

Review of EEC Regional Policy

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I. Introduction

The economic and social context within which regional policy has to operate has changed fundamentally since the early seventies, when the first measures of community regional policy were conceived. The economic crisis has both aggravated existing regional inequalities and created additional problems of adaptation and redevelopment which contain the seeds of new regional imbalances.

During 1977, therefore, there was a clear need to review Community regional policy and define an overall approach for the coming years. Consequently, the Commission adopted, on 1 June 1977, its "Guidelines for community regional policy" and attached to them specific proposals for their implementation; proposed amendments to the Regional Fund Regulation, to the Council Decisions on the attainment of a high degree of consequence of the economic policies of the Member States and to the Council Decision setting up a Regional Policy Committee and a proposal for a Council regulation establishing an interest rebate scheme within the Regional Fund. The proposals relating to the Fund reflect the new policy of coordinating all the Community structures financing instruments.

Community regional policy aims to reduce the great differences that exist between regions by giving financial assistance to development projects in the less-favored ones. Generally speaking, these are areas where farming is difficult but where there is heavy dependence of local people on agriculture; where industry is declining; and where there is a high rate of unemployment and from which people migrate to find jobs. The policy also aims to prevent further imbalances from arising.

Community action to help underdeveloped regions has taken nearly 20 years to launch a European regional policy with financial support. It has allowed for a total of 1.3 billion units of account* to be spent in the

*The Community unit of account officially represents the value of 0.88867088 of a gram of fine gold and corresponds to the value of a UD dollar before its first devaluation in 1971. It will gradually be replaced by a "European unit of account," which corresponds to the value of a "basket" of the nine member state currencies, and which is already being used for the operations of the European Development Fund, the ECSC and the European Investment Bank. The new unit reflects more accurately fluctuations in the value of member state currencies.

three years 1975-77, with 300 millions units of account and 500 million in the succeeding two years. The European Regional Development Fund (ERDF) is not simply a means by which rich members of the EEC subsidize poor members or substitute for national regional policies, but also a means to build common Community objectives. Coherent planning in deprived areas is a vital objective of the ERDF and by the end of next year, projects submitted must be part of a full-scale program, carefully worked out at national and local level.

The sum ~~2~~542 million is not much to be disbursed over an experimental period of three years, but it is a start. The Commission now at least has a small lever for pushing the different regional policies of the nine member countries of the EEC in a European direction. The job of nudging the Nine out of their present habits is not going to be easy. None of them, an least of all Britain, want the EEC to interfere too energetically with their own systems of regional aid. The money available in 1975 for regional projects was only a fraction of what Britain alone is now spending every year on regional aid (about ~~2~~ 500 million in 1974). So except to a tiny country like Ireland, the money the EEC can offer is unappealing. All the same the Commission can carve out a role for itself. Deployed with skill its admittedly limited resources could make the ERDF into much more than a device by which Germany pays the British, the Italian and the Irish treasuries to help offset their current regional aid bills.

The EEC Commission's plans for how the ERDF is to be spent have been considerably reshaped since their first introduction in 1973. Originally the EEC's development regions which qualified for money from the fund covered a third of the Nine's population and, Greenland included, four-fifths of its surface area. The Germans rejected the idea of sprinkling money, as they put it, from a watering can over so wide an area. Instead, nearly three-quarters of the new fund will now be concentrated on the neediest areas of the poorest countries. Italy (which will get 40 per cent), Britain (28 per cent), and Ireland (6 per cent).

The EEC fund for modernizing backward farms scatters money throughout the Nine. The EEC Commission wants to avoid this with the regional fund. The lesson it drew from studying the Nine's regional policies was that it is likely that random aid damages more than helps a backward or depressed area. It planned to grant EEC regional aid only for projects in areas where the development authority submitted a coherent regional growth plan. That was a laudable ambition the Nine should copy. Of the three poorest countries only Ireland has anything like that at the moment. Unhappily, the Commission recognizes the Nine may not be ready to swallow this policy on financial assistance (Regional Fund); on the one hand, this takes the form of support for national regional policies, and on the other it must be a catalyst in working out and applying specific development and reconversion measures at Community level.

