) Community Regional Policies

The regional policy measures of the individual member states are supplemented by a number of Community instruments of regional policy.

First, the Guidance Section of the European Agricultural Guidance and Guarantee Fund (FEOGA) provides Community funds towards projects for structural improvement in the agricultural industry. Assistance under this programme currently amounts to £100 million per annum, and this is naturally concentrated amongst the low income agricultural areas of southern Italy, France and Germany.

Second, the European Social Fund contributes 50% of the cost of retraining and rehousing workers in new employment. The Fund is also able to contribute to maintaining workers' wages when a company switches its operations away from a declining industry and into a new field. However, because such situations are highly unusual, the Fund has made no "reconversion" payments of this kind. On the retraining and rehousing side, the Fund contributed a total of \$43 million between 1960 and 1966 towards retraining over 200,000 workers and rehousing 300,000.

Third, the European Investment Bank, established under Article 130 of the Treaty of Rome to contribute to the "balanced and stable development of the common market", plays an important role in the regional development of the Community. It assists member states in the provision of funds for regional projects, generally in the field of infrastructure improvements. Up to the end of 1967 it had advanced a total of \$1,000 million and its powers of finance have since been increased to \$1,500 million. The E.I.B. has played a major role in financing the Mezzogiorno growth centre project in the Bari-Taranto-Brindisi area. /Finally

Finally, the Treaty of Paris gave the European Coal and Steel Community powers to assist coal and steel producers in difficulty, to assist in mitigating unemployment in the coal and steel industries, and to promote the re-employment of redundant coal and steel workers. The Treaty provided for aid in the field of "readaptation" and "reconversion" the first for the retraining and rehousing of workers, and the second for advancing capital to industries likely to employ redundant manpower from the coal and steel industries. Between 1954 and 1967 the E.C.S.C. contributed about \$100 million towards the "social" costs of the run-down in coal and, to a lesser extent, steel. Between 1960 and 1967 a further \$100 million were advanced to stimulate the development of new industries in coalfield areas.

5. THE EFFECTIVENESS OF REGIONAL POLICIES

The assessment of the impact of policy measures on regional problems is a complex field. Statistical information is often inadequate - either in its accuracy or its coverage - to provide a full and comprehensive analysis of developments. And, of course, as regional policies are actually in existence and being applied, it is not easy to judge what the position would be in their absence.

Nevertheless, the armoury of regional measures employed in most West European countries is fairly extensive, and it is important to know whether or not this large-scale commitment of resources is generally meeting with some success. For the Community countries, some guide to progress can be gained from statistics presented by the Commission in "A Regional Policy for the Community" and in their 1971 regional study (1).

In France, the annual increase in income per head in the Paris Region was 7.3% per annum between 1962 and 1967, against a national average increase of 7.2%, so there was a slight increase in wealth in the capital city in relation to the national average. In 1967 the Paris figure stood at 155% of the national average. By contrast, average income per head in the Eastern region marked time at 90% of the national average, and it actually fell in the West from 87% to 85% of the average.

Of the 21 Basic Administrative Units in France, 11 showed a reduction in wealth per head compared with the national mean over this period. The areas concerned were generally the agricultural provinces of the south and west, and those in the north-east where traditional industries are in decline (Nord, Lorraine). The area with the lowest per capita income in 1962 - Midi - Pyrenees - had fallen even further below the national average by 1967 (from 81% to 80%).

In Italy, progress has been rather more marked. GDP per capita in the industrial North West fell from 153% of the national average in 1957 to

/140%

(1) "L'Evolution Regionale dans la Communaute".

140% in 1969. In the South it rose from 61% of the average to 68% by 1969. Some improvement was recorded in most of the individual regions, the only significant reduction being in Sardinia.

While this progress towards alleviating the acute problems of the Mezzogiorno is indeed heartening, the difficulties in this region remain enormous. Part of this gain results from the slow increase in population, stemming from the substantial migration towards the north. It is important to remember that average wealth per head in Calabria, the poorest region, is still no more than 50% of the Italian average - and only 33% of the Community average.

In West Germany, there has been considerable progress in reducing the already narrow disparities in regional wealth. Rates of growth in the main industrial centres have, generally, been below those in agricultural areas, so that, by 1970, the range in GDP per capita between the four main geographical zones was as little as 7 percentage points - from 96½% of the national mean in the South to 103½% of the national mean in the West.

Most individual regions which were below the national average wealth in 1957 have become relatively better off. However, one area where a particular problem has developed, associated with the run-down in coal, is the Saar. Here GDP per head fell from 97% of the average in 1957 to as little as 80% in 1968, but has since recovered a little to 87% (1970).

In Belgium the picture is one of steady gains in Flanders and steady decline in the Walloon region. In Wallonia GDP per capita was fractionally above the national average in 1957; by 1966 it was down to 90%, and by 1968 to 87%. The Flemish region improved its position from 87% of the average in 1957 to 94% by 1968. This contrast highlights the problems of decline in the Walloon coalfield and agricultural areas. It would appear that the regional policy instruments applied in Belgium are not strong enough to cope with these difficulties.

Average wealth in the Brussels region has remained fairly constant at between 140% and 145% of the national average.

In Holland there has been a slight gain in wealth per head in the industrial West at the expense of other parts of the country in recent years, but this has not significantly widened regional disparities. Amongst individual areas there were reductions relative to the mean between 1960 and 1968 in Groningen, Drentle and Zeeland (mainly agricultural) and Limburg (coal-mining). On the other hand, absolute rates of growth were high throughout Holland over this period, and this tends to offset the problems of regions with relatively low average wealth.

Turning to the problem of congestion in the main industrial conurbations of the Community, the 1960s have generally seen some reduction in the rate of population increase in these areas. In Germany, population growth in the main industrial regions of Hamburg, Bremen and North Rhine - Westphalia in the 1960s has been well below the 1950s, whereas there was a slight acceleration of growth in the Federal Republic as a whole. There has been no population growth at all in Hamburg since 1961.

French policies to limit the expansion of Paris have brought about a reduction in population growth in the city and its environs between the 1950s and the 1960s, despite an increase in the national rate of growth. However, the rate of growth in Paris remains above the national rate, so the proportion of the population crowded into this small area continues to mount.

In Italy, the national increase in population growth between the 1950s and 1960s has been shared by all regions, but there has been a continuing migration away from the South towards the industrial North-West.

In Belgium, there has been a large increase in the rate of population growth in the Brussels region during the 1960s. In Holland, on the other hand, population growth has slackened in the industrial regions of the West, thus reducing the pressures of congestion.

In the United Kingdom we find that the level of unemployment (the principal indicator of regional disparities) in the three most under-developed regions outside Northern Ireland - Scotland, Wales and the North of England - has approximately doubled between 1960 and 1971 (see figures in Table G.).

In Scotland the rate has risen from 3.6% to 6.2%, in Wales from 2.7% to 5.0% and in the North of England from 2.9% to 6.3%. In the prosperous South East of England unemployment has also doubled - from 1% in 1960 to 2% in September, 1971. So the level of unemployment in Scotland and the North continues to be approximately three times as severe as in the South East, while Welsh unemployment remains at $2\frac{1}{2}$ times the South Eastern rate. Regional policies have not therefore succeeded in narrowing the gap between Britain's most affluent region and her most depressed regions to any significant degree.

Investment incentives play a major role in U.K. regional policy. While a comprehensive analysis of industrial investment by regions is not available, some indication of the regional spread of investment in factory building can be gained from figures of Industrial Development Certificates issued (see Table H). These show that the factory capacity approved in Scotland, Wales and the North, increased three-fold between 1962 and 1969, while approvals in the congested South East and the West Midlands were held at a fairly constant level throughout this period.

Figures of investment grants paid also indicate the direction of a substantial proportion of new investment towards the three depressed regions - they received 36% of all grants in the fiscal year 1968/69.

The dominant feature of these statistics, however, is that the region receiving the largest sum in investment grants and the highest level of factory building approvals is the South East. Some reduction in the level of development here may now be necessary in order to encourage a higher level of activity in the assisted areas.

The overall conclusion from this analysis must, of necessity, be rather cautious. However, it would appear that regional policy measures have not succeeded in narrowing the gap between rich and poor regions in France, Belgium or Britain. Some headway has been made in Italy, but the problems here remain as serious as ever.

However, it must be added that the natural tendency would be for people and prosperity to concentrate increasingly in the main industrial growth centres of each country, to the detriment of the outlying regions. While

regional policy has not actually succeeded in narrowing regional disparities in every country, it would be broadly true to say that it has at least held the position and stopped regions drifting further apart. This is a considerable **achievement** and should be regarded as a success.

Regional policies seem to have had rather more impact in combatting increased congestion in major conurbations. This, however, has generally been regarded as a secondary objective of regional policy, and direct measures in this field have only been adopted in France and Britain.

For all these achievements in reducing population growth in the conurbations, nevertheless the cities continue to become steadily more congested. And while the gap between rich and poor regions has generally not widened, the problems of poverty, unemployment, bad conditions and poor standards of living in the depressed regions remain..

As technology,, economic growth and standards of living generally advance, so the pressure of congestion is likely to intensify. Equally, it would seem that the people of the less developed regions will become increasingly concerned about their own well-being, and will be expecting a steady reduction of the gap between their wealth and opportunities and those in the more prosperous regions.

It is, therefore, not enough merely to hold the position, as we are at present. It is likely that we will need a more comprehensive set of regional policy measures in the future.

6. STRONGER REGIONAL POLICIES

To stimulate a faster rate of economic development in the less developed regions, more firms must be attracted to establish operations there. We have seen that regional policies have succeeded in holding the income gap between the richer and poorer regions, but have not succeeded in bringing them closer together. Sufficient industrial development has been attracted to the regions to maintain this position, but not to stimulate a truly vigorous rate of economic growth that would lift the less developed regions towards the level of the more affluent.

Despite the varied regional incentives available in every West European country - and in some countries these incentives are considerable - the great bulk of industrial expansion continues to be concentrated in the main growth areas. To understand why industry is not moving into the less developed regions on a larger scale is at first sight difficult. It is, however, easier to understand why firms are establishing themselves or expanding their operations in the main industrial centres of a country.

I have already touched on the problem of industrial location. The advantages to a company in setting up in a big industrial growth centre are obvious. First, it will be situated close to its major market centre so transport costs of distribution are kept at a minimum. Second, the company will be able to draw on skilled manpower that has grown up with the development of a major industrial complex. Third, the company is likely to be close to its suppliers of component parts and raw materials or, alternatively, close to a port suitable for handling imported material. Fourth, the largest industrial conurbations generally have the best transport links with both inland and overseas destinations. Fifth, the large centres will tend to have the best social and cultural facilities and very often the highest standards of social services for the wellbeing of employees. Finally, many service industries are concentrated in and around the main growth centres. These services play an essential supporting role in many manufacturing activities, and it will often be in a firm's best interests to establish or extend operations in places where there is a fully comprehensive range of services - finance,

/insurance.

insurance, advertising and marketing consultants, design specialists, experts in the repair and maintenance of complex plant, etc. There may also be an advantage to an industrialist in being located in reasonable proximity to his competitors so that he can keep in close touch with market developments, and keep an eye on what his rivals are up to.

Away from the main growth centres, a company may genuinely feel that it would be at a real disadvantage. It might suffer from remoteness from main markets and component suppliers, a limited local labour force, and lack of knowledge of developments in the mainstream of the industry. The economies of agglomeration gained by locating plant in large industrial centres are very real. So also are the economies of scale obtained by expanding a company's operations on or adjacent to an existing site.

Against this, however, we have seen that there are also very real costs associated with development in congested areas. The costs incurred through loss of amenity, cramped living conditions, heavy traffic flows and the impact of these factors on physical and mental health are borne by the community as a whole. But heavy congestion costs are also borne by the individual industrialist. Some of the costs can be directly measured; for example, wage rates, the cost of land, rent and rates tend to be higher in congested areas than in the less developed regions. The differences can sometimes be of staggering proportions. Indirect costs are not easy to measure, but their effects are very real. A firm's own transport costs will be heavily influenced by the traffic delays in congested areas; each of the firm's employees will be commuting to and from their place of work, placing considerable demands on the capacity of public transport and the road network; the fact that workpeople are living and working in a heavily congested area may not be conducive to the achievement of the highest standards of efficiency and good workmanship; there may also be an environmental impact upon the health and welfare of employees.

It is quite likely that if a firm were able to assess the many and varied congestion costs that it incurs directly and indirectly, these would outweigh the economies of agglomeration and the economies of scale that it would gain from a location in a major industrial complex. Development away from these areas may very often be the "best buy" in real terms. What is needed is an overall total sum assessment of the benefits and costs to the community as well as to the firm in the assessment of a location decision.

Much can be done by industry in coming to terms with the reality of the economics of location. The advantages and disadvantages of the major industrial centres should be fully explored and compared with the advantages (including financial incentives) and disadvantages of location in an assisted area. If industry can adjust its calculations in this direction, and look beyond the direct accounting costs of one location decision over another, it is likely that there will emerge a new and dynamic movement of industry towards greater development in the regions.

There could be a major role here for industrial organisations, comprising both employers and trade unions, to stimulate a re-direction of location philosophy to take account of all these relevant factors. Courses could be arranged for company planners, and campaigns launched to highlight the importance of the total sum approach to a company's location decisions. Suitable aspects could also be studied from the trade unions' viewpoint.

Having seen the important contribution that industry can by itself make to accelerating economic development in the assisted regions by taking full account of congestion costs in arriving at location decisions, it must be said that the prime responsibility for encouraging regional development rests necessarily with government. It is they who frame regional objectives and implement regional policy measures.

I have already suggested that we need a stronger and more comprehensive set of regional policy measures throughout Western Europe. I would like now to discuss the need for a common approach to regional problems, and to suggest, as a basis for discussion, a number of specific areas for policy development.

The Commission of the Community has for some years believed that a new initiative in the field of regional policy is imperative. In 1968 Jean Rey, President of the Commission, said "regional policy in the community should be as the heart is in the human body. In the same way that the heart pumps the life blood into all the parts of the body, so should regional policy aim to re-animate economic life in regions which have been denied it". The Commission believed that a firmer line needed to be taken if Europe's regional problems were to be successfully resolved, and that it was important for the community to adopt a common approach to regional difficulties. In 1969 Hans von der Groeben, Commission Member for Regional Policy, said "structural differences in our member States not only work to the detriment of the whole and the individual, but threaten the very development of the Common Market".

In 1969 the Commission published its Memorandum on Regional Policy which included a proposal for a Council decision on the organisation of Community instruments for regional development. The proposals were as follows:-

- (i) the Commission should carry out a regular examination of the regional situation with member States, and draw up development plans for the regions in greatest need;
- (ii) the Commission should be empowered to recommend particular courses of action to member States, so as to achieve a better co-ordination of regional policy measures throughout the Community, particularly in frontier areas;
- (iii) interest rate rebates should be made available on loans through the European Investment Bank. A Regional Development Rebate Fund should be established to administer these incentives;
- (iv) a Standing Regional Development Committee should be established, composed of representatives from each Community country and from the Commission. This Committee should examine the regional policy forecasts and programmes prepared by member States, and make recommendations.

- (v) the Commission and member States should regularly examine the scope of funds allocated to regional development to ensure that they are adequate;
- (vi) in order to ensure that industry is fully aware of the opportunities and incentives for development in depressed regions, the Commission should ensure that information is widely publicised and that industry is fully consulted on questions of regional development.

By ensuring that there is a regular and continuing examination of regional problems, these proposals would considerably strengthen the instruments of regional policy at Community level. The proposals must, however, be regarded as a cautious approach towards the problems of regional imbalance. While they would lead to greater consultation and co-ordination of policy measures throughout the Community, they do not go very far towards the adoption of a common policy.

While recognising that progress in this field must necessarily be slow, it is important to remember that a common regional policy will become essential as the Community moves towards the goal of economic and monetary union. At the present time, if a country encounters severe balance of payments problems, it has in practice remained free to devalue its currency and so restore the equilibrium in its foreign trade. Within a monetary union, this approach is no longer available. Once currencies are unified, individual member States must be regarded as regions of a wider Community, and regional policy must be strong enough to provide solutions to any severe imbalances that might arise for which devaluation might otherwise be considered the most suitable course of action.

While it will become increasingly necessary, a common approach to regional problems is also highly desirable. The argument that the overall level of economic growth and standard of living in an individual

/country

country will benefit if under-employed resources in depressed areas can be brought into full production applies with even greater force at Community level. If all the resources of ten member countries can be brought to bear in a concerted and co-ordinated manner on the regional problems of the Community as a whole, solutions are likely to be found more quickly and more effectively.

The adoption of a common approach to regional problems in the European Community seems to me to be of paramount importance. Progress towards the solution of regional imbalances will be to the benefit of each individual member country, and to the Community as a whole. But we must ensure that the ideal of a common policy does not become synonymous with a rigidity of outlook on the complex problems of regional development. While there are obvious similarities in the regional problems of the various European nations (e.g. declining coalfield areas and under-developed agricultural regions), nevertheless the individual difficulties in a particular region are closely related to its character - climatic, geographical and cultural - and must therefore to some extent be regarded as unique to that area. It is therefore important to retain flexibility in the approach to regional problems - flexibility of action and of interpretation, both at national and Community level - so that local problems can be tackled effectively.

Of the Commission's various proposals on regional policy, I believe the most important is the recommendation for the establishment of a Standing Regional Development Committee. It is vital that such a forum should be established at Community level for the exchange of ideas and information and the generation of policy recommendations. This Committee will act as the connecting link between regions in the common search for faster and more balanced economic development.

To complement the Commission's proposal, I would suggest that this Committee should, at an early date after its establishment, ask Member countries for a full explanation of their regional policy objectives, a detailed outline of the policy measures ^{currently} in operation and any additional measures that might be

considered necessary for the achievement of their objectives, and an assessment of the costs of these policies. The Committee could then examine these reports, identify the common features, and perhaps recommend the positive adoption of common policy instruments in those areas where there is considerable similarity of approach. The Committee would also, no doubt, be considering what proportion of Community funds should be made available to regional development programmes.

In due course, the Committee would undoubtedly turn its attention to the question of achieving a common approach to the degrees of assistance available for the encouragement of industrial development in the regions - to ensure that two depressed regions with broadly similar problems in two different countries receive broadly similar levels of assistance, so as to secure an even rate of progress in the solution of regional imbalances.

In this context, it might be helpful to consider a suggestion that has been made from time to time in the United Kingdom - that the whole country should be divided, for regional policy purposes, into four zones: development, intermediate, neutral and congested (1).

Incentives and disincentives could then be directly geared to the requirements of these four types of regions by, for example, a payroll tax or subsidy. Employment in the congested areas would be taxed at a high rate, while the neutral areas would attract a lower rate of tax (or possibly no tax at all). Employment in the development areas would receive a sizeable subsidy, while intermediate areas would receive this incentive at a reduced rate. It is possible that a policy along these lines might be attractive in an enlarged Community. There is, of course, no reason why the number of zones adopted under such a system should not be larger. A very good case could be made for placing the Mezzogiorno in a special category of its own, attracting the highest rate of incentive in the whole of Western Europe. I recognise that there is some doubt about the validity of a direct subsidy to labour under the terms of the Treaty of Rome, and it would be possible to apply an alternative system of incentives and disincentives to the various zones.

/Such

(1) See for example the Hunt Report on Intermediate Areas (Minority Report by Professor Brown) and the Labour Party Study "Regional Planning Policy".

Such a system would be an extension of the philosophy behind the Community's decision in October, 1971 (on a proposal from the Commission) to classify regions as peripheral or central, and to restrict the value of any investment incentives in central regions over and above the normal nationwide levels of assistance to 20% of the investment cost. The peripheral regions are the Mezzogiorno, West and South West France, West Berlin and the German frontier zones - all other areas are classified as central.

I would like to turn now to a number of specific policy proposals that occur to me as an interested observer of European regional development. We have seen that the regional policy measures adopted in Britain and the Community countries have, broadly, overcome the tendency for the gap between rich and poor regions to widen, but have not generally succeeded in bringing regions closer together. The solution to the problems of regional imbalance seem therefore to demand stronger action. In order to overcome the natural tendency for growth to be concentrated in and around the main industrial conurbations, we seem to need greater incentives to development in the less developed regions, and greater disincentives to development in congested areas.

I offer these suggestions only as examples of the fields where there may be scope for strengthening the existing framework of European regional policy measures. Within the broad issue there are a number of particular problems.

For example, we have seen that the problems of many regions are associated with the gradual rundown of the coal industries which began in the middle 1950s and has continued to the present time. This is true in Britain, France and Belgium and, to a lesser extent, in Germany and the Netherlands. In recent months, however, there has been mounting public concern over the security and price of energy supplies, following the dislocations in the oil market during the winter of 1970/71 and the substantial price increases secured by the oil producing countries. It is now widely recognised that a substantial base of indigenous energy production is likely to be the most effective means of ensuring that the availability of energy supplies is sufficient to meet the

/rapidly

rapidly growing requirements in Western Europe. (1). Coal remains the major source of indigenous energy in Europe. A concerted policy of stabilising coal production throughout Western Europe would, therefore, have two great attractions. First, it would guarantee improved security of energy supply. Second, it would eliminate the pressures of decline in the coalfield areas, and greatly reduce their regional problems. I believe that this could be one of the most effective single regional policy options available to us today.

We have seen the importance of developing an adequate social and industrial infrastructure in the less developed regions. I believe that this will continue to be of prime importance, and that every encouragement should be given to increased activity in this field. As the industrial environment in a region is improved, so a larger number of companies will be encouraged to establish operations there.

All parts of the Community currently benefit from subsidies and assistance paid under the common agricultural policy. Indeed, support for agriculture accounts for the great bulk of the Community's annual budget. Of a total budget of \$3,055 million in 1971, the European Agricultural Guidance and Guarantee Fund will receive \$2,630 million - 86% of the total. Less than 10% of the Agricultural Fund will go to the Guidance Section for the promotion of structural improvement in agriculture. The remainder will go in support for Community farming. I believe that the time may now be approaching when we should be thinking in terms of directing financial support to a much greater extent towards the encouragement of industrial developments in areas where the proportion of the population employed on the land is very high, and rather less towards the direct support of agriculture. It is precisely because some regions are very heavily dependent upon agriculture and that their industrial base has grown only slowly, that they are economically depressed today.

The undoubted aim of regional policy is the stimulation of faster industrial growth in the less developed regions. Where a region remains predominantly agricultural, this must inevitably mean a move of workpeople

(1) For a fuller analysis of the importance of an indigenous energy policy see "Energy Resources for Western Europe" published by the Association for Coal in Europe, 1971,

away from the land and into the factories. From a regional policy standpoint, therefore, the continued support of agriculture in such regions appears counter-productive.

The Commission has extended its regional studies since publication of its Memorandum on Regional Policy in 1969, and in October, 1971 proposed that \$250 million should be spent over the next five years in subsidies to employers at the rate of \$1,500 for each new industrial job created for a farmer or one of his children. This would be another important step in fostering economic growth in the underdeveloped agricultural regions. In itself, however, it probably will not go far enough. What is needed is the allocation of substantially increased resources, both on a Community and a national basis, to the solution of the regional problem through the stimulation of a faster rate of industrial development in the less developed regions. If this is not done quickly the social and economic imbalances will become more marked and act as a major restriction on the growth and wellbeing of the Community as a whole.

TABLE A

BRITISH REGIONAL STATISTICS

(Figures relate to 1969 except where stated)

Region	Area As % of U.K. Total	Population As % of U.K. Total	Change in Population 1961-69 %	Population Density (People per Acre)	Unemployment % (Sept. 1971)	Agriculture As % of Total Employment	Average Personal Income per head (£'000) (1967/8)	Relation to U.K. Average
North	7.9	6.0	+ 3.1	0.7	6.3	1.6	1.09	0.94
Yorkshire and Humberside	5.8	8.7	+ 3.9	1.4	4.3	1.5	1.11	0.96
East Midlands	5.0	6.0	+ 7.8	1.1	3.3	2.3	1.15	0.99
East Anglia	5.1	3.0	+11.3	0.5	3.2	8.3	1.11	0.96
South East	11.2	31.1	+ 5.8	2.5	2.0	1.2	1.26	1.09
South West	9.7	6.7	+ 8.6	0.6	3.4	3.3	1.13	0.97
Wales	8.5	4.9	+ 3.4	0.5	5.0	1.5	1.10	0.95
West Midlands	5.3	9.3	+ 8.1	1.6	5.6	1.2	1.18	1.02
North West	3.3	12.2	+ 3.4	3.4	4.5	0.5	1.10	0.95
Scotland	32.3	9.3	+ 0.2	0.3	6.2	3.0	1.09	0.94
Northern Ireland	5.8	2.7	+ 6.0	0.4	8.8	1.9	0.98	0.84
TOTAL U.K.	100.0	100.0	+ 5.2	0.9	3.9	1.7	1.16	1.00

Source: Abstract of Regional Statistics No. 6. 1970

TABLE B

FRENCH REGIONAL STATISTICS

(Figures relate to 1968 except where stated)

Regions	Area as % of Total	Population as % of Total	Change in Population 1958-68 %	Population Density (People per km ²)	Unemployment %	Agriculture as % of Total Employment	Average G.D.P. Per Capita \$ (1962)	Relation to National Average
PARIS	2.2	18.8	+ 17.1	781	1.9	1.1	1,558	1.30
PARISIAN BASIN -	26.8	18.3	+ 9.3	63	1.1	18.4		
Upper Normandy	2.3	3.0	+ 12.2	123			1,563	1.31
Lower Normandy	3.2	2.5	+ 6.4	72			994	0.83
Picardy	3.6	3.2	+ 10.0	82			1,230	1.03
Champagne	4.7	2.6	+ 9.4	50			1,087	0.91
Burgundy	5.8	3.0	+ 6.8	48			979	0.82
Central Region	7.2	4.0	+ 10.5	52			995	0.83
NORTH	2.3	7.6	+ 7.9	309	1.8	8.3	1,298	1.09
WEST -	15.6	13.1	+ 5.8	77	1.2	29.5		
Brittany	5.0	5.0	+ 4.5	91			863	0.72
Loire region	5.9	5.2	+ 8.1	81			1,012	0.85
Poitou Charentes	4.7	2.9	+ 4.0	58			904	0.75
EAST -	8.8	9.4	+ 9.6	98	1.1	11.9		
Lorraine	4.3	4.5	+ 7.9	97			1,288	1.08
Alsace	1.5	2.9	+ 11.5	171			1,207	1.01
Franche-Comté	3.0	2.0	+ 11.0	62			1,159	0.97
SOUTH EAST -	19.1	10.8	+ 6.6	52	1.8	25.2		
Limousin	3.1	1.5	- 1.0	43			946	0.70
Aquitaine	7.6	4.9	+ 8.1	60			1,130	0.94
Midi-Pyrénées)	8.4	4.4	+ 7.6	48			891	0.74
MIDDLE EAST -	12.8	11.5	+ 12.6	83	1.3	14.2		
Auvergne	4.8	2.6	+ 4.0	51			1,000	0.84
Rhône-Alps	8.0	8.9	+ 15.5	102			1,242	1.04
MEDITERRANEAN -	12.4	10.5	+ 20.6	78	3.2	13.7		
Languedoc	5.0	3.5	+ 14.4	63			987	0.82
Provence-Côte d'Azur	5.8	6.6	+ 23.7	106				
Corseica	1.6	0.4	+ 27.9	24			1,158	0.97
TOTAL	100.0	100.0	+ 11.3	92	1.6	14.7	1,196	1.00

Sources: Regional Statistics
Basic Statistics of the Community

TABLE C

GERMAN REGIONAL STATISTICS

(Figures relate to 1968 except where stated)

Regions	Area as % of Total	Population as % of Total	Change in Population 1958-68 %	Population Density (People per km ²)	Unemployment %	Agriculture as % of Total Employment	Average G.D.P. Per Capita g (1966)	Relation to National Average
SCHLESWIG - HOLSTEIN	6.3	4.2	+ 11.2	162	1.2	12.0	1,700	0.84
HAMBURG	0.3	3.0	+ 1.0	2,440	0.3	2.1	3,484	1.73
WEST BERLIN	0.2	3.5	- 3.7	4,460	0.9	0.5	2,143	1.06
BREMEN	0.1	1.3	+ 11.5	1,866	0.9	1.1	2,563	1.27
LOWER SAXONY -	19.1	11.7	+ 7.7	148	1.1	14.5	1,758	0.87
Hanover	2.6	2.5	+ 6.9	238			2,142	1.06
Hildesheim	2.1	1.6	+ 3.4	186			1,573	0.78
Lüneburg	4.4	1.8	+ 13.6	96			1,912	0.95
Stade	2.7	1.0	+ 7.1	92			1,312	0.65
Osnabrück	2.5	1.3	+ 10.2	123			1,717	0.85
Munich	1.3	0.7	+ 11.4	127			1,339	0.66
Braunschweig	1.3	1.4	+ 1.5	276			1,754	0.87
Oldenburg	2.2	1.4	+ 10.7	154			1,642	0.81
NORTH RHINE WESTPHALIA -	13.7	28.0	+ 9.9	498	0.9	4.5	2,098	1.04
Düsseldorf	2.2	9.3	+ 7.9	1,026			2,340	1.16
Cologne	1.6	4.0	+ 21.0	610			2,393	1.19
Aachen	1.3	1.7	+ 12.6	327			1,698	0.84
Münster	2.9	4.0	+ 8.8	329			1,767	0.88
Detmold	2.6	2.9	+ 11.1	268			1,956	0.97
Arensberg	3.1	6.1	+ 5.8	487			1,925	0.95
HESSE -	8.5	8.8	+ 14.8	253	0.4	7.1	2,113	1.05
Darmstadt-Wiesbaden	4.8	6.6	+ 16.8	334			2,230	1.10
Kassel	3.7	2.2	+ 9.4	147			1,770	0.88
RHINELAND-PALATINATE -	8.0	6.0	+ 8.9	184	0.7	14.6	1,643	0.81
Koblenz-Montabaur	3.3	2.3	+ 10.2	166			1,540	0.76
Trier	1.9	0.8	+ 3.5	100			1,277	0.63
Rhine-Hesse-Palatinate	2.8	2.9	+ 9.4	264			1,803	0.89
BAWARIAN WÜRTTEMBERG -	14.4	14.4	+ 17.8	244	0.4	9.6	2,102	1.04
North-Württemberg	4.2	5.6	+ 18.1	321			2,369	1.17
North-Baden	2.1	3.1	+ 15.3	366			2,169	1.08
South-Baden	4.0	3.1	+ 18.7	186			1,815	0.90
South-Württemberg	4.1	2.6	+ 18.8	158			1,782	0.88
BAVARIA -	28.4	17.2	+ 12.5	147	1.0	16.3	1,855	0.92
Upper-Bavaria	6.6	5.3	+ 21.7	197			2,222	1.10
Lower-Bavaria	4.3	1.7	+ 4.3	93			1,330	0.66
Upper-Palatinate	3.9	1.6	+ 9.0	98			1,486	0.74
Upper-Franconia	3.0	1.8	+ 3.9	148			1,747	0.87
Middle-Franconia	3.1	2.4	+ 10.3	193			1,997	0.99
Lower-Franconia	3.4	2.0	+ 11.5	137			1,571	0.78
Swabia	4.1	2.5	+ 12.1	145			1,842	0.91
SAARLAND	1.0	1.9	+ 10.5	440	1.5	2.3	1,659	0.82
TOTAL	100.0	100.0	+ 10.7	243	0.8	9.4	2,017	1.00

Sources: Statistical Office of the European Community
 " " Regional Statistics of the European Community
 " " Basic Statistics

TABLE D

ITALIAN REGIONAL STATISTICS
1968

Regions	Area as % of Total	Population as % of Total	Change in Population 1958-68 %	Population Density (People per km ²)	Unemployment %	Agriculture as % of Total Employment	Average G.D.P. Per Capita	Relation to National Average
NORTH-WEST	11.2	11.7	+ 12.9	184	2.2	16.5		
Piedmont	8.3	8.0	+ 13.9	169			1,847	1.33
Val d'Aosta	1.1	0.2	+ 10.2	33			1,759	1.27
Liguria	1.8	3.5	+ 10.7	344			1,870	1.35
LOMBARDY	7.8	15.3	+ 16.8	345	1.9	7.3	2,050	1.48
NORTH-EAST	13.1	11.3	+ 4.6	153	2.4	22.5		
Trentino Alto Adige	4.5	1.5	+ 8.6	61			1,293	0.93
Veneto	6.0	7.5	+ 4.8	221			1,366	0.99
Friuli-Venezia Giulia	2.6	2.3	+ 1.5	161			1,411	1.02
EMILIA-ROMAGNA	7.3	7.1	+ 5.0	172	2.7	26.8	1,622	1.17
CENTRE	14.5	10.3	+ 3.4	136	2.9	23.3		
Tuscany	7.5	6.4	+ 5.9	149			1,528	1.10
Umbria	2.8	1.4	- 2.0	93			1,264	0.91
The Marches	3.2	2.5	+ 0.4	140			1,171	0.84
LAZIO	5.7	8.5	+ 21.1	265	4.2	14.7	1,481	1.07
CAMPANIA	4.5	9.5	+ 11.3	378	4.3	27.4	916	0.66
ABRUZZI-MOLISE	5.0	2.8	- 2.8	101	4.6	42.2		
Abruzzi	3.4	2.2	- 1.2	112			929	0.67
Molise	14.6	0.6	- 7.7	76			744	0.54
SOUTH	14.6	11.7	+ 4.3	142	5.1	41.7		
Apulia	6.3	6.7	+ 6.7	186			910	0.66
Basilicate	3.3	1.2	- 0.6	63			789	0.57
Calabria	5.0	3.8	+ 1.7	137			682	0.49
SICILY	8.4	9.0	+ 4.8	189	3.7	31.5	912	0.66
SARDINIA	7.9	2.8	+ 8.1	62	4.8	32.7	941	0.68
TOTAL	100.0	100.0	+ 8.7	179	3.2	22.9	1,386	1.00