These aims and their achievement fall within the framework of an active employment policy. In the present economic situation of the Community, the creation of new jobs in regions where structural unemployment is greatest must be a priority task. On the basis of studies of regional employment balances and the regional development program, the Community should make for each region quantified forecasts of employment for a set period, taking particular account of the employment situation in agriculture.

Since the adjustments required for the balanced development of economic activities in the Community cannot be achieved by large scale migratory movements, optimum allocation of the factors of production within the Community must be achieved by creating new jobs in regions of structural under-employment and alternative jobs in regions affected by the need to renew and convert their economic structures.

Its comprehensive approach now places Community regional policy in the perspective of Community land use planning. In implementing the policy, the Commission will, particularly by means of the regional development programs, make an effort to promote a rational use of space, a balanced distribution of activities over the whole Community territory and effective protection of the environment and living conditions: as early as November 1973, the Community noted that such balanced growth would

ship. The Council also agreed that the two sides of industry should be closely associated with the running of the Fund. A tripartite Advisory Committee, comprising Government experts, employers representatives, and trade unions, now sets applications for Social Fund grants. The Fund's programs are coordinated with policies for cultural reform, industrial redevelopment and regional planning.

The Council decides what the resources of the expanded Fund will be. Commission studies have estimated that between 120,000 and 150,000 workers will need the Fund's help each year. Allowing for an average of \$2,000 spent on each worker, this would require an annual budget of \$250 million a year in the Community of Six, against the 1972 budget of \$98 million (plus the national governments contribution).

The Social Fund is financed from the Community's general budget. The present size of the Fund is only some 7 percent of the total budget, but it is growing rapidly. In 1975 the size of the annual budget will be \$314 million.

4. Aims

Community regional policy has two main aims; firstly to reduce existing regional problems which appear both in regions traditionally less developed and in those involved in a process of industrial or agricultural reconversion; secondly to prevent new regional imbalances arising from the change in world economic structures or from measures adopted by the Community within the framework of its own policies. The achievement of these aims implies a close cooperation between the Community and each Member State and the realization of a variety of tasks.

The tasks involve firstly the permanent analysis and assessment of trends

regional economies throughout the whole Community territory, principally, though not only, in the field of employment, to assess the range and nature of the regional imbalances affecting the integration process at Community level. Secondly, they require that Community policies and financial instruments, structural and other, are used in a coherent and convergent way if their consequences may, at one time or another, have a regional impact. Thirdly, there must be coordination of the regional policies of Member States, both mutually, and in relation to Community aims. Fourthly and finally, there is the question of a policy on financial assistance (Regional Fund); on the one hand, this takes the form of support for national regional policies, and on the other it must be a catalyst in working out and applying specific development and reconversion measures at Community level.

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B. Means of action

A. A comprehensive approach to regional policy involves strengthening the system of analysis and assessment of the regional economies of the Community as a whole and of their respective development. This analysis should include all regions and be as exhaustive as possible. Indeed, a detailed knowledge of the development of all regions, including the relatively prosperous regions which supply a large part of the resources required, will assist in diagnosing and remedying regional problems.

With this intention, the tasks to be undertaken are:

- to analyse regional trends and, in particular, to consider how regional disparities have developed;
- to pinpoint regions facing or likely to face problems of Community size;
- to work out a joint method for assessing the results of national and Community regional policies;
- to provide the statistical and methodological basis needed to assess the regional effects of Community policies, activity rates, employment by sector

*European Community action programs on the environment of 22 November 1973 and 17 May 1977: OJ C 112 of 12 December 1973 and OJ C 139 of 13.6.77 respectively.

employment, employment shortfall forecasts, net migration, GDP and income per head of population and per employed person, fiscal capacity and effort, and data on the level of provision and needs for infrastructure.

The examination and assessment of the situation in each region should be undertaken within the framework of a comprehensive analysis of the Community's economic situation and of the general economic policy measures which it requires.