Sources: Regional Statistics
Basic Statistics of the Community

TABLE E

NETHERLANDS REGIONAL STATISTICS

(Figures relate to 1968 except where stated)

Regions	Area as % of Total	Population as % of Total	Change in Population 1958-68 %	Population Density (People per km ²)	Unemployment %	Agriculture as % of Total Employment	Average G.D.P. Per Capita β (1965)	Relation to National Average
NORTH	24.3	10.8	+ 10.8	156	2.9	17.0		
Groningen	6.6	4.0	+ 8.9	212			1,253	0.94
Friesland	10.4	4.0	+ 8.7	136			1,131	0.85
Drenthe	7.3	2.8	+ 16.9	134			1,030	0.78
EAST - (Includes IJsselmeerpolders)	27.7	18.7	+ 18.8	235	1.4	11.0		
Overijssel (Includes IJsselmeerpolders)	13.7	7.1	+ 19.3	181			1,217	0.92
Gelderland	14.0	11.6	+ 18.4	288			1,134	0.86
WEST	20.6	46.5	+ 11.0	787	0.7	4.6		
Utrecht	3.8	6.1	+ 18.3	562			1,176	0.89
North Holland	7.9	17.4	+ 9.4	766			1,509	1.14
South Holland	8.9	23.0	+ 10.3	902			1,524	1.15
SOUTH	27.4	23.8	+ 16.8	304	2.0	9.0		
Zeeland	7.4	2.4	+ 6.6	112			1,228	0.93
North Brabant	14.0	13.7	+ 20.3	343			1,268	0.96
Limburg	6.0	7.7	+ 14.1	448			1,204	0.91
TOTAL	100.0	100.0	+ 13.5	349	1.4	6.1	1,326	1.00

TABLE F

BELGIAN REGIONAL STATISTICS

(Figures relate to 1968 except where stated)

Regions	Area as % of Total	Population as % of Total	Change in Population 1958-68 %	Population Density (People per km ²)	Unemployment %	Agriculture as % of Total Employment	Average G.D.P. Per Capita f (1966)	Relation to National Average
NORTH REGION - (FLEMISH)	41.2	47.0	+ 5.9	397	2.5	7.0		
East Flanders	9.8	13.6	+ 3.8	439			1,574	0.83
West Flanders	10.3	11.0	- 0.4	334			1,762	0.93
Antwerp	9.4	15.8	+ 8.6	532			2,096	1.10
Limbourg	7.9	6.7	+ 16.0	266			1,368	0.72
SOUTH REGION - (WALLOON)	55.2	30.6	+ 2.8	187	3.3	7.0		
Hainaut	12.4	13.8	+ 4.4	352			1,588	0.83
Namur	12.0	4.0	+ 3.5	104			1,572	0.83
Liege	12.7	10.5	+ 1.0	263			2,012	1.06
Luxembourg	14.5	2.3	- 0.5	50			1,354	0.71
BELGINT - (BRUSSELS)	3.6	22.4	+ 11.4	640	1.8	2.6		
Brabant	11.0						2,454	1.29
TOTAL	100.0	100.0	+ 6.0	316	2.6	6.2	1,902	1.00

Sources: Regional Statistics and Basic Statistics of the Community

UNITED KINGDOM
UNEMPLOYMENT PERCENTAGES IN THE REGIONS

TABLE G

	<u>1960</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>Sept. 1971</u>
<u>Assisted Regions</u>								
Scotland	3.6	3.0	2.9	3.9	3.8	3.7	4.3	6.2
North	2.9	2.6	2.6	4.0	4.7	4.8	4.8	6.3
Wales	2.7	2.6	2.9	4.1	4.0	4.1	4.0	5.0
<u>Other Regions</u>								
Yorkshire + Humberside (a)	1.0	1.1	1.2	2.1	2.6	2.6	2.9	4.3
East Midlands (a)	1.0	0.9	1.1	1.8	1.9	2.0	2.3	3.3
West Midlands	1.0	0.9	1.3	2.5	2.2	2.0	2.3	5.6
East Anglia	1.0	1.3	1.4	2.1	2.0	1.9	2.1	3.2
South East	1.0	0.9	1.0	1.7	1.6	1.6	1.7	2.0
South West (a)	1.7	1.6	1.8	2.5	2.5	2.7	2.8	3.4
North West (a)	1.9	1.6	1.5	2.5	2.5	2.5	2.7	4.5
<u>Totals</u>								
Great Britain	1.6	1.4	1.5	2.4	2.4	2.4	2.6	3.9
Northern Ireland	6.7	6.1	6.1	7.7	7.2	7.3	7.0	8.8

(a) Parts of these Regions are also assisted.

TABLE HUNITED KINGDOMFACTORY BUILDING APPROVED

(Industrial Development Certificates issued)

	<u>Million square feet</u>	
<u>Region</u>	<u>1962</u>	<u>1969</u>
<u>Assisted Regions</u>		
Scotland	3.7	9.1
North	3.0	9.9
Wales	2.1	8.3
<u>Other Regions</u>		
Yorkshire & Humberside	2.4	10.7
East Midlands	2.2	4.1
West Midlands	3.7	5.9
East Anglia	1.8	4.0
South East	11.8	13.9
South West	2.4	4.2
North West	4.4	10.6
<u>Great Britain</u>	37.3	80.7

Note: Factory building approvals were at a generally low level in 1962.

R E P O R T

by

MARIO DIDO

National Secretary of the
CGIL

on the theme :

Conditions necessary so that investments
by undertakings of Member Countries be
increasingly directed towards the less
developped regions of the Community.

Functions of industry and public
authorities.

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INTRODUCTION

Taking as a starting point the statement delivered to this meeting which is to seek the relations existing at Community level between a certain number of economic, social and political problems and industrial development, we see that the problem of development can no longer be approached only in quantitative terms nor by higher or lower rates of increase in national income but that it is necessary to go beyond this type of aggregate indices in order to ascertain what sometimes unsuspected or conscious realities lie behind them.

The address must, therefore, be enlarged to qualitative aspects relative to the production method, to facets of distribution, to those of certain environmental "development" and of the standard and quality of living.

We do not wish to make here a closer examination of these aspects (this will be done by other sources) nor do we wish to make a general accusation of quantitative aspects of industrial development.

On the contrary, we remain convinced that the process of economic progress and development is increasingly set in terms of industrialization.

The gap between quantitative and qualitative development is, in our opinion, clearly indicted by low rates of activity and employment, by pathological forms of under-employment of large sections of the labour force, placed at the fringe of the system, by the presence of conspicuous social transfers tending to reduce the increasing disparity between participation in the production process and participation in distribution.

Whether for the process of production inside an economic system or for the process of international integration, the problem of what, how and for whom to produce is still with us. In general these latter aspects, neglected in the compass of a national economic system, have never been taken into serious consideration as regards international integration by the prevailing theory and publicity.

We consider that, as in the past, these problems must receive our fullest attention, also that of Governments and Community organisations.

Also in connection with economic integration it is in fact important to ask oneself who carries out integration and in whose favour (1).

At national and international levels it is necessary to go beyond the narrow limits of business efficiency and productivity motivated by private profit in order to refer to broader concepts such as those of social productivity. Only in this way can a correct estimate be made of the costs and benefits of certain economic phenomena and development processes, normally estimated in quantitative terms only.

We shall try to see briefly in the ambit of this large and complex problem which are the structural disparities between the various regions of the Community.

(1) - See S. Perroux, "Intégration Economique. Qui intègre? au bénéfice de qui s'opère l'intégration ?" in "Economies Appliquées", 1966.

We shall, therefore, make a brief analysis of some aspects of the theory and policy of regional development, placing them in relation to the problem of the theory and policy of international and, in our case, European integration

In doing this we shall work on the basic assumption that there is an analogy between inter-regional and international development, in the compass of a system of roughly mixed economy and we shall put in prominence the insufficiency of certain theoretical formulations which continue, nevertheless, to influence strongly the formulation of national and Community economic policy.

We shall see to what extent formulations of this kind have influenced in the past and still influence at present the elaboration of regional and structural policy of the Community, by carrying out a critical analysis of the principal documents on sectoral policies and on topics of a more general character like regional policy which we consider as being a dimension included in all sectoral policies and economic policy in general, and of Werner's report for its significant implications on institutional matters and the ambitiousness of the aims proposed.

We shall try to specify the reasons why productive investments, instead of being directed towards the less developed regions ("Mezzogiorno" of Italy, Southern and Western France, etc.) are increasingly concentrated in the more advanced or so-called "central" regions.

We shall try to demonstrate how this situation has stemmed from the spontaneous functioning of the economic mechanism at national and international levels and how the problem is aggravated at Community level by the weakness and insufficiency of existing and foreseen instruments to implement a policy of rebalance and development.

Bearing in mind the aim of reaching a better balanced and harmonious development in accordance with indications contained in Art. 2 of the Treaty of Rome, we shall try to specify what in our view **should** be the role of public and private undertakings at regional and Community levels.

The need which has emerged hitherto is that of having new and more efficient instruments of regional policy at national level and, for a more valid reason, at Community level, if the Community is to play in the future a role which is its own, which is incive and not marginal, in the face of the serious problems which afflict european society.

Such instruments, as we have said already must be graded and differentiated according to the type of regions and to the type of investment.

With the same object in mind we shall indicate the fundamental lines of a syndical strategy at regional, national and Community levels which, conscious of the extent and the seriousness of the problems under reference, has the aim of creating the conditions for a participation of the labour forces and a different and fairer process of Community and international integration.

SOME DATA ON THE STRUCTURAL DISPARITIES BETWEEN COMMUNITY REGIONS

In the autumn of 1971, the Statistical Office of the Community published an analytical statement of data on regional development in the Community.

Apart from the technical aspects concerning the **measurement of the disparities between advanced and less advanced regions, one observes in general**

that, despite the efforts made hitherto the disparity instead of tending to diminish tends to increase. The phenomenon of concentration of population in the more developed areas continues: from 1950 to 1969 the regions of Southern Germany, the Paris region and regions of North-Western Italy have seen their population grow from respectively 15.4 to 19.4 million, from 7 to 9.5 and from 11.3 to 14.6 million. On the other hand, regions like North Germany, Western France and the North-East Italy have seen their population increase less than the rest of the Community.

The region which has experienced the largest flight of population, a phenomenon of real mass emigration, has been the Mezzogiorno in Italy. It is reckoned that in the sixties, an annual average of 183,000 persons have left the Mezzogiorno. Contrary to what might be expected, over 60% of the population has moved to countries outside the Community, whilst the majority of labourers who immigrated in Member Countries has come from countries not belonging to the Community.

The total labour force employed in the Community agricultural sector was around 30 million in 1950, it dropped towards mid 1960 and stood at 11.5 million in 1968.

The ratio of agricultural employment to total employment which in 1950 touched the extremes in Italy (43.9%) and in Belgium (12.6%) was modified towards 1968 to 21.9 for the first country and 6.1% for the second. The Community produces these figures as a reduction in the disparity of the sector; this phenomenon seems obvious to us given the scanty meaning of the data in **terms of percentage . In fact , behind these percentages**

hide quite different absolute data the comparison of which assumes a different importance. There remains the reality of large masses still employed in agriculture; there remains also the reality of the achievement of this result through the more costly way which is that of emigration, as already mentioned during the sixties at least, of 60% to countries outside the Community.

Italy and France remain the countries where the ratio of agricultural population is the highest; it is in these countries that the peripheric zones with high agricultural employment are the more numerous: 13 regions in Italy and 11 in France.

In the Community's industrial sector, as a whole, employment has moved from 26 million (in 1950) to 31 million in 1960, stabilizing at the latter level (42.7%) during the period 1960-68.

During the two periods the rate of employment in the secondary sector has increased in all countries except Belgium during the first period when it fell from 49% to 47.7% (1961) and to 43.4% in 1969, and in Germany during the second period when it moved from 49% in 1961 to 47.9% in 1968.

In the large geographical zones it has been observed that whilst in 1950 the regions with high employment in the secondary sector were concentrated in three large areas, the first from Northern France to Brunswick through the Benelux and the Ruhr, the second from Lorraine to Unterfranken, and the third substantially Lombardy, in 1968, through the process of development in the industrial sector of the intermediate areas, these three large large areas were linked to each other.

Third sector. In this sector employment has gone from 23 million in 1950 to 28 million in 1960 and 30 million in 1968; the relative ratios of the dates mentioned were respectively 32.8%, 37.7% and 42.1%. The differences in ratios in this third sector which reached their peaks in 1950 in Italy with 26.6% and in the Netherlands with 45% were drastically reduced towards 1968 when the average was around 40% with a low of 37.3% for Italy.

Such information of a structural character seems to hint at some convergence but in general it is not much suitable for measuring the disparity; in fact it is limited to supplying percentages in the composition of employment in the various sectors without telling us how high this employment is and without telling us how productive it is.

In dealing with total employment one observes a reduction in occupation in 45 out of 100 Community regions. In this phenomenon 16 out of the 20 Italian regions were affected, 14 of the 38 German ones, 9 of the 21 French ones and 5 of the 9 Belgian and Luxemburg regions.

Of these 45 regions, 31 show that the increase in occupation outside agriculture has not succeeded to counter-balance the reduction in occupation in the agricultural sector. This has been the case particularly at the periphery of the Community i.e. in 8 regions of Western France, in 14 of Southern and Eastern Italy and in 5 of Northern and Eastern Germany.

In 14 regions, together with a reduction in employment in the primary sector, there has been reductions in occupations in the secondary and tertiary sectors also. Of these a first group includes the Eastern regions of the Federal Republic of Germany and

a second group the coal-beds of Northern France and Southern Belgium.

Still referring to 1950, 1960 and 1968, the distribution in Community employment between the 20 large geographical zones has undergone modifications which have seen an increase in the ratio of certain regions (such as the Paris region, Eastern and Western Netherlands and Western Germany) in relation to total employment.

Contrarywise a reduction has been noted in regions such as Western France (from 10.62 to 9.78%), North-Eastern Italy (from 5.84 to 5.53 to 5.31%), Central Italy (from 5.50 to 5.41 to 4.98%) and again Southern Italy (from 9.36 to 8.64 to 8.22%).

Gross internal product and revenue. In this connection the dissimilarity of available information **certainly** does not help to get close to the reality of the situation; the disparity is partly lessened if the information on revenue is considered. Difference in structural character are clearer and more pronounced if for the single regions we obtain information relative to gross internal product. This information does not in fact include the contributions by public authorities through transfers; moreover, at least where Italy is concerned, regional information on revenue leaves much to be desired as to reliability. The other requirement concerning measuring data is that of having not only percentages but also absolute figures the simple meaning of which seems to us to be very usefull in obtaining a realistic idea on the nature of the disparity.

In France figures of direct income are available for 1962 and 1966.

In 1962 the disparity between regions of lowest index (the South and the Pyrenees = 3,804 FF) and the region with the highest index (Paris = 7,233 FF) was of 73.4 points. However the Parisian region is an exception and therefore if it is removed the disparity between maximum and minimum indices is lowered to only 14.2 points. But between 1962 and 1966 percentage increases in the various regions had a tendency to widen the disparity. A minimum of 3.5% was recorded in Auvergne, 5.2% in Higher Normandy, 1.8% in the Paris region. The difference between maximum and minimum indices in 1967 moved to 16.6 points.

In Italy the years taken in account are those from 1957 to 1966. In 1957 the Italian internal product for Calabria was 170,000 whilst that of the Valle d'Aosta was 611,000 (higher than the Community average) The disparity between the lowest and the highest index in Italy was at a maximum (124.7). In 1966 the disparity was still maintained at 98.5 points . The closer figures are due, however, to a slowing down in the rate of increase in more advanced regions rather than a marked increase in the backward ones . This should be verified in all countries to get an idea of the trend in the situation.

From Community Bulletin No. 12 of December 1971 we quote the summary table on movement of the disparities for the years indicated :

Production per head

(national average = 100)

Germany (FR)	(1957/66)	from 113.0	to	108.2
France	(1962/67)	" 73.4	to	75.8 (income)
Italy	(1957/66)	" 114.7	to	98.5
Belgium	(1957/66)	" 49.1	to	53.3
Netherlands	(1960/65)	" 30.6	to	36.2

As already mentioned, in Italy the reduction in disparity is due to the slow increase in the more advanced regions whilst the index of poorer regions has remained unchanged.

The changes can be partly attributed to migration. In the German Federal Republic the more advanced regions have seen their index lowered whilst the less advanced ones have seen a definite improvement in their position.

In regrouping the regions inside each member country according to gross internal product we have seen that in France the disparity between regions with the lowest GIP and those with the highest GIP has widened due to the slow increase in the poorer regions.

The same occurrence (increase rate relatively inferior in less developed regions) has been observed in Italy, but the increase in population in poorer regions has been slower and has, therefore, increased the development rate of the gross internal product more on the whole than in the more advanced regions.

These are the official figures on employment and income but, as is known, these do not tell the whole truth; there remains the information on hidden unemployment, under-employment, on

persons who through lack of availability of employment remain outside the labour market; this situation is reflected in Italy by a very low rate of activity, 36.4% in 1968 which was then below the Community's average (38.8%) by 2.4 points. During recent years this rate has been reduced to reach a point below 36%.

If this information of the past is not encouraging, the estimates up to 1981 as shown in the Memorandum of the Italian Government to the Community are even less encouraging and positive. Projecting up to 1981 the trends for the period 1967-70 (a relatively fairly favourable period) the Italian Ministry of Labour reckons that in Italy in 1981 unemployment could reach a minimum of 2,200,000 and a maximum of 4,600,000.

These figures reflect the seriousness of the situation. In the Mezzogiorno alone unemployment could reach between 1,100,000 (low estimate) and 2,350,000 (high estimate). What these figures can mean in terms of increased disparity can be easily realized.

For these reasons we consider that the Italian Mezzogiorno due to the acuteness and dramatic aspects of the problem constitutes the nucleus of the whole strategy of regional development not only in Italy, not only because it is an Italian problem, but also because it is inside the Community and is thus a Community problem.

The limits within which the prepared strategies will show their worth in the typical case by excellence of underdevelopment inside the Community will know how to be able to face other problems of underdevelopment in other backward regions of Member Countries and of those about to join the Community.

With regard to past experience it must unfortunately be admitted that the Mezzogiorno of Italy constitutes the clearest proof of invalidity of formulation of the concept and of the complete failure of Italian and Community regional policy.

The limits within which the opportune lessons can be learnt from this painful experience may perhaps enable the Community and Italy to face in future the structural problems which, as we shall see soon, can place under discussion the whole character of the Community.

OUTLINE OF REGIONAL ECONOMIC THEORY AND INTERNATIONAL INTEGRATION

In this part we shall not seek to devise or to develop our theory on economic and regional development nor shall we make a **detailed** analysis of all the proposed and applied theories.

We shall only consider, perhaps at the risk of being thought to be superficial and unorthodox, the theory which, to us, appears as the most suited to represent the economic phenomenon and to suggest instruments which are apt to overcome the grave situation of structural imbalance which can be noticed at national, Community and international levels.

The reasoning, even if it is frequently directed to regional policy and to development in the European Community with necessary adjustments, will also be valid beyond the case under study.

We start from the initial consideration that in its spontaneous growth, economic development gives rise to phenomena of territorial, sectoral, structural and other imbalances; the reasons why these occur in the first place can be many : different availability of natural resources, geographical location, climatic conditions, historical-cultural factors, different qualification of labour; the list could continue and take into account particular situations but this is not the aim.

We wish to point out right away that at a given time, in a given country, there is a given situation determined historically and practically and its analysis will show the most suitable measures for the pursuit of an economic policy.

Concerning the Community and Italian situations we have already seen the main characteristics of disparity between advanced and less advanced regions.

We believe that it is in the nature of the economic process to evolve according to a cumulative process in which the development of a given area attracts other growth factors through the so-called effect of polarisation which is normally opposed by that of diffusion; the growth of an area should have the incidental effect of growth in adjoining areas or regions.

The problem of disparities stems from the fact that normally the effects of polarisation or convergence exceed those of diffusion or centrifugal effects and, therefore, instead of decreasing, the disparity between regions becomes more pronounced.

Concentration in a given area of productive concerns should, from the point of view of the concerns, have the effect of realizing external economies not only through the location within that area of similar industries, but also of different ones; the concentration of concerns can avail itself of a whole set of auxiliary services (maintenance and repair of machinery, etc.), of specialized labour which tends to flow where demand and, therefore, reward is higher.

We have said that this is valid for the contractor and, in general, it is also valid for the Community but not invariably so; up to a certain point the concentration allows the exploitation of a series of outside economies; after a certain stage, whilst the advantages to the contractor remain, there arises the problem of social cost of infrastructure which implies such a large amount of investments as to prevent productive and infrastructure investments in the other regions. A conflict thus arises between business and private expedient - and a social expedient - or utility which is normally overcome through public intervention.

It is true to say that the theory does not indicate exactly the limit of the above but it should be said that this limit cannot be found in an abstract way but in a practical one, by reference to well determined situations. In other words, it would be futile to seek the best size of a city, an area or a region; it is relatively easier to obtain rather clear ideas on what does not function in a given area, in a given region at a certain period of time.

We agree with Mr. Ezra, our co-reporter, that there are at least two main reasons for justifying the action of public authorities, one of a social character and the other of economic character. The first concerns the necessity to use to its fullest extent the function of a collective utility i.e. of the whole population in less developed regions and, therefore, it is necessary to put in motion a process to improve the standard of living and the possibility of employment in this sector of the population. The second reason, of a narrower economic character is that, should it be decided to accept the state of imbalance with a high rate of unemployment and with infrastructures whose economic activities are in general decline in the under developed regions, the collectivity as a whole would suffer in terms of lack of development and revenue which could have been yielded with full use of the factors and which instead is not produced.

Where we are not in agreement with our co-reporter is the way in which he puts the question dealing with the decision to be reached on the basis of the dilemma : move labour where the possibilities of employment exist or alternatively, move or create employment possibilities where labour is available.

In our view the dilemma does not in fact exist where problems of regional development in the Community are concerned; it may be valid for regional development of a country which on the whole is in the early stages of industrialization when it is all the more necessary and opportune to exploit the graded and outside economies which we mentioned earlier and which lead to concentration of enterprises.

This dilemma loses its meaning in a country which has already reached an advanced state of development but shows signs of the dualism mentioned. Where Italy is concerned the matter has been dealt with by Vera Lutz in a well known book but the author could not find support.

On the other hand, it is sufficient to consider the situation of high concentration existing in advanced regions to see a collapse of the alternative.

All the more reasons for the dilemma or the alternative to give way when one considers the question of regional development within the larger ambit of the Community and which would consist of the massive shift of million of workers from one country to an other with almost insolvable problems.

We would not wish, however to quote our co-reporter out of context; even if he mentions the alternative, he overcomes it immediately because whilst it can have a certain validity in some cases, as we have said, it does not in general stand up to the case of regional policy which we are examining.

We are again in agreement with our co-reporter when he states that there are at least two aspects to the problem requiring a decisive intervention on the part of public authorities; one is to have a development policy for the less advanced regions, the other is to fight congestion because of its social problems for the whole collectivity in the more developed regions.

On the other hand there is to be considered that the shift of workers only is not acceptable, mobility of capital can and must exist

also for reasons of economic suitability and from the point of view of the collectivity.

It is a lack of acknowledgement of the invalidity of the supposition of classical economy relative to the shift of factors and types of market which cause incomprehensions or insufficient elaborations of economic policy.

Difficult as it is to acknowledge, yet it is always a free trade concession to direct and classical origins which guides the economic policy of western countries despite the fact that sufficient progress has been made at least at theoretical level.

This detachment from, and delay in, the theory applied to reality has serious consequences which can be seen every day especially in the field of international economy.

At the level of national economic system, economic policies rely still on the assumption of a shift of goods and factors and it is not realised that in a way of dualist characteristics, already mentioned, which leads to a progressive concentration of capital, in reality the assumption loses its value and it must therefore be re-examined; it is a question of adopting the model so as to include or take into account the relative immobility of capital.

At international level one started, and still starts, from the assumption of immobility of labour and capital in order to demonstrate immediately how by removing frontiers customs and by admitting international commerce one reached an increased prosperity of the collectivity concerned and a specialization **in production.**

In this case also the insufficiency of the supposition is enormous; both factors move however with unbalancing effects because they are on a par with what occurs at national level; the movement of capital, instead of being directed towards under developed regions encourages the integration of advanced regions between themselves to the exclusion of others and this is due to the fact that enterprises moving outside their national boundaries are usually the large monopolistic and oligopolistic groups oriented towards the exploitation of the market wherever it may exist.

In reality, mobility of labour at international level is not the movement conjectured by the classics and neo-classics but is a real and true emigration with all the costs we know, whether at the level of outside diseconomies in congested areas, or at the level of loss of factors and gradual impoverishment in zones of origin.

Beneath these conjectures relative to the conditions of factors are those relative to the type of market. At present the influence of those who seek the free trade theory is clearly evident at the level of international economic integration theory. It is assumed that production occurs under conditions of perfect competition, something which is not found in the reality which is dominated by large oligopolistic groups and from this conjecture all the rest derives.

REGIONAL POLICY IN THE MAIN DOCUMENTS OF THE COMMUNITY

A regional policy for the EEC (1969)

After the Conference on Regional Economies of 1961 and the pursuit of the tasks by experts, prolonged until 1964 (1), on 11th May 1965 a first communication was presented to the Council of Ministers on the subject.

In the meantime, at Community level, a Committee had been formed for medium term economic policy; it leaves out generic directions and creates an organism, at least formally, to examine problems of greater breadth than those of the conjectural policy which had maintained a prevalence. Thus, in the first medium term programme which concerns the years 1966-70 and which was approved on 21st April 1967 a chapter is dedicated to regional policy " in which the necessity is underlined of planning in this matter a set of institutional measures based on programmes covering several years, aiming at facilitating in particular the co-ordination of the means used by regional, national and Community institutions " (Document EEC 1969 p. 10).

(1) The work by the experts has been summarised in a publication which anticipated in substance the official document; it contains a part dedicated to objective principles and means of regional policy and an other part consists of enclosures concerning regional policies in Member Countries. For further details, see Regional Policy in the EEC. Report by the group of experts, Brussels, July 1964. See p. 41 of the Report by the experts (1964); this is a point which has never been taken up again in subsequent documents and which constitutes the biggest gap in these, a real Achilles heel of the whole foundation.

The basic concept adopted is that of the first communication which revolves around (a) the creation of infrastructures and general conditions for the location of enterprises and (b) the creation of poles of growth. Regarding the proposals made by the experts an important step backward is noted in regard to two points :

- 1) Agriculture which, to the experts, seemed the sector to be directed towards zones scantily populated assumes here at least the same importance as industry in general for all regions.
- 2) Interventions in the industrial sector according to the indications contained in the First Programme on medium term are to be concentrated in poles of growth. The main difference with the views expressed by the experts is the abandonment of the correct statement underlining the importance of interventions in the processing industries and not only the basic ones in order to avoid, as they express it, creating " oasis in the desert " around which there is a complete void. But the most qualifying item in the statement by the experts is that of simulaneity of intervention for the creation of enterprises as a whole of infrastructures. In fact, past experience of twenty years of development policy for the Mezzogiorno in Italy shows that the creation of conditions for locating enterprises is not, in itself, sufficient for industrialization of less developed regions.

Apart from the fact that a considerable infrastructure existed already in the Mezzogiorno of Italy, its improvement and its strengthening by themselves do not bring development, therefore to aim at infrastructure means in reality an unwillingness to face the problem.

The same argument is valid for the poles of development if the fundamental nucleus of these poles become - as has been the Italian case - basic industry, be it chemical or iron and steel.

" The process of production takes place in a closed circuit: supplies of raw materials extracted on the spot or imported, processing into one or several products through one or several successive phases, marketing and sale outside the region; thus is it possible, on a par with other conditions, that the added value in the region should be relatively limited."

It cannot be said that these tried and correct considerations were taken into account in following documents. Nevertheless, the indications contained in the first programme on a medium term constitute, because they have been approved by the governments of Member Countries, the fundamental basis on which action can be build and intensified (Document EEC 1969, p.10).

In view of the severe limits of origin it is not surprising if in the end the main emphasis of the document on regional policy is directed towards the problems of co-ordination of policies followed by Member Countries. In fact the consideration on availability of transport in the infrastructure in the vicinity of national boundaries, of industrial congestion in certain zones, and of the race in increases of incentives, push logically to a kind of co-ordinated policy

in Community actions, but in substance they end by denying the deeper reasons and objectives of regional policy. This way of operating by regional and partial policy is limited in that it does not go to the core of imbalances between central and peripheric regions; it confronts the problem of waste of resources which in itself can be a real objective, it is not sufficient because it moves at the margin of an attitude on intervention which in itself is not apt to resolve the problem of regional imbalance.

This is confirmed in the document when defining the object of regional policy which would be established " by conditions of location of economic activities and of the population bearing in mind the requirements of technique, of the economy, the needs and aspirations of the population, also territorial characteristics". (Document on Regional Policy 1969 p.22).

It is in appearance only that such a concept may seem advanced; in substance it reflects a conception of public intervention which in Italy was typical of the fifties, i.e. a public intervention based mainly, if not exclusively, on infrastructure policy.

The only difference is that the concept of infrastructure is no longer meant in its traditional and comprehensive sense, i.e. roads, sewerage, means of transport and communication, but in a much wider sense which embraces elements of a material and intellectual character.

Reference is made to all this equipment which makes possible the explanation of the multiplicity of material and

spiritual functions of man in his habitat on the whole.

These include, therefore, not only the whole of the services which generally form part of the tertiary production, but also those which belong to the so called "quaternary", that is to say services of cultural, informative and creative characters.

Whilst noting a big step forward or, if one prefers, a real leap in quality as to the conception of infrastructures, it must, nevertheless, be asserted that all this may be unrealistic; such a topic may become quite fancifully ambitious and abstract if it is not made simultaneously with that of direct interventions.

It is necessary he to take up again and not to abandon the topic of the experts regarding the necessity for simultaneous interventions in infrastructures (as widely understood as one wishes) and of productive activities.

Otherwise the topic of material and intellectual infrastructures becomes in the first place impossible and if, nonetheless it were possible, it would present serious dangers at the level of possibilities of developing directly productive activities not only in less developed regions but also in the so-called advanced ones.

Likewise, the discussions on the permanent nature of the objective of regional policy is abstract and unrealistic as is also the statement that it assumes or becomes a fundamental dimension of economic and social policy of public authorities (Document EEC, Regional Policy, 1969, p.27).

The role of the latter in the following page, limits itself to furnishing a support "for the improvement in conditions of location" so that private initiative can fully develop its function of promotion and development".

This is derived explicitly from the kind of statement which inspires the Treaties notwithstanding the assertions made of idealistic enunciations in recent times relative to the surmounting imbalances and to the expressed desire to face the serious social problems of the Community and which inevitably ends by permeating the imposition of all the general and specific Community policies.

By limiting the task of public authorities at the stage of infrastructure preparedness, the role which these should play in the actual development is also limited in reality and private initiative is left with the task of overcoming imbalances and any function is denied to public enterprises and to State participation.

In these conditions it is essential that the assertions concerning the tasks of regional policy for solving the employment problems with a maximum participation of the population in order to obtain an economic optimum remain functional in the interests of monopolistic and oligopolistic groups which can thus decide whether and how to employ available labour, dispose of a mass of reserve labour in order to keep wages low. If, on the one hand, it is stated that the task of regional policy is also that of solving employment problems, but on the other hand

there are no measures suitable for pursuin such objective the statement is contradictory. It is evidently not sufficient to assert that there is a necessity for training and retraining labour; this problem exists but there is also the one of creating vacancies which do not exist; nor is it sufficient to employ labour on a temporary basis for the construction of infrastructures; it is necessary that it should have continuity and stability in employment.

Only thus can the topic become realistic and credible and the document also uses it concerning the necessity of re-qualifying the production process in the sense of producing new goods with a higher added value and technological content whilst it cannot be accepted if it refers, as it does, to the necessity of eliminating any form of industrial protection or when investment is made in order to keep structures rather than renew them.

To follow the latter course would mean in fact a worsening of the disparity between advanced and backward regions, it means ignoring the fact that in many of the backwards regions there are no structures to maintain or transform, but the problem does exist of creating them from new.

Page 32 of same document on regional policy mentions that the disparity between "positive qualitative development and purely quantitative development is noticed by the under-employment of low rates of activities, by the existence of substantial transfers (tending to lessen the disparity between participation in production and participation in distribution of revenue), by occurrences of emigration, by period of over heating, but on this consideration is made to depend the necessity of controlling transfers and therefore the request to relate it to productivity thus introducing

implicitly the policy of wages income. One can deduce from such a gap that the adjustment of structures does not overcome imbalances as would seem logical but "limits transfers to a minimum". The wavering attitude in such a statement emerges clearly because "the voluntary character of location is not so large as to make it possible to do everything everywhere" (Document p.33).

Whilst recognizing explicitly that the "progressive fulfilment of the Common Market tends therefore to increase in some cases the already excessive and prejudicial disparities of territorial distribution of production (.34) it insists, in a highly contradictory statement which affirms, on the one hand, that "the main objective of regional policy consist in the creation and administration of the localisation of sectoral activities" and at the same time makes depend "the success of sectoral policy and development policy in general, on the efficient achievement of objectives of regional policy" whilst on the other hand when dealing with sectoral policy, as we shall see in the case of industrial policy, it exhausts the subject of localisation by generally referring back to regional policy. It is therefore necessary that beyond the formal recognition of the importance of structural interventions at the level of sectoral policy - interventions which are the "conditio sine qua" and which cannot overcome the disparities between weak and strong points - notice be heeded of this necessity and the interventions and policies should not be fragmented as is the case at present; the criteria of certain sectoral policies should be re-examined but, above all, the concept that general economic policy is oriented regionally should be applied in the reality and all consequences should be drawn from this assertion, relinquishing the limitative concept of objectives of regional policy. We give one single example of this sharp contradiction which is the most obvious one: it is the one relative to common agricultural policy.