B. Every two years, beginning in 1979, a report will be published on the situation of the regions, and priorities and guidelines fixed to be followed by the Community and the member countries. This report is intended to indicate the principal regional problems at the Community level, to assess the results achieved by the joint actions of the Member States and the Community against these problems and show the conditions for an effective coordination of the regional policies of the Member States. These regional problems being a Community responsibility, it is desirable that it should be discussed by the Council at regular intervals. The Council, after consulting the European Parliament and the Economic and Social Committee, would approve the report and fix the priority objectives of regional development to pursue at Community level and, following from that, guidelines for national and Community regional policies.

C. The procedure for examining the report should follow that provided for in Article 4 of the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of Member States of the EEC. To this end, the draft report will be accompanied by opinions of the Economic Policy and the Regional Policy Committees so as to guarantee consistency between economic and regional policy.

D. The coordination of national regional development policies will be passed forward.

The two-yearly report on Community regional development, and the aims and guidelines fixed by the Council, will form the basis for periodical comparison of regional problems in the different Member States and of national regional policies.

This comparison, which is also the first stage of a coordination process, must cover national regional policies and take account of the various structural measures with a regional impact, infrastructure projects with direct or indirect regional consequences and financial transfers between regions within a State. It must take account of such systems of regional aid as the Commission considers called for under Article 92 of the EEC Treaty.

Regional development programmes should specify the requirements, aims and priorities of each region and the means necessary and available to achieve them. In so far as these programmes concern frontier regions, coordinating infrastructure projects will be a priority task.

* The clauses in the EEC Treaty relating to aids -- Articles 92 to 94 -- reflect the general situation and the need that is felt to attempt to find remedies. The Treaty opts for a system where competition is not distorted by aids which may hamper free movement or jeopardise the optimum utilisation of production factors: these aids are therefore declared incompatible with the common market. On the other hand, the Treaty provides that, with the Commission's agreement, certain types of aid defined in broad terms may be granted by the Member States: these exceptions are set out in Article 92 (2) and (3).

In the decisions which it has issued on national aids, the Commission has been guided by three main principles:

- national aids must be compatible with the general Community interest;
- they must make an effective contribution to improving the structures of a given industry or region while encroaching as little as possible on competition;
- national measures may be justified not only on purely economic grounds but also by social and human requirements.

Disincentive measures coordinated at Community level will, especially in a later period of rising investment, be able to make an effective contribution to a new distribution of human activity throughout the Community in the perspective of European land use planning.

Moreover, the Commission, under the powers it holds pursuant to Article 92 and those following of the EEC Treaty is at present reviewing the system for coordinating regional aids which it had established in 1975. In assessing these aids, the Commission will see that a balance is ensured between regional development considerations and the need to maintain competition. In so doing, it will contribute to the harmonious development of economic activities throughout the Community.

E. Regional impact assessment of Community policies (RIA)*

The Commission believes it indispensable that from now on the spatial dimension be assessed and taken into account in the formulation and implementation of the major Community policies. This will permit the framing of the policies with proper regard to their regional impact and, if need be, the adoption of any measures required to ensure that these policies take full effect and that any adverse regional effects are corrected.

To this end, the establishment of a comprehensive system of analysis and assessment of regional economics should be supplemented by the systematic assessment of the regional consequences of Community policies, whenever significant new measures are contemplated. It should be noted that this overall approach entails the communication to the Commission of accurate sectoral and regional statistical data.

* Eleventh General Review...Brussels, 1977.

In preparing its proposals for the implementation of major Community policies, the Commission will consider their regional implications. Among the regional implications, the Commission will give special consideration to the impact on employment, though not neglecting other factors characteristic of regional differences such as productivity, earned income and migration.

This will establish a systematic link between Community policies and regional problems. The harmonious development of economic activity over the whole Community territory also requires the coordination of the various Community policies and financial instruments, and corresponding coordination of the policies of Member States.