In 1971, the overall budget of the Community rose to 3,055 million dollars of which 2,630 went to the EAGGF (European Agricultural Guidance and Guarantee Fund) or an amount equivalent to 86% of the total. Of this sum, which is really impressive relative to the situation of the Community funds, only 10% went to the Guidance section, there to be directed to the promotion of better productive structures in the sector. As for the rest, the funds went to maintain prices of produce with the disproportionate and distorted effects all are aware of.

We think it is necessary and urgent to reverse this state of affairs. The sign of this change will be seen in the necessity of examining again the criteria of the common agricultural policy. The moment has come to think about directing the main portion of interventions not to the support policy of agricultural prices but to structures in the industrial and agricultural sectors and, as concerns the revenue of the latter, change the criterium of intervention to more direct ones, more efficient and less liable to inequalities and abuses.

In this way only the Community can, on the one hand, begin to assume direct responsibilities for industrialization of less developed regions and, on the other hand, face the serious social problems of support of agricultural revenues.

Measures. The coherence and credibility of certain assertions find their verification through passing from the topic of objectives and tasks of the regional policy to that of measures and tasks of the Community. In our opinion, it is here that the reasoning becomes thin, it fades and is inconsistent, it undermines seriously the credibility of the Community's will to assume some role in regional policy.

As the instruments on the whole, we believe there is a relinquishment and a way of thinking which require closer examination; mention is made of "investment expenses" in a casual way as regards professional formation and re-training also equipment; however, the emphasis centres on the necessity of reaching more extensive rationality and avoid wastage, nothing is said about the volume which in certain sectors is either insufficient or, altogether, inexistant, the relation of capital-employment is mentioned but only to seek greater strictness in public expenditure on the part of Member Countries.

If such statement has a sense, it is for the current portion of public expenditure (as in the Italian case), but to state it with such indifference assumes a reactionary note. The problem is rather to examine a type of expenses written in capital account particularly as regards investments, the problem is that of new instruments to control these, instruments apt to direct investments into labour-intensive sectors having a high value added contents. On the requirements of such instruments however not a word is written in the document.

The fundamental contradiction reaches its term when on page 52 , in opposition to what is stated on page 54, it adopts the erroneous concept that structural disparities in social and economic sectors of Member Countries "will not be effectively removed until a single market is created inside the economic union". Evidently at this point what had been said earlier has been completely forgotten and not only in this regard ! Recalling now the "imponderable factors" the possibility to appraise "the effective disparities between the various regions as regards conditions of location" is put in question ! But we do not wish to insist on these aspects because we would enter in a

weaker and indefinite field; we wish to make some comments on the question of the single market as a condition for overcoming the disparity in the structures. The above assertion means in reality taking back all that was said before, it means being unaware of the strong analogy between inter-regional and international development, it also means being unaware that, at national level, despite the single market, structural differences between the different regions instead of being reduced frequently increase through the "endogenous-cumulative" process which favours the more advanced regions. Otherwise stated, the automatic or spontaneous functioning of the economic system stimulates disparities and does not reduce them. Public intervention starts at this point (as seen in the same document particularly in the form of transfers, etc.) but evidently it is insufficient at national level and, anyhow, it is there to influence demand. The situation is more serious at inter-regional level due to the non-existence, except in an embryonic form, of the measures which exist at national level; the danger is therefore greater.

Industrial and regional policies (1970)

The limits in the concept of regional policy seem clear if one refers to the industrial policy of the Community, now being formulated (1).

(1) See : Industrial policy of the Community. Memorandum by the Commission to the Council, Brussels, 1970.

There are five points of reference in the document:

- 1) - Completion of the single market;
- 2) - Unification of the juridical, fiscal and financial framework;
- 3) - Re-structuring of enterprises;
- 4) - Organisation of alterations and adjustments;
- 5) - Extension of Community solidarity in relations with Third Countries

(Memorandum p. 15).

As can be seen, any discussion on localization of enterprises and, therefore, of regional dimension of the problem is excluded. On the other hand the independence and separation of the topics emerge clearly, for instance on page 26 of the document mentioned when not only does it choose prejudicially in favour of professional and geographical mobility, but also it expresses a clearly negative opinion on direct forms of aid for industry.

"Independently of the objectives proposed for social and regional policies, from the point of view of industrial policy, it is of utmost importance that professional mobility be encouraged and, within a certain measure, geographical mobility of labour. Aid to labour mobility in its various forms (professional formation, indemnity for loss of wages, removal indemnity, housing indemnity) is frequently an indirect form of aid to industry, more intelligent than the larger part of direct aids too easily diverted from their objective and leading easily to always new requests". (Memorandum p.26).

It is evident that beneath such reasoning is the assumption that present industrial production organization does not present problems of sectoral and territorial concentrations and that everything is running as smoothly as possible. In the whole document are to be found very vague allusions to regional policy, the importance of which is indicated in an indefinite way, and to the need of a better co-ordination.

Regional policy is not considered as an overall dimension which covers and permeates all sectoral policies but it exists as a complementary function to the industrial one and "can also contribute, thanks to intelligent selections, to accomplish a better geographical balance of industrial development, reducing eventual excesses which its search for efficacy could involve" (Memorandum, p. 102).

The assumption beneath this is the same as before, that of synchronized development, an assumption which, as is known by all, bears no comparison whatever either with the reality of facts or with theoretical assumptions on the working of markets and development of economic systems and which in any case are excluded by the same Treaties which have provided for a whole series of recalls against obstacles and imbalances which may compromise the process of economic integration.

In the appropriate paragraph of Chapter 1 of Part Three, social and regional measures are expressly mentioned again. The first of these are reduced to the fundamental question, but not the only one, of professional qualification whilst the second deals with simple questions of co-ordination and the obvious need of aid or incentive measures of regional character. (Memorandum p. 218-220).

Whilst acknowledging the importance of regional measures these are in fact only related to industrial transformations in advanced and developed regions. The question occurs immediately: which industrial transformations are being dealt with in under-developed regions when in some of these there is no industry at all ?

In its statement of principles directed to rationalization of that which exists already the document, in dealing with industrial policy, does not lay down the problem of industrialisation of less advanced regions and insists on the erroneous concept

of the creation of infrastructures even if defined in a wide sense, i.e. inclusive of material and intellectual infrastructures and financial aid grants for which co-ordination, limitation and discipline are desired to avoid forms of competition between various states or regions and which in the past has meant and still means today a considerable waste of resources. The opportune common doctrine on regional industrial policy would still consist of co-ordination of initiatives so as to avoid investments to be made in sectors which at community level have reached a point of saturation or in sectors which, in general, do not offer good prospects of development.

In this report our task has been limited, in accordance with the agreements, to analyse the reasons why capital is not transferred to under-developed regions, therefore, we have tried to see in the document on industrial policy first of all the parts which are concerned with aspects of regional policy.

Industrial policy is, nevertheless, too important a problem for workers and society and, therefore, we cannot do otherwise than express a few brief considerations on some of its aspects.

This document, in fact, whilst associating itself with qualitative aspects and the type of industrial development to be proposed to european society does not deal with the problem - this also goes for other problems - but limits itself to a general reference to other documents which are not there and which we shall probably never see.

The consequence of this is that the finalization of industrial development tied to the logic of private profit, with all the contradictions and incongruities which go with it, is in the end clearly accepted.

The proof of this is that, on the whole, problems relative to questions such as : what to produce, how and for whom to produce, and conditions of workers in the factory, etc. are not even taken into consideration.

It is not sufficient, in fact, to say that goods with a higher technological content must be produced if we have not first made clear for whom these goods are produced and what purpose they serve.

Not to deal with these problems signifies a belief in the capacity on the part of the market to solve them all; this is certainly not the case and is contrary to the requirement expressed by the Community that a document be drawn up on industrial policy.

In Italy, at national level, the syndicates, in unison, have placed on record in a document on economic and social situations (1), the three pillars upon which rest their comprehensive strategy:

- a) full employment and development of Mezzogiorno;
- b) social reforms (i.e. higher standard of living and human progress for the working classes);
- c) better conditions for workers in factories.

This means tackling on the one hand, the sharp disparity between North and South to allow participation in the productive process of large strata of the population still on the outside and on the other hand, adopt a series of reforms like those of schools, health, transport, pensions, which weigh heavily on the standard of living of workers.

This involves, at least where Italy is concerned, the necessity and urgency, which cannot be put off, of establishing priorities between a series of possibilities given the available resources ; these priorities , in our view

(1) Document CGIL, CISL, UIL of 6th October 1971.

must go towards the development of social services, sacrificing a portion of private consumer goods on which industrial development has been mainly based during the last two decades.

It is necessary, therefore, to reconsider the overall demand and give preference to social services whilst limiting consumer and capital goods.

The question concerning what to produce assumes importance also from the point of view of relations between the communities and Third Countries, especially those on their way towards development.

It is not here a question of expressing a general disposition establishing commercial relations with all countries - this is not sufficient - we are all aware of the serious obstacles interfering with the development of currency exchanges between rich and poor countries (deterioration in exchange, scarcity of international liquidity, exchange instability, etc), it is necessary to move forward and see first of all together with these countries what kind of goods they require most, to create the conditions for credit facilities, finance, character, etc. which are required to ease exchanges with them.

This implies also the acceptance of only few large enterprises of neo-colonialist type which, as in the past, continue the exploitation and deterioration of natural resources or the exploitation of market potential which emerges in these countries. Thus, one cannot accept the stand point of the Memorandum generally in favour of amalgamations and concentrations because it would mean accepting the road leading towards a generalized situation of oligopolistic competition between the largest concerns which are for ever seeking wider markets to exploit. Nor can one accept the idea of oligopolistic group or multinational enterprises with an

European sign-board to oppose to oligopolies and multinationals with an American sign-board.

To treat separately the social aspects of amalgamation and concentration seems to us to be an insufficient and useless choice. The project, unspecified, of a plan on individual guarantees for workers dependent on firms which are on the point of amalgamation or concentration or of coming under the control of others, is but a formal guarantee and is not sufficient if it is not incorporated in the actual contract of employment in the countries in question and in the Community.

Without control of, and prior vigilant examination by public institutions on the effects of amalgamation or concentration, without the control of workers and the challenge of an anti-monopolistic community policy, the attitude generally favourable to amalgamation and concentration is translated, in reality, in an attitude of real and fitting support for the interests of oligopolistic groups to the harm of small and medium size enterprises thus made to bear the increasing domination and damage to collectivity and consumer.

WERNER PLAN ON ECONOMIC AND MONETARY UNION

Questions of structural and regional policies come also on the scene in regard to the latest initiative by the Community on economic and monetary union. We are dealing with this document because we believe that in this field, at least at the level of statement, certain Community problems which hitherto have been omitted either through inaction or through lack of courage, are now beginning to be open to discussion.

Starting from the correct premise that "the realization of an overall economic balance " can be compromised by structural disparities, the document asserts that co-operation in structural policy in the various sectors "will contribute" to overcome these obstacles; however, these policies "cannot come under the exclusive authority of national budgets" and, therefore, they will also have to be dealt with at Community level.

If these assertions show that at Community level there is an awareness of certain problems they become dangerous if, in the light of what has been said before concerning the documents on regional and industrial policies, the Community's competence should be limited to a co-ordinating and controlling role of the various sectoral policies, if it should be limited to making clear and synchronize the promotional intervention policies as has been understood by the Community hitherto.

As is known, Werner's report is the most ambitious document presented recently by the Community institutions; its scope is the building up in successive stages of an economic and monetary union to be achieved through the gradual centralization of monetary policies and budgets. In other words, the management of liquidity the creation of a monetary base policy in the face outside countries the essential data of national public budgets (level, balances, and

method of financing) should be decided at Community level. The corollary of these general and convincing principles should be that structural and regional policies would also come under the authority of the Community.

It does not appear that the Community institutions are quite clear about the politico-institutional implications of such a theme if they limit themselves to the supposition of a modification in the Rome treaties.

At the moment we are not interested in dealing with this complex and delicate problem; in any case we think that we can state that the topic taken up in the report is a "future refuge", a topic with no possible chances of realization without a precautionary or, at least, contested democratization of the Community structure and without an effective and incisive participation of the working masses in its functioning.

Because of these reasons we believe that all or almost all the premises and presuppositions for such an ambitious scheme are missing, even if it can be realized in successive stages.

In this connection it is necessary to state that whilst the Werner Plan proposes the centralization of decisions on monetary policy, it does not appear to go beyond a certain co-ordination of budget policies. We make this remark to show that even in the event of a Community policy to tackle seriously regional and structural policies, there would be no premises even with the fulfilment of the Plan. In fact, the realization of the Plan would not allow (in its present form) for a policy of direct structural intervention on the part of the Community and, if this is so, then the problems of regional imbalances cannot be dealt with.

This becomes evident if one reflects a moment on the nature of these imbalances which can have different origins: exogenous or endogenous or both. In either case a region or country achieves higher

rates of development through an increase in outside or foreign demand or because of an initial advantage due to expansion of one or several key sectors which give the region a higher accumulation rate, a higher level of investments and higher productive rates. In its turn, higher productivity results in larger profits (more internal savings) and increased exports (more foreign saving). If this saving is used efficiently a cumulative process results which tends to enlarge spontaneously the disparity between one region or country and the other. We have already commented on the inadequacy of the policy on transfers of resources at national level. At Community, international or inter-regional levels the problem is aggravated either because transfers, when they do exist, are minimal or they do not exist at all nor any measures foreseen for the massive transfer of resources to be used in direct interventions on structures.

It has been said somewhere that a differential wage policy (higher wages in the more developed regions, lower ones in regions of lower productivity) could eliminate this tendency of greater disparity. We are convinced that the contrary is true since we cannot accept wage restrictions which, as we know in Italy, have contributed nothing to approximate advanced and less advanced regions, also because we maintain that the levelling out of inter-regional wages in itself constitutes a strong stimulus to increased productivity in the more backward regions.

It is clear however that these increases in productivity will never occur unless direct interventions are made in the productive sector.

If the cumulative process mentioned above leads spontaneously to the concentration of productive initiatives in the more advanced regions, this tendency can be fought or neutralized with the creation of conditions for the localization

of enterprises, conditions which more or less exist already, but with direct sectoral policies (agricultural, industrial, etc.). These policies can be better realized by public institutions and through public enterprises. In other words if private concerns move or concentrate in more advanced regions, public undertakings can and must move in more backward ones to counter-balance the effect of the move or concentration and structurally to remove the cause of this tendency. But on this and other topics the Plan does not mention a word. The insufficiency of this formulation (even on a theoretical supposition level) emerges clearly when one thinks of the inefficiency of the unified monetary policy for fighting international inflation caused partly but in no small measure by multinational enterprises. As is known, the difference existing between total offer and total demand can lead to inflationary trends which reveal themselves by an imbalance in accounts. This exists also at inter-regional level, only that there is a single currency and one national economic budget which permits processes of adjustment and stabilization even on a long term basis with substantial transfers of resources from one region to an other.

At national level the adjustment is eased by the relatively greater mobility of productive factors in particular the labour force . At international level and at the level proposed by Werner, the premise does not exist of a Community public budget for which, at best, some measure of co-ordination is foreseen; to assume that there will be massive movements of labour is unacceptable.

For these reasons the implicit and explicit proposals of the Werner Plan do not appear acceptable to us. It is also pervaded by a serious contradiction arising from the following considerations : an economic and monetary union requires a policy of stabilization and development directed regionally , such policy cannot be fulfilled

if the "concerted" policy on medium term trade trend is limited to real and fitting monetary measures which would give a greater relief to the already strong prevalence of trade aspects and do not extend to the perfection of a series of measures on budgetary policy which permit substantial transfers of resources from the more advanced regions to those which are less favoured. This means to devise a policy of public withdrawals and expenses at Community level; this is not dealt with in Werner's report and it seems that the propositions do not exist.

HYPOTHESIS FOR A REGIONAL POLICY OF REBALANCED DEVELOPMENT

The failure of the twenty year policy in infrastructures which was applied in Italy, the marked insufficiency of the policy itself on incentives-deterents even when it is stated that incentives must be "selective" as in the preliminary programme for 1971-75 (Italy), shows that other means must be found for a solution. The same considerations - or similar ones - can be given for other countries of the EEC or those close to it as for instance the United Kingdom where, whilst having characteristics different from those of Italy, the infrastructures and incentive policies have not solved the problem of industrialization of under-developped regions . Moreover, one can see how the localization of industries in regions lacking adequate infrastructures occurs regularly, for instance in countries being developped or those of Eastern Europe, and is therefore determined by definite market interests which evidently do not exist for private capital in the depressed regions of the EEC or Western Europe.

The solution can only be found in a fundamental action on the structures and on the mechanisms of accumulation and investment acting as a lever on public industry through institutional interventions in depressed areas, interventions endowed with a dynamic capacity for the selection of new sectors and new courses of development.

It is necessary to devise an overall strategy of development with pragmatic selections and coherent instruments, with the definite intention of reversing the imbalance in progress by fighting its structural roots.

The search for the practical stages of such strategy cannot but start from some preliminary considerations. The Italian Mezzogiorno constitutes the clearest manifestation and the vital point

of the whole mechanism of national and Community imbalances. It constitutes therefore the place of attack and in this way it becomes the lever of a regional, national and Community policy and, thus, of an industrial and development policy intent on overthrowing factually the tendencies now to be seen. The attack against the prevailing conditions in the Mezzogiorno is a fulcrum and a lever for a national and Community policy of rebalance and must become an integral part of an industrial policy and of public intervention in the major selections of key sectors, aiming at a new direction in development so that the industrialization of the Mezzogiorno (and therefore of backward areas and sectors of the Community) becomes consistent and functional.

For such a policy to be carried out it is not a matter of beginning from a debate on supra nationality policy with the pre-conceived idea that it will bring new solutions from the contents of such solutions and their real fulfilment in the various national and regional structures in a way that they project themselves in the Community structure through the co-ordination of policies and instruments of general but qualified development strategy.

These considerations are all the more valid if attention is drawn to the enlargement of the EEC and that this will extol the current type of economic thinking.

The structural priority feature for the social and economic background of the Mezzogiorno and depressed areas in general is the agrarian question. The Reform of Agrarian Structures rests on the promotion of production methods having a character of association (even public in certain areas); on changes of the realisable land assets, they are qualified to deal with matters related to the law on métayage or on rent, with use of public land, with recourse against expropriation in regions of social productivity through

the necessity of productive linkages. This process constitutes the basis for the programmatic trends taking their practical form in "plans of zones" which include the putting into action and the co-ordination of the various development factors: hydrogeologic and reclamation works, territorial assets and social structures, new cultivation methods, activities in produce processing and commercialization, processes and initiatives of industrial diversification. Against this background new entrepreneurial forces are created capable in their process of accumulation and tending to resist the draining away of revenue.

The essential active factor must be found in the regions themselves as an institution of democratic power both for the formulation of needs and their representation on a national and Community scale also for their realization. Furthermore, it is in the plans of zones that such action can become practical and obtain support for its initiatives of revival also on the part of private concerns either by using to this end all the public instruments starting from the selection of national and Community incentives or by favouring positions of control of the labour force and its syndical organization in the concerns, in the local district and also at regional level.

The agrarian change understood in its way constitutes a decisive substratum for a process of relative industrialization either for processing agricultural produce and its marketing or for mechanization of agrarian production which offers an outlet to strategic sectors like those of machinery and chemical products, thus resolving in this dynamic background the question of prices and therefore of the terms of exchange.

The topic of agricultural industrialization is linked to the other main reform, that of enterprises with State participation and, in the background, of the function of public industry and with the objective

of a new national and Community trend for the industrial apparatus and its restructurisation for a new kind of development. The function of business enterprises with state participation at Community level becomes possible and necessary by the increasing weight of public intervention in the economy and because in numerous countries there subsists a public industry, expanding in some cases (1).

From a qualitative point of view enterprises with State participation do not enforce a productive policy in contrast to present trends with mechanisms of accumulation and investment which govern these; instead, they constitute a unity and a functional opportunity subordinate to the control of large private capital.

In this compass has occurred the concentration of activities by public industries in the production of basic products for which they have ceased their anti-monopolistic role both as to prices and trends, this has happened notoriously in Italy with the giving up by ENI of a share in fertilizers in contrast to Montecatini and the IRI-FIAT agreement on steel products; on the other hand they have used vast amounts of public resources in production with a high investment cost and low rate of added value so as to place them at the disposal of a productive process hinging on durable consumer goods, a closed preserve of private capital which can draw from it higher medium term profits, a more intensive plundering of revenue in the national market, greater competitive strength in an international splitting up of labour in the petro-chemical sector and of undertakings similar to those IRI recently established in some countries.

The role and the weight of public industry is, on the other hand, essential to shift the axis of production from durable consumer goods to those, besides those of primary consumption, to implements and those having a high technological content, in a better balanced relationship. This shift to production of implements, to plant installations and to "propulsive technology", if it has a maximum significance at national level where it must find organised outlets, requires also a complementary Community direction which favours the national process at a uniform rate of expansion.

It is in the interest of the depressed areas of the Italian North-centre and those of other European countries not to repeat the failure of the Mezzogiorno with its policy of incentives, of infrastructures, of "poles" and oasis in the desert" but to carry out a general re-structurization of the industrial apparatus in the way already mentioned, so as to give to the industrialization of the Mezzogiorno and to agriculture a lever and essential impetus which flows back of its own in the area in question. For the course proposed to take its full effect it is necessary that the new industrial initiatives in the Mezzogiorno and other depressed zones look either to commodities with large size plant and high degree of technology, or to manufacturing activities allied, above all, to installations in the strategic sectors. It is necessary for new major initiatives to include in their programmes the setting up around them of "integrated production systems" through which verticalization and ramification of activities are achieved, derived and induced by these initiatives and simultaneously a diversification with collateral initiatives. Such "systems" must

bring their activities to the "plans of zones" for agricultural transformations. That this is the right way is demonstrated by failure of the attempts made in other directions, like the "Apulia pole of development" devised with much care by the EEC and which failed through the absence of a nerve centre and of clear arrangements in sectoral community policies.

The actions by undertakings with State participation supported by this new course and by a scheme of re-balancing, are linked with the role that these develop for the imposition and fulfilment of sectoral policies which answer such course.

The actions of sectoral policies lead to a single view of all problems of imbalance and constitute the consolidation level of a development policy in industrialized or depressed areas.

Within these limits the problems of control of capital and trends in investments of large private companies are set to channel their investments not only in sectors in difficulty and in depressed regions but also in sectors and regions with a high level of investment and employment, and towards the new trends of development and related process of industrial restructurization and localisation. The question arises, therefore, of a public intervention in the principal companies; this intervention must be decisive in the various sectors so as to determine the sectoral development programmes, enrolling these in new general trends of which public industry constitutes the nerve centre.

Industrial restructurization to implements, plants and " propulsive technology " must give the European community and industrial apparatus which is uniform and functional for an economic commercial relation with the areas pledged to or

engaged in an accelerated industrialization: socialist countries and countries being developed. Industrialization of the Mezzogiorno, of agriculture, that of other depressed regions of the Community also forms part of this re-structurization.

We have now to deal with the part relative to the various measures and instruments which can and must be put into effect but only assume their significance if they are finalized and channelled on general lines of "key instruments" of sectoral policy and the action by enterprises with State participation engaged in a different development and in a rebalancing action and therefore of strategic and propulsive industrial localization in the Mezzogiorno in the ways indicated.

NEW AND MORE ADEQUATE INSTRUMENTS FOR AN EEC REGIONAL POLICY

We have seen in the brief theoretical exposition now it is impossible to end at Customs Union or at the limits of the Common Market the actions resulting from the reasoning of oligopolies or multinational enterprises. The enlargement of the EEC in reality tends to aggravate the dangers in the measure in which the Community could acquire the character of a sort of free trade area.

We have previously examined the fundamental general lines of the Community documents, the insufficiency and partiality of the instruments proposed and which accepted the reasoning of private profit, for the exploitation of workers and which are not apt at all to oppose a spontaneous development of the system.

We have also said that the statement on the decision reached by the Council in connection with Werner's project for Economic and Monetary Union is insufficient and contradictory.

We now say that to continue with this project until the anticipated aims are reached would mean in reality a monetary union only and not an economic one.

The latter is characterised by the same elements which characterise the economy of an autonomous and independent nation except for the true political elements which immediately follow on.

If this is true, then the qualification of Monetary Union is no longer a superfluous term but rather the fundamental characteristic. If Werner's project is so, it shapes like a lame man with one leg developed but damaged and not fully efficient (monetary policy) and one leg not even at the embryonic stage of development (budget policy). If we consider the typical difficulty and rigidity of budget policy at national level and if we consider the insufficiency of monetary policy in order to promote a revival and development, always at national level even more so at Community level, one is seeking to set up a mechanism which actually cannot function very far. The idea of creating a single currency is the fruit of a monetary illusion of the same kind as the illusion one wishes to give to the working masses and to Europeans in general.

Conceived in this way the Monetary Union can be of some use to Governors of the European Central Banks who will be able to increase their influence in the International Monetary Fund, but it will give advantages neither to workers nor to the Governments of member countries which, on the contrary, can see a substantial reduction in their ability to control and support the overall demand already sufficiently restricted.

The corollary to Werner's proposal of creating a single market of capital without control nor discipline appears to us as irresponsible and extremely dangerous; it would mean meeting the interests of International finance groups and allowing them to plunder savings wherever they are without taking into account the implications of the monetary and financial policies of member countries.

Having considered the reality of the situation we think that it is unnecessary to dwell any longer on the problems of the economic union and therefore we shall now deal with the instruments as they could and should be with present institutional guarantees or after marginal alternations.

We start with the question of co-ordination and obviousness of the complex systems of direct aid to enterprises for industrial and regional development; at first sight it could be thought that the Community's initiative in this matter is entirely positive and well deserving but this is not so; even if there are positive aspects - and we do not wish to deny that there are some - there are also negative and dangerous ones. Actually the proposal of the Community up to now is really not clear and it is necessary therefore to elucidate the equivocal elements.

Above all it must be made clear that a proposal of co-ordination and transparency cannot be intended in the sense of placing all regions or areas (zones) on the same level. It is therefore necessary that the subdivision of the Community surface in one hundred or more regions shall not stop here; regions should be classified according to types which are clearly and well defined for the purpose of regional policy.

We think that it is worthwhile to consider carefully the British experience on regional matters which Mr. Ezra describes in his report with much clarity.

Regions in Great Britain are classified according to three main categories : intermediate areas or regions, areas of development and areas of special development. Mr. Ezra in referring to proposals made in England suggests that the possibility be considered of sub-dividing the Community regions according to four types of areas, i.e. development areas, intermediate areas, neutral areas (normal) and congested areas.

Aid policy having been made clear and co-ordinated, it should take into account the need to graduate and differentiate aids according to type as proposed above.

To place all areas at a same level according to a rough and simple sub-division between developed and backward areas and then ask why capital does not flow towards less developed regions is an absurdity; it is also a matter of putting a question which can result in an extremely simple and obvious answer : under such conditions it does not suit the private contractor to undertake a productive activity in backward regions, at a higher cost of the operation, because of greater uncertainty, due to the further distance of the goods and therefore higher transport costs the isolation that the introduction in an under-developed area implies and for a series of imponderables, amongst which are those related to a different social-cultural sphere.

We do not to make a very analytical and profound statement on the various types of regional policy measures, as far as we know, this has been brilliantly done by Mr. Ezra and therefore we refer to his report for a closer examination.

It seems opportune to emphasize that if the Community wants a policy on localisation it must not stop at the general statements but must go beyond; the Community and Member States can and must avail themselves of the direct and indirect instruments of localisation policy, of instruments of quantitative and qualitative type.

The pre-eminent qualitative instrument is the grant of authorisation which has been successfully adopted in Great Britain. It allows control of investments in an intelligent way and in a way which is not costly; the authorisation remains the most significant direct instrument. No less important obviously are all the other instruments of quantitative type, such as, on the one hand, fiscal exemptions, subsidies, credit participations, interest allowances, sharing in the sunk capital, etc. or, on the other hand, deterrents or differential taxation rates.

Neither in this respect shall we dwell on details, the various instruments adopted by member and associated countries are listed and analysed in many documents, also in Community ones.

A second requirement for grades and differentiation should be mentioned, not this time in relation to the type of area or region where it is proposed to localise investments, but in relation to the type of investment itself, its characteristics in regard to employment and to the technological content of the productive plant.

A more serious effort for the effective control of investments can only be made in this way, control which, with facts and not only words, should bring or at least make easier the investments in less advanced areas, also of investments which are labour-intensive and with a high technological contents.

Should Community legislation in this matter become uniform and coherent with the objectives which, we are told, it is desired to pursue, then the dangers of escape of capital from one country to another could become remote. It is on this topic of co-ordination that the Community should act in our opinion.

This type of action presupposes a decisive and collateral intervention for a series of synchronizing measures on fiscal regulations of member countries as to the treatment of revenue from capital and taxation on companies. It presupposes moreover an adequate pressure on certain nearby countries with so called "fiscal heavens".

Public enterprises - It is with the public enterprises and enterprises with State participation however that public authorities can play a leading role in regional development policy. For this instrument a new approach is however required; the course must be changed so as not to continue, as in the past, an action which is in line with spontaneous development of the system with an action answering purely to business criteria. It is evident that a situation in which private companies concentrate normally in the more developed zones, public business with a state participation can play a leading role in reversing this tendency and in producing conditions of localisation also for private companies.

Public enterprises can and must be at the center of the so called integrated development projects in an attitude which can no longer be that of subordination to the large private interests of oligopolies but with its own function and initiative, not only in the basic sectors but also in the processing ones with higher employment prospects.

It is only through entering into the processing industry that public enterprises can acquire the benefits of heavy investments in basic sectors benefits which will otherwise be taken by private industry; only thus have they the possibility of adopting a policy of alternative prices and of controlling decisions in the matter by private oligopolies.

Turning once again to the specific role of the Community and the necessity that it should dispose of efficient and adequate instruments, we shall consider briefly the Report on Financial Means utilisable for purposes of regional development which in 1970 followed the General Report on Regional Policy (I).

This report takes up the various measures which can be adopted on the basis of the rules of the actual Treaties however, contrary to expectations of some hopeful individual, no steps are taken beyond the analysis of the present means for **applying** the measures; some brief remark is made on the possibility of improving their use but without expressing the least critical opinion as to how these means had been misused in the past.

(I) See document SEC (70) 4377. 2/12/1970.

We are indeed surprised that enormous expenses continue to be scheduled of the EAGGF; for the Guarantee section it is estimated that from 1971 to 1975 about 2,933 million u.a. out of a total of 5,708 million will be made available without any possibility of using such a sum for regional purposes. In fact being directed towards guaranteeing certain levels of prices of some agricultural produce, the differentiation according to regional needs is difficult to understand and would anyhow be contrary in principle to Community thinking.

On the contrary, a differentiation could easily be realised if it were decided to use direct forms of integration of revenue.

In any case it is the Guidance section which best lends itself to regional policy action and it is here that one should look for direct intervention on production structures.

We have said that for 1971-75 it was estimated that the Guidance section should use almost half the expenses on interventions of structural character; we consider that such a percentage must increase if agriculture is not to remain for ever a marginal sector and assisted activity, and if it is to become an activity economically valid.

As to industry, interventions should be extended according to Art. 54 and 56 of the ESCS to all sectors which are in need of assistance; the limits placed on steel centers and to conversion operations must be raised.

In this respect the proposal made somewhere of setting up a European finance society for interventions in the industrial and manufacturing sectors should be considered;

this society could find the necessary connections with national or regional finance societies by means of participations which would consist of a subdivision between more corporations of the risks involved.

It is clear that the instrument^s of intervention for the reconversion and for the support of sectors in difficulty can easily be graded and differentiated for purposes of regional policy and employment. Little can we say on the action of the European Investment Bank whose means naturally are increased and used for financing individual projects and, better still, for financing integrated projects of development in the sphere of "plans of zones".

It is with this last instrument in fact that it is possible to evaluate better the inter-dependence and necessity of investment in a particular area, acting preventively so as to avoid isolated investments in the base sector around which there is vacuum.

The " plan of zone "- as also regional and national plans - must be above all the instrument around which is realised the participation of social forces and of workers in decision making in the economic and social field.

It must be an effective instrument of democracy and self-determination through which local populations genuinely express their own interests and in a political build up adopt the means of carrying them out. It must, therefore, be an instrument of emancipation and advancement of the working classes and, no less, an instrument for the execution of precise decisions taken centrally at national and/or Community level.

In this sense, our institutional scheme presupposes the full realisation of regional reform with an effective handing over of powers to the regions and to the other local corporations, to each one according to its competence.

The European Social Fund is a separate topic; its duration was initially expected to be only that of a transition period. The necessity to keep this organisation going and to invest it with new responsibilities has been acknowledged; the ESC and other centers have had long sessions and some kind of understanding has been reached for the reform; a project of new Statute has been prepared by the Commission but the policy decision is still missing to this day; we are in favour of getting over this situation of paralysis, we are also in favour of its utilisation for purposes of regional policy and the use of the means which are provided for in the interventions of type a) and b). The same view holds good for proposals contained in the last document of the Commission relative to "actions by the Commission on regional policy in agricultural priority regions of the Community" (1).

Whilst considering that, on the whole, the proposal made by the European Interest Discount Fund for regional development is insufficient and incoherent in respect of the pre-established aims, we think that should this proposal be reexamined and amended according to the indications we have given previously, it may find its own place in the ambit of specific instruments of regional policy of the Community.