F. The Community's financial effort will be increased. This involves an increase in the size of the Regional Fund -- 750 million EUA proposed for 1978, the creation of new Community loan facilities, and the more effective coordination of all the various funds at the Community's disposal. The Commission desires to make the financial instruments of Community regional policy more efficient and more relevant. In the view of the Commission, Fund assistance should be available both to support the regional development measures of the Member States and for specific actions in order to take account of the regional effects of existing and future Community policies. This dual role would involve dividing ERDF resources into two sections: a quota section -- the larger one -- to which national quotas would apply, would be intended to finance general support measures, and a non-quota section to finance specific actions.

As well as increasing its size the Fund's rules will be changed so as to make it more flexible and better able to meet the varying needs of the region. In future the Fund will have two distinct sections.

The main section (650 million EUA proposed for 1978) will continue, as in the past, to provide support for national regional policies on the basis of the existing national quota system. The same areas will be eligible as under the present arrangements.

A new section (100 million EUA proposed) will finance specific Community actions outside the quota system. It will be able to provide assistance to areas affected by the Community's policy decisions in other fields or to internal frontier regions which feel the effects of integration with particular sharpness. It is not possible to say in advance where these areas will be, though they could be in any part of the Community. It will depend on where the problems arise. The new section will finance special measures which will be decided upon in the light of these problems. One special measure is proposed straight away: a system of interest subsidies on Community loans which is intended in particular to make it easier for smaller firms to obtain investment capital.

The financial resources of Community regional policy must therefore be coordinated so as to support both national efforts and the Community's own activity. This double requirement implies the development of financial resources, in particular by a suitable policy on loans, and the specification in the budget of whether resources are used as support for national efforts or for the Community's own measures.

Problems

These two types of action by the ERDF -- general support and specific measures -- are intended to cope with four types of regional problems at present in the Community.

Under-development of a number of regions, which, despite sustained efforts, lag well behind and which will require massive Community aid for a long time;

the industrial or agricultural changes, which have appeared in the last quarter of a century in numerous regions of the Community, require measures of development and reconversion to which the Community must contribute, but certainly for a shorter time and in a less intensive way;

-- the current or expected problems caused in some regions by the change in world economic structures or by existing or future Community policies and calling for a Community contribution each time the effects reach a certain scale;

-- the special problems of frontier regions.

Location of the Problems

The first type of problem concerns the Mezzogiorno, Ireland, Northern Ireland, Greenland and the French Overseas Departments. Taken together, these regions have 26 million inhabitants and to date have received 55% of ERDF assistance. These are the regions of the Community lagging furthest behind; geographically they are located on the Community's periphery, which is an additional obstacle to their integration. Community assistance is the more justified since, in some cases, the Member States concerned do not have the financial capacity to solve this problem from their own resources.

The task of the Community is long term in this first category of region and consists mainly in accelerating their development, to give the region an economic base, both in the form of infrastructure and of a productive system which will enable them to become more competitive and to integrate into the Community. Moreover, as the European Parliament has stressed,* the Community

* Resolution on aspects of the Community's regional policy to be developed in the future, OJ C 118 of 16.5.1977.

ought to be in a position to assist those regions in the provision of social infrastructure, education and vocational training, in so far as these contribute directly to regional development, since the high cost and lack of immediate return is a heavy charge on the Member States concerned.

The second type of problem concerns regions, which have experienced development and conversion problems for many years due to structural changes in both the industrial and agricultural sectors, and where the problems, because of serious under-employment, are so substantial that they affect the proper functioning of the Community. In this case the Community contribution is to support and intensify development efforts in agricultural regions and the adaptations needed in industrial regions, particularly by influencing the flow of investment.

These regions, and those described in the preceding paragraph, correspond largely to the priority regions and areas eligible for Fund assistance under the present regulation.

The third type of problem is found in regions whose problems are intensified by the changes in world economic structures or by the implementation of certain Community policies. The actual or foreseeable regional impact of these changes or policies can be assessed particularly by means of the RIAs. The Community must act in those regions -- provided the Member State concerned does likewise -- through Community regional policy, either by supplementary measures to facilitate the application of these policies, or by measures to correct any adverse effects whenever the consequences are such as to affect the proper functioning of the Community.