See Community Document 1971 500 def. of 26/5/1971

In addition to the discount enumerated above the proposal foresees a series of interventions for structures which we think is a move in the right direction but, unfortunately, it must be noted that also this proposal - it foresees a principle of aid graduation and differentiation in aid in accordance with what we have said earlier - remains as it stands and no policy decision has been reached over it.

The assumption of policy responsibility by national and Community institutions, in this connection, is particularly urgent and necessary if the impoverishment of these regions, still mainly agricultural, is not to persist irreparably. Thus, we have seen even if only briefly, the principal means the Community disposes of or could dispose of with only marginal modifications. We remain convinced that they are insufficient and basically weak especially if they are left as they stand; a few exist but are useable in an inefficient and harmful manner (see instruments for support of agricultural prices), others exist only at the stage of proposal; all however are made use of or are capable of being made use of in a subordinate attitude. It is, therefore, necessary to get away from this situation, to abandon assumptions of geographical mobility of workers and of regional policy directed exclusively to the realisation of infrastructures and to assume the responsibility and the initiatives which are necessary in order to get out of the paralysis in which the Community finds itself.

TRADE UNION POLICY IN THE PRESENT SITUATION

Considerations which have been developed in the report so far propose a policy of balanced regional development of the Community countries and of the whole Community itself.

Such kind of development requires a change from the present spontaneous functioning of the economic mechanism at national and international levels, ~~th~~rough the control and orientation of productive investments in under-developed or congested zones.

A regional development policy must be co-ordinated with an industrial policy of sectoral development and of its localisations, it cannot base itself exclusively on incentive or infrastructure policies but must boil down to direct productive intervention which involve the fundamental role of public enterprises and public authorities at the various regional, national and Community levels on the grounds principle that capital must be transferred where the labour force exists and not the other way round.

It is on this basis that the objectives of social policy can be reached, particularly as regards employment problems, civilized living conditions for workers and for the population of all regions.

Social policy must no longer be the consequence of the selections and trends of economic policy but, on the contrary, it must be the condition of a new economic policy ~~the~~ objective of which is to overcome imbalances, secure full employment, higher living standards starting from more humane conditions of work.

Such a strategy of economic and social policy requires a strongly binding participation from the labour force and

of trade-union organisations in particular in order to impose through struggle and bargaining new selections of economic policies to the public authorities and to counter-balance the increasing weight of oligopolistic groups in national Community life.

Whilst the process of economic integration evolves between countries of the Community, even amidst difficulties and sharp contradictions, whilst there is an enlargement in the process of restructurisation and concentration of enterprises and whilst powerful multinational companies emerge, the decisions of which leave out of account any interest of the national collectivities in which they operate, the trade-union movement finds itself today in a condition of almost complete impotence in the face of such occurrences and it loses thus at Community level the power acquired at national level.

Trade-union is one of the fundamental instruments for exerting an adequate pressure of renewed forces and to press forward, at national and Community levels, a new economic policy based on a change in relations of strength and therefore in relations of power with the ownerships at business as well as mankind levels and to agree to control and to contest the present policy of investments.

The present want of unity in trade-union movement and the absence of a unitary international strategy on the part of syndicates in the trade-union movement in the EEC and in West European countries is one the essential reasons for action in order to achieve a real change in present reasoning on economic development of the Community.

It is thus essential that the trade-union movement should have its own strategy of revendication over economic and social policies, it should also have an international dimension and co-ordination based on the contest of ~~the~~ the principle of enterprise efficiency and productivity motivated by private profit so as to impose a larger concept of social productivity; it should take the burden of national and international problems of the collectivity. Such a strategy must assume the fundamental objective of public control of capital and investments (public companies, private ones and in particular the multinationals), of their orientation and localisations in accordance with an economic policy of industrial, sectoral and regional development particularly related to structural transformation of agriculture.

Consistent with the objectives of economic policy, the formulation of a co-ordinated syndical policy at (Community level is essential, it should have at its centre the control of work organisms so as to guarantee humane conditions of work (problems of movement, of institutions, of qualifications), the control of the labour market, the harmonisation, of providential policies both as regards distributions and the system of financement, wage and contract policies (the refusal of restrictive wage policies, of zone and sex differentiation, wage parity between workers and employees, etc.), duration of work (pensionable age, weekly hours).

Directly connected with the programmes of trade-union revendications and the need for a new development policy are the problems of emigrations used to weaken the contractual power of workers in the more industrialised countries (to the point where emigration from countries outside the Community is encouraged in order to avoid EEC regulations on wage parity) whilst there is an enormous exploitation of huge masses of workers coming from under developed regions and countries. The more acute consequences of the present development mechanism fall on these workers in the form of lower wages, degrading conditions of living and of work, unemployment which hits them first in the phases of an economic recession such as the one occurring at present.

Moreover, syndicates must harmonise their attitudes to problems of social reforms and the raising of living standards (problems of homes and urbanisation, transports, schools, health and pollution).

Against this background the gain and defence of more extensive syndical rights acquires an increasing importance in places of work and the recognition, not only at national level, but also at Community level, of the role and function of the syndicates which vindicate the value of their opinions not only a regards problems of social policy but also the choice of economic policy and the constant safeguard in all centres of their full autonomy of initiative.

The democratisation of Community institutions - the most important political problem of the EEC - to allow a real possibility of participation by workers and the people in formulating and accomplishing new economic and social policies, also goes for the establishment of a new kind of relation between those EEC institutions and syndical organisations, acknowledging their role and function which must be exercised for the protection of workers and for the democratic transformation of economic structures in the different countries and in the Community as a whole.

Syndical autonomous action is the direct expression of the real needs of workers and becomes thus the essential factor in a policy of balanced regional and sectoral economic development through the full utilisation of all resources, not only material ones but above all the human ones.

CONFERENCE
"INDUSTRY AND SOCIETY IN THE
EUROPEAN COMMUNITY"

REPORT N° 4

THE CONDITIONS FOR AN INCREASE OF THE INVESTMENTS OF COMMUNITY

ENTERPRISES IN THE LESS DEVELOPED REGIONS OF THE COMMUNITY

ROLE OF INDUSTRY AND THE PUBLIC AUTHORITIES

by

G. KIENBAUM

COMMISSION OF THE EUROPEAN COMMUNITIES

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The pre-requisites for an increase in investments by
EEC enterprises in the less developed regions of the Community

- The role of industry and the public authorities -

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Taking stock

In Germany an opinion poll has disclosed that 80 % of the population think, that the development of different parts of a country must be aligned with the interest of the whole. However in our operating economic systems the setting out of regional policy is giving rise to problems. For the corporate image of the market economy - all six Member States and also the four newcomers to the EEC are basically market orientated national economies - the only really adequate policy measures are those, which can be considered as congruent with the market and which in the same way promote or handicap the whole. This principle will certainly be partly contravened in regional policy in all Member States, for state interventions apply to sectors and particular economic items.

All the same, regional policy is one of the essential constituents of a market economy pattern, because our economy cannot prevent generating from within itself areas of varied economic strength, and the disparities grow. Every imbalance will have its effects on the development and growth of the whole national economy. To the institutions of the public authorities

falls the task of ensuring in all regions the provision for all citizens of the vitally necessary and standard products and services and also taking over the guarantee of an income for those earning a living. It then remains for these expert bodies to install a panel of instruments, which does not contradict the playing rules of our economic system.

To begin with, such an assignment for the body of experts shuts out for practical purposes any possibility of a passive rehabilitation of particular regions.

Development aid in one's own country may become popular again. In German economic circles there was never such a readiness before to relocate production premises or seek new sites. The point of departure for a systematic regional policy thus seems not unfavourable. An overall demand for locations is face to face with a widespread supply. It will be the task of the public authorities to set up a rational platform for the "partners" to meet. This situation arises equally from the municipal to the EEC level. On what scales authority will be delegated is reserved for future discussion.

Both industry and public authorities can gain in this undertaking. The economy is groaning under mounting cost burdens in the conurbations and is seeking a way out, which offers the best conditions - the public authorities are trying to decentralize the conurbations in order to bring down the inevitably escalating social costs there. This task is eased by the fact that we are all living in more or less growing national economies. Economic growth makes it possible to bring about a levelling out without impairing or prejudicing the economic strength of other regions, as would happen in a stagnating economy. Economic growth,

however masks in itself the latent danger of intensifying already existing disparities. This would appear to outline the point of departure situation. Industry and public authorities are equally agents of supply and demand and there is an ambivalent relationship between them. The problems of regional policy are not a case for an institutional levelling mania but rather for a creation of unity within democratic plurality. No institution would think of levelling all the regions by slowing down the more progressive or economically stronger among them. On the contrary an attempt must be made to find the optimum conditions for all.

We must start from the premise, that state interventions must be so directed, that they do not handicap the strength of entrepreneurial initiative, still always the most effective trigger of growth. The difference between planning and economic planning activity must always be clearly evident. But even the best meant help can be detrimental. Can the public authorities advocate installing their instruments for regional policy at the expense of the producer of a substitute good or at the expense of communities in their competition with a comparable location? There is a whole catalogue of important and always to be heeded precepts for regional policy.

It is not possible to level out existing disparities between particular regions overnight. A glance at the varied economic strength of individual regions makes it clear, that it is now high time for a systematic regional policy to generate the pre-requisites for a balance between the regions. The institutions are

equally concerned about the regions of disproportionate underdevelopment and the conurbations, although the problems are naturally of a different order. No figures are needed. The names of some of the regions will do. Simply compare Lombardy and Calabria, the Camargue with Paris, the Eifel with the Ruhr. Almost all States have been trying to diminish more or less skillfully the existing disparities between particular regions. One notices here the lack of a unifying rationale. At a time of increasing interpenetration of economic areas, spreading even far across frontiers, such isolated action in a competition orientated economic system can only lead to distortion of competition. Immediate treatment is more urgent than ever.

Causes behind the regional disparities

No measures, however sound, will be effective unless they are precisely tailored to the needs in question. Thus to take stock beforehand is a pre-requisite for every activity of the public authorities, otherwise without such information even willing investors must helplessly pull decisions out of the blue.

Disparities arose as soon as man became "economic". Entrepreneurs looked for the most favourable place for their activity. The decision was then mostly power supply or transport orientated. The evolution towards the division of labour economy with the more potent significance of the marketing sphere brought in the first sight of agglomerations.

The natural location advantages still play a part today, even if in the face of technical progress their importance has waned. So today for those seeking sites water as a source of energy is scarcely a requisite. Harnessed energy has taken over this work. All the same countless decisions on location are taken in favour of the proximity of water. One only needs to think of the immense quantities of cooling-water which the heavy and chemical industries need every day.

Site characteristics for agricultural and mining activities are in a similar situation. By the nature of things there is no outright balance to be struck here, as simply natural advantages prevail. The public authorities can anyway make a substantial contribution to avoiding a monostructure. The advantage of only one location factor is very quickly overcompensated just as no product is substitute proof.

Early conurbations arose in the industrial boom, sparked off by deposits of coal and iron ore. While remaining regions clung to traditional structures thus handicapping development the conurbations themselves were spiralling up. The drive of the public authorities to create better transport networks triggered off a boom in the conurbation locations, which further necessitated initiative by the public authorities with all their services and new jobs as a result. Since at that time there could be no mention of a systematic structural policy - either from the regional or sectorial aspect - it was no wonder that these early centres proliferated in an altogether disorganized and unwholesome manner.

The public authorities at that time went ahead with their assistance policies based on a completely false concept. Projects were pushed which promised success. This meant that the anyway already successfully functioning regions i.e. those with a high contribution to the gross national product internally - took a disproportionately high share of the blessings of the national infrastructure measures. Thus man created additional artificial disparities. The gap between these centres and the remaining regions became wider and wider and made it almost impossible for ready investors to invest there due to the neglect of the plainland. Thus the most unfavourable pre-conditions possible were granted for the inception of our regional policy today. A state of affairs applying not only to Germany but to the whole of the European Community.

For regional policy three stages of development are all-important :

- Disparities due to nature-given location benefits,
- Disparities due to cyclic infrastructure measures,
- Disparities due to changes in the decision criteria among potential investors.

While in the first two cases policy can proceed from clearly defined data, in the third case it is very difficult to make attempts at levelling out. The public authorities are constantly obliged to inform themselves over changing entrepreneurial expectations and decisions and to readjust accordingly forthwith their respective methods of treatment.

The economy has also made zig-zagging movements in its decisions concerning locations. Following the era of nature governed location decisions, technico-production advantages clearly gave the ultimate push towards decision. It was a question of finding the favourable combination of capital and labour. In the course of increasing division of labour, this crucial point was sharply switched to the marketing sphere. An important factor in these two phases was a favourable communications network in relation to a sufficiently large and favourable market. Even after these general priorities led to no positive results, decisions appeared to be made in the end simply in relation to the total costs of a location. Here began the bottle-neck in the labour production-factor. In an emergency all good intentions were forgotten and the economy moved into the countryside, where lower wage levels could be anticipated, without considering additional costs of distribution and possibly professional training. There was no further mention of a systematic settlement of all regions.

Only in most recent times has the concept returned that in the last analysis the overall costs of a location must be decisive. The soap-bubble on which the public authorities were sitting had also burst. At first blush it had seemed that by this move into the deep country a natural counterweight against agglomeration was making itself felt and was allowing retarded regions the chance to keep in step with the big ones. The disillusion is all the greater now. Only with substantially greater means can measures be taken towards a balance of economic strength.

Regions change their faces just as towns have changed theirs. It is not the towns themselves but the conurbations like the Randstad in the Netherlands and the Ruhr in Germany which pose the problems. Less and less in future will towns be a place of production rather than communication following the so slow and belated recognition of the aftermath of chaos in Europe, caused by the era of "progress at any price".

Summary

The public authorities are today faced by the necessity,

- of reducing a further influx into the conurbations,
- of demolishing remaining monostructures,
- of shielding municipalities in less developed regions from a ruinous competition,
- of aiding regions so that they may offer properly their particular location advantages.

The economy has three possibilities for decision,

- invest further in the conurbations and with these high investments obtain transport facilities into the bargain,
- make more favourable investments in the politically promoted regions,
- forsake the industrial states of the Community and invest in non-Member States.

It is assumed that in future the public authorities have an interest in preventing or obviating investments, which can not guarantee a near optimal utilization for the whole.

Factors determining entrepreneurial investment decisions

Naturally one cannot expect investors in future to direct their investments according to only nationally economic exploitation criteria. The investor wants his investment to be amortized and managed into a maximum profit. The task of the public authorities is not to steer the investments but rather to stimulate preference for a particular area. This can happen through a suitable configuration of the investment conditions. A close survey and collation of all the data affecting the investment decision by the particular enterprise is essential.

It strikes one as critical, that only about 30 % of the total direct investments of German undertakings abroad are being effected within the Member States of the EEC. A further 20 % were invested in EFTA, 20 % in America, while the rest in the main is going into the development countries. This is where the public authorities must make a start. The disproportionately large share of the extra-EEC investments can certainly be the springboard for a useful critique and investigation of one's own arrangements for potential investors.

In so far as investments in non-Member States are not market-policy motivated, it is indispensable for the effective formulation of the future policy of the public authorities, from municipal to supra-national level, to analyse entrepreneurial decisions be they on policy, technique or production, and draw their conclusions accordingly.

The public authorities must start from the premise, that for the individual enterprise, contemplating investment, only the sum of the location factors is significant. No two enterprises have the same "dream package" as regards their location requirements. There will always be quite specific dominant factors, for instance the availability of labour, a not over-high wage level, the outward communications set-up, the start-up costs, especially in the case of an enterprise needing a relatively large surface area. Enterprises will and must also keep their market and marketing opportunities in view. An opinion poll in Germany among leading industrial enterprises, concerning readiness to invest, clearly showed, that not one enterprise will pin its decision on one criterium. On the one hand, the thinking in many firms is to safeguard their exports by means of their own production units abroad, for often enough markets gained by trade can only be held by offering the customer the necessary on-the-spot service. On the other hand, in recent years in the German economy, expansive thinking has come to the fore as against this defensive attitude. As in the USA ten years ago, the Community today is becoming aware of its own strength and stressing it, wherever, by product or capital strength, the prospects of breaking into a worthwhile market are especially great. Concepts based on short term results are clearly taking a back seat.

Against these two market strategies, the so often emphasised motifs of lack of labour, exploding wage costs, investment subsidies, political

uncertainty etc. play mostly but a small part. One should start from the premise, that new locations be sought, only if they are accompanied by one of the above motifs. However important the differences in labour costs, they still lag behind the far more decisive question of whether, at the new location, there will be an adequate market to hand. If investor's deliberations were decisively moulded by questions of labour cost etc. the German economy would years ago have been obliged to invest much more extensively in low-wage countries like Italy, Spain and Turkey etc. The increased numbers of migrant workers especially in the northern countries further illustrate the uncertainty of the labour force and labour costs being the only determining factor.