The fourth type of problem is located in Community frontier regions; they generally feel the effects of integration most acutely and so problems of development or conversion often arise.

III. Conclusions

The idea of European unity

The long history and diversity of the European peoples, the historical and cultural values which are the moral wealth of each region, make the maintenance or establishment in each region of the groundwork of an up-to-date economy a matter of capital importance.

Community regional policy is not only in the interests of those living in the areas of relative poverty, high unemployment, underemployment and migration. It is equally in the interests of those who live in the great conurbations with their increasing congestion. The physical poverty of the underprivileged regions is matched only by the mounting environmental poverty of the areas of concentration. The pressure on housing, the miseries of commuting on overloaded roads or overcrowded trains, the pollution of the air and the water -- all these developments mean that the environmental case for closing the geographical gaps is as powerful a one for those who live in the so-called prosperous areas of the Community, as it is for those in the poorer regions.

The need for countries in Western Europe to close the gap between their rich and poor regions is uncontroversial.

Germany's poorest areas are as wealthy as the richest of Ireland and Italy, but a German politician who cuts out regional aids to Lower Saxony or Bavaria on those grounds would commit political suicide. Voters in such places do not compare their lot with the peasants of the Mezzogiorno and deliver up thanks to the German Chancellor. They judge themselves by domestic standards against richer areas of Germany, just as a Scottish crofter might look at

Londoners and decide he is worse off. The small EEC countries bordering on Germany are also among the European elite. Taking 100 as the Community average and using current exchange rates, the gross domestic product per head in Denmark last year is estimated at 148, in Germany 141, Belgium 120, Luxembourg 120 and Holland 116. Ireland came at the bottom of the league table with 50, followed by Italy, and Britain 73.

Even the wealthiest countries claim to have regional problems. Denmark has poor Danes in Jutland and Eskimoes on Greenland to care for. A linguistically torn Belgium has no option but to try to make the wage packets of French speakers in Wallonia as fat as those of Dutch speakers in Flanders. Holland, the most densely populated industrial country in the world, does not want Amsterdam, The Hague and Rotterdam to become one conurbation. Even Luxembourg's politicians have taken a stroll around their state and decided some parts of it need special help.

France's biggest regional problem is Paris. The French capital has been the master too long, taking labor and capital from the provinces, and leaving an empty south-west. Southern Italy contains parts as unlike Brittany and the Ruhr, but they are yoked together by the single shaft of poverty and under-development. Ireland is on the outer edge of the EEC looking out on 3,000 miles of ocean and all of its regions are poor.

What is surprising is that all this is so uncontroversial, and even commonplace. Differences of wealth and income between social classes in Europe are smaller than are the regional differences within countries. Yet levelling the classes provokes fierce and sometimes outraged reaction while narrowing the gaps between regions does not. In all nine countries in the EEC conventional wisdom

says it is better to move jobs to the people than people to the jobs; that the peaks and valleys in unemployment rates ought to be landscaped into a plateau; and that the pattern of population distribution established by the industrial revolution and other events in the past should remain as little changed as possible.

EEC countries have, implicitly at least, rejected the strategy of moving people to jobs in opting for regional development aids which aim to stabilize present patterns of population. Their argument for doing so is that otherwise the richer regions would become even more appallingly congested than they already are. The irony is that through the EEC's agricultural policy they are committed to a different course. All the Nine say they recognize it is uneconomic to keep so many people on the land and so they are supporting farm incomes at a level which slows down but does not reverse the drift from rural areas into the towns and cities. Their intention here is to make the pace of economic change tolerable, not to defy the change.

Such coherence is lacking in industrial regional development policies. Countries which accept that the population ratio between country and town must change are still committed to the idea that the ratio of people between northern and southern Britain, or between northern and southern Italy, must stay much the same in the 1980's and the 1990's as it was in the early 1970's.