Similar behaviour can be seen over aid to investment in various countries. The efforts of investment promoters whether they are from the U.S.A., Scotland, Ireland, Canada or India, are often as pathetic as they are futile. They make a lot of way but only act when accompanied by solid motifs for investment. And this is only too understandable. Anyone prepared to invest 10 million DM will only do so, because he reckons on a definite gain in the long run and not because a percentage grant is assured. Other things being equal, this last consideration may fourthly or fifthly turn the scales in favour of a particular country and will do so all the more rapidly, the smaller the enterprises and the less they must let themselves be led by considerations of market strategy.

Furthermore it benefits no one within the Community if concerns relocate merely for the sake of structural improvement or for the sake of a new market,

without achieving a better integration of production factors. Relocating across frontiers merely so that someone else collects the trade taxes is futile. This outlines in short the difficulties involved for regional policy in successfully getting new investors to the desired location. For this reason much greater attention will have to be paid to the auto-recuperative powers of any region. Any region in a fully occupied economy has a growth potential only from its own strength. Industrial concerns must be driven to improve continually their factor input-output ratio by increasing the returns on sales or by reducing factor input. Here it is the task of the public authorities to see that an optimal exploitation of the region's development potential is attained via the market mechanism, with the help of regional policy in the form of an economic development or structural adaptation policy. This is equally valid for raising the economic strength of weaker regions and for the withdrawal of productive strength from the conurbations. For only here does the migration of labour lead to a drop in the hitherto high proportion of fixed costs in the overall costs of the public expenditure and to a drop in economic production costs. Furthermore the public authorities must see to it, that the gamut of enterprises from the market orientation standpoint is very varied. The decisive vehicles of economic growth from the marketing structure angle are the enterprises with distant markets, since a solely regional demand runs up against frontiers.

Concerns within a region are continually beset by four adaptation problems :

- They must always optimally adapt their marketing structure to shifts in demand.

- Technical progress entails constant evolution of production structures.

This means in regional terms, that the industrial adaptation procedures also constantly change the requirements of the regional infrastructure in quality and quantity. The public authorities must exercise their influence on location conditions and flexibility of production structures so that the latter always match the claims of a growth economy. These measures by the public authorities must not stop at branch level but must advance at the overall level of the enterprise. This means at the same time that regional policy has to operate functionally and not structurally in assessing the concerns by their demands on the regional factor potential and by their contribution to opening up the region's development potential.

This requires long term economic planning by enterprises and regional policy. Enterprises must not guide themselves by empiric values alone nor must they strive for only short term maximization of profits. The public authorities do not have an income distribution but rather an income generation policy to put forward. Only thus is an equitable growth and location regional policy feasible.

In implementing their policy the public authorities have a multiplicity of factors to consider. Growth inhibiting in the broadest sense for example is an over rapid regional concentration of growth industries with increasing factor demand, so that the release of labour forces from economic zones with traditional structures is not enough to meet the additional labour needs of these industries.

An over rapid increase in residential population also leads to bottle-necks in the public utility installations. Costly improvisation would then be necessary in the sector of social capital. A rapid regional concentration pays off only if it does not cause an escalation of costs from the initial public outlay. Steady growth in any region is in any case preferable to an erratic evolution.

The objective setting of a long term regional policy must create a dynamic balance between the increase in far and near-market orientated enterprises, between concerns with extra factor demand and those with factor release and between the degree of exploitation and enlargement of the public utilities on the one hand and population size and influx on the other. A prerequisite for every regional policy activity is therefore knowledge of :

- the grouping of the firms according to their market disposal,
- the developing trends of external and internal regional demand,
- the changes in production costs and rationalization possibilities,
- patterns of power on the market,
- natural location conditions.

A regional economic structure favourable to growth and locations hinges on two characteristics of the enterprises :

- their ability to keep pace with the long term structural shifts of terminal demand and to so optimize their own market opportunities,

- their ability to exploit the utilization scope of production factors evolving through technical progress and the need for mass-production and so optimize in the long term their production structures.

Very careful thought must be given as to which institution concerned with these developments can turn these industrial requirements most beneficially into reality.

Before deciding on such executive organs there must be in every case a comprehensive regional analysis. Here one must not overlook the difficulty facing the regional policy analyst in supplying information to illustrate not only the current situation and developing tendencies but also ways and means to ward off undesirable phenomena.

Deductions for the public authorities from investor behaviour

An exact definition of what is understood by a region must precede any activity to ensure its efficacy. Are, for instance, administrative frontiers also regional frontiers? Are regional frontiers established for all time? The selected areas must not be too large otherwise specific phenomena overlap, neither does too narrow a definition consider the trend towards a larger market. In preparatory work the inventory of measures taken up to now is also to be reckoned with. Co-ordination therefore pre-supposes here vertical and horizontal orientation.

It was already noted that enterprises do not take decisions on investments and relocations overnight and without a thorough examination of all conditions. In fact they take into consideration a whole package of

particular factors. But since no enterprise is in a position to extricate all data required - data collation being too costly - far reaching decisions without the aid of the public authorities must be made on the fruits of incomplete research.

A lack of information exists for the enterprises, when we also consider the question of the regional policy measures applied by the regions themselves. A list of all the instruments in use, their conditions and effects is needed. This documentary work is not difficult. It becomes a problem when the scope of installing the manifold instruments is considered. Particular factors of influence are moreover almost identical. Differences arise, however, in respect of degree. Irregularities of competition and infringements of system conformity are by no means rare.

Here is one of the most important starting points for the comprehensive, consultory function of a superordinate expert. For the local and national institutions of regional policy, industrial settlement, economic development or whatever it may be called, will mostly be grateful for encouragement towards the optimal use of the available instruments. Up to now there has been well-meant talk of sample solutions. But if a superordinate institution is to propose an individual solution attuned to the region, then the initiative must come from the region concerned.

Every institution must always be alive to the fact that aid, however well meant, can all too easily boomerang with adverse effects. Distorting competition within the municipalities of a region, obstructing the producer of a substitute good instead of the promoted article contradict the axioms of competitive economy.

The function of the public authorities must avoid any attempt at a perfectionist solution. Economy and society need less a programme of planning than a programme for design.

Imbalance in economic development is always bad - whether it arises from disproportionate over-growth or persistent stagnation in certain regions. Regional policy must therefore act in two directions. Selectively restrictive, when need be, in keeping private investors away from certain areas and promotive in the case of underdeveloped areas.

The theoreticians go further in claiming that regional policy must remain neutral vis-à-vis economic trends. But relationships between regional policy measures and economic trends cannot be denied. For the EEC this fact can be involved in difficulties over a common regional policy, for despite all the world-wide interpenetrations most of the Member States are convinced by national business cycles. The close relationship between cyclic economic policy and regional policy should also not be disavowed. In the broadest sense, every structural policy will provoke cyclic effects. Of course excessive investments in fully occupied regions will induce inflationary tendencies by overstraining the labour market with high wage offers. Productive investments on the other hand are a welcome means of evening up weak points within the demands of the Magic Square.

The instruments of regional policy

The multiplicity of the means utilized in regional policy by the individual institutions is confusing to the layman, all the more that equivalent instruments are labelled with different names. A short list of those used up to now will clarify :

Loans to undertakings	Interest allowances on credits for rationalization
Capital additions	Funds for development of industrial areas
Premiums	Supplements to investment through tax reduction
Transport aids	Government participation or government participating firms within undertakings
Free allowances	
Subsidies	Re-imbusement of professional training charges
Depreciation benefits	Tax exemptions, for example on power consumption
Securities	
Closure premiums	Price concessions for ground acquisition
Special depreciations	
Obligations for licences as restrictive measures	

The totality of these means covers all objectives. A successful regional policy activity does not need to search for further instruments; this applies in both the national and international sphere. Rival overbidding by equal ranking institutions competing for the investor is the order of the day. Distortions of competition result, which beside the financial burden on the respective region provoke further imbalances.

Therefore the measures need to be co-ordinated, at least as regards their definition, at top level. In the opinion of the European Commission this co-ordination is to be implemented globally after the situation in the individual regions has been examined and put up against the regional policy aims of the public authorities. After such a projection, the respective superordinate authorities would be in a position to establish the general principles for granting regional policy motivated aid, which of course would constantly have to be adjusted to changing requirements.

All proposals concerning the setting up of the instruments as opposed to their application have justified prospects of realization. Certainly there will be no objection from the competent expert bodies of the Member States, that a drive be made by the Community towards the standardization of measurement techniques for regional statistics. Then the inducements offered by the various agencies could be compared by investors and the competent national authorities.

Difficulties only arise if the agencies, which have supplied the instruments, are also to be entrusted with their implementation, i.e. when it comes to granting authority.

The EEC has at the moment no jurisdiction here. It does not appear that a future Community organ for regional policy is to be more than recommendatory. A comprehensive intervention by the EEC, whichever the institution involved, in the basic preparation work is, however, taking shape. Moreover the Community looks like emerging as the institution, where the members are committed to similar behaviour.

Vertical and horizontal co-ordination of measures

The comparability of assistance measures for all regions is the A to Z of an optimal economic investment. Regions must be comparable on a national and even more on an international scale. But data can only be compared if they are known. Therefore they must be gathered at the outset of any activity, worked up and brought to a common denominator. Then the question arises as to which medium shall be used to communicate these decision pointers to interested parties. The danger of possible misuse of these data should not be underestimated. It can obviously be detrimental, if one region uses knowledge of regional policy measures in others for rival undercutting bids, just because the necessary playing rules have not yet been evolved.

Here the question of creating a controlling authority comes up. The problem here is clear, if one recalls how little harmony exists between economic assistance organizations in the municipalities due to inter-competition and mistrust of the superordinate policy experts, so that is to be feared that the co-operation at higher levels will proceed in the same way. Everyone knows how difficult it is to abandon real or reputed authorities. Since it is not enough for all competing regions or the respective institutions to submit to voluntary auto-control, the substance, instruments and authorities for an overall regional policy will be continually argued.

Considering the example of the EEC, it seems that in the meantime all Member States have realized the necessity of putting in minimal solutions. A first step towards a comprehensive directive was made by the decision of 20 April 1971. The Member States undertook to comply with common principles in their directives for aid. Co-ordinated procedures for regional policy measures will never on their own lead to a reduction of the existing imbalances.

Optimal solutions through a rational division of functions

The Member States of the EEC agree on the need for common action and a standardization of objectives. The swing away from the watering-can concept is clear. Everyone seems prepared in principle for the creation of a comprehensive crisis plan. In this case the effective scope for a common body of experts would be twofold. The example of the Mezzogiorno illustrates this. The Italian Government has bestowed every imaginable aid measure on this region. The infrastructure investments of the public authorities are a multiple of the means, which are placed at the disposal of other regions. Despite this, Italian and Member States' enterprises have not been led to invest there. The problem seems to hinge not so much on percentages of granted funds but rather on effective publicity aimed at the psyche of investors.

A second crucial point involves the efforts to demolish monostructures. Solutions, regardless of state frontiers, will facilitate future development.

The natural gravitation of the economic strength of a country towards its frontiers will need to be considered. A co-ordination between regions, which overlap frontiers is a priority.

The granting of politically motivated aid also causes difficulties. Germany in particular is faced with this problem. Close examination is needed to see how the high assistance levels for the peripheral areas adjoining the Eastern bloc are to be integrated into a generally applicable catalogue of regional policy instruments. The nearness of the Iron Curtain seems to call for extraordinary directives, for it is no idle remark: that if the German economy coughs these peripheral areas get inflammation of the lungs. With the funds granted up to now amounting to about 25 % of the total investments, Germany is clearly above the ceiling level recommended by the EEC. Other States would certainly be driven to more severe axeing of aid. But aid for these peripheral areas seems to be waning in importance due to the establishment of regional programmes and appears for the future to be more firmly integratable into the general structure and regional policy. This will happen all the more quickly, the less the purely quantitative measures affect industrial behaviour.

With all the goodwill for a unified Europe, the Member States and certainly the four newcomers will still distrust, in the current phase, any initiative towards assigning authority to a super-ordinate institution.

Therefore in the first phase expectations from regional policy at EEC level should not be pitched too high. Progress by short paces offers better chances of long term success.

The negotiations of 20 October 1971 have shown fairly clearly, that among the Member States there is a readiness to allow the Community a right of discussion for the stage of advance measures.

Following the current of this policy, the Commission of the EEC can be assigned to set up pilot studies. These studies are to offer guidance to potential investors as well as to Communes and regions. The public authorities often lack the foreknowledge for a successful economic policy, which is haphazardly inserted into overall planning. In connection with this study it might be possible to make early deductions for the future behaviour of regional institutions and put forward proposals for the implementation of the projects. More extensive proposals such as setting up a common information and clearing agency for potential investors in the form of a European data bank providing all authoritative data on regions and placing readily understandable statistics at the disposal of the economy, are debatable. Practical difficulties are against such an institution, since the necessary preparation and standardization of nomenclature and measuring techniques must be achieved first. Again psychological factors come into play, since some regions will not feel inclined to release information, which they consider as their own publicity potential. The biggest stumbling block will appear in the financial questions, for in the long run a data bank would

have to be self-supporting. This would assume that either input or output of data would be chargeable.

The proposal of the Commission, the instrument of the EAGGF for applying regional policy aims in structurally weak agricultural areas is certainly intended as a point of departure for the control of financing. In so far as the means disposed of by the Guidance section, within the ceiling limits, are not spent on agricultural structures in the narrower sense, then the structure will have been improved, according to deliberations up to now, by promoting the organization of new jobs outside the primary sector. In this solution the tendency towards an extension of these funds to general regional policy may be indicated.

The governments of the Member States are certainly grateful, if the EEC takes over the task of systematising and documenting the aid in kind of particular governments. A periodical service which points up and analyses current developments and informs the competent bodies of experts, will certainly be applauded.

All these points do not remove the impression that at the moment it is scarcely thinkable to delegate to the EEC or one of its institutions the authority to instruct vis-à-vis the national teams of experts. Scepticism here does not seem out of place. This attitude applies less towards the experts of the EEC than to the Member States, without which any institution of the Community, however well meaning,

cannot function. For this reason it does not seem to me recommendable, that, from the standpoint of efficacy, the task of regional policy be committed to the care of the Community.

Material reasons also demand intensive scrutiny. The regional policy measures affect the political, cultural, administrative, sociological, and budgetary structures of the Member States. With so many factors of influence bearing on the current individual proceedings in the Member States, the Community might be overburdened.

These reservations are clarified by the rejection of a formal decision concerning the further application of means from the Agricultural Fund for regional policy measures or the setting up of a regional fund in the budget of the Community, in respect of the decision for a realization by stages of an Economic and Monetary Union. The German Government also has its objections and recommends that measures involving extra means over and above those already extended to agricultural structures be adopted only after further progress in the integration of a European monetary union. For this reason, the German Government declared at the Council Conference in October 1971, that the terms of a common regional policy should be laid down in the first stage of the Economic and Monetary Union, but that the required financial means should be prepared, within the general budget of the Community, only on transition into the second stage.

Undoubtedly the public authorities enjoy a greater scope for developments. Support has come from the growing awareness of the people and a greater readiness to co-operate among local administrations. Concerted action by the public authorities and the private economy must provide solutions congruent with the system by effective infra-structure investments affording a successful economy to the entrepreneur and a planned growth for the region. Market congruent solutions are pre-supposed, for mistakes here are very difficult to rectify. Due to the poor financial strength of regions, infrastructure investments can scarcely be considered as entirely financiable out of the budget. Therefore investigations must be made to see whether private investors cannot contribute to financing the infra-structure measures.

On rationalization grounds a division of functions offers itself as an aid to obtaining optimal results. Without prejudicing any national sovereignty, the task can, as a special case, be assigned to the EEC. It would include :

- the carrying out of methodological investigations (pilot-studies) for a successful regional policy,
- completion of statistics on particular regions to be made internationally comparable over a common denominator,
- industrial policy directives in support of enterprises facing choice of location,
- providing support to the regions by compiling a location catalogue,
- providing guidance by the elaboration of future concepts for economic policy.

Any extensive activity - over and above non-material assistance - be it financial or direct, must also be considered from the political aspect. The effects of a comprehensive regional policy on the national economic policy are certainly too great, for the governments of Member States to be prepared to let this "province" be administered by the Community. The execution of measures will necessarily in future be the responsibility of Member States. It is to be counted a success, that in October 1971 the competent persons concerned were ready to recognize as binding, the ceiling limits for assistance recommended by the Council of Ministers. In pursuance of this policy, one would have to examine the possibility of a solution for the regional policy sector similar to the one for agricultural policy. The EEC issues directives for regional policy and supervises their observance. The execution of regional policy measures, subject to the provisions of the directives, remains with the national institutions.

The setting up of a European regional fund should again be debated in the light of experience gained working with the EAGGF. The establishment of a crisis fund will possibly find supporters. The Mezzogiorno case has shown, that Member States alone are not able, however hard they try, to improve the economic strength of particular regions.

Of course the initiative of superordinate authorities must not lead to industry becoming "regulation bound". The final responsibility for investments and choice of location, according to the objectives of our economic system, must remain with the enterprises.