That, of course, is an impossible ambition. The economics of the nine EEC countries are drawing closer together. They are locked into a wider European economy which, in raising living standards by promoting intra-European trade in a common market, also puts irresistible strains on population patterns moulded in the pre-1958 era of more segregated economies. The growth center of

the EEC is the area around the Ruhr -- the so-called circle of Lotharingia -- and those areas which are further away from it are at an increasing disadvantage. Southern Italy, northern Britain, Ireland and the south-west of France can attract industry only so long as lower wages and continuing government handouts offset the higher costs of isolation from the industrial heartland and the central market. They will slip back as soon as they lose this competitive edge.

Seen in this way, the kaleidoscope of regional differences in the EEC can be shaken into a pattern that makes sense. Governments find the political strains produced by the powerful magnet at Europe's center intolerable. They try to counteract the pull with regional aid. But, as with support for poor peasants on their unworkable farms, they cannot, with these limited means, really do much more than cushion people against future shock. The small battery of weapons used for regional strategies may soften the worst effects of industrial decline or social decay, or it may slow down the steady flow of emigrants. But it cannot reverse those trends. Governments do not like to admit this. But unless -- and this is unlikely -- regional policy is pursued on a scale and with an intensity of planning that few of Europe's governments are ready to contemplate, present frustrations are likely to grow.

As was noted in Mr. Tindemans' report,

"One of the fundamentals of the European Union, set out in the first chapter of this report, is the common search within a wider framework for progress towards a modern society and a form of economic growth which respects human values and social needs. Social and regional policies meet this objective and give substance to the solidarity of Europeans by reducing the inequalities which separate them. In this field I propose that the European Council should adopt the following general guidelines."

The report which Prime Minister of the Kingdom of Belgium has submitted to the Heads of Government of the Community contains the following chapter:

For an integrated economic and monetary unit to operate harmoniously there must be a substantial regional policy to offset the tendency of the market to concentrate capital and activity in the more competitive areas of the Union. Such a policy will satisfy the clear desire in all our countries to revive the regions.

This policy must necessarily involve a net transfer of resources from the most prosperous areas of the Community to the less favored areas. In part these transfers will be made, as now, through national regional development policies. However, a large proportion of the transfers will have to be made through the Community budget, either directly by means of regional aids, or indirectly by the effect on economic structures of the agricultural and industrial policies. Regional policy will therefore have to expand gradually in step with progress made in aligning the economic and monetary policies of the member countries.

Moreover, the regional policy must be concentrated on the most economically backward areas of the Community. Funds must be allocated on the basis of objective criteria applicable to the whole of the Community without national quotas.

Community regional policy should be comprehensive. This means that it must be conceived and worked out with the whole territory of the Community in mind. Particular attention should be paid to a policy for regional aids as a way of ensuring the right conditions for the proper working of the common market. Community regional policy should aim at giving a geographical dimension to all other Community policies from their inception. Through the coordination of Community financial instruments, it should help achieve coherence between all structural measures.

The community will be confronted in the near future by the problems of enlargement. An overall examination of the situation must be made in order to assess the nature and extent of these problems. In this regional policy, among others, should be given its proper weight.

Community regional policy as defined in this paper should enable all the countries concerned to work out the solutions needed. In this respect

the drawing up of general guidelines for the Community in the field of regional policy is an essential step in preparing the Community of tomorrow.

Community regional policy must be flexible and dynamic, so that it can adapt to the changing needs of the regions and to changes in the general economic situation. In June 1977 the Commission therefore presented new regional policy proposals to the Council of Ministers.

The new regional policy must be a comprehensive policy in the sense that it is concerned with the whole territory of the Community and all Community activity. It has two aims: on the one hand, as in the past, to reduce existing regional imbalances; and on the other, to prevent new ones from arising.

Community regional policy must become more ambitious than in the past. Even in a period of sustained growth, the assistance given to the least-favored regions did not make a sufficient contribution to the reduction of regional differences. As well as an increased effort to improve the working of the common market, a comprehensive policy of structural change is necessary. This should help both the regions that were insufficiently developed even before the creation of the common market and regions either experiencing or vulnerable to the difficulties of restructuring and redevelopment.

It follows from this situation that Community regional policy must be strengthened and its field of application expanded. This is not only desirable: it is now one of the conditions of continuing European economic integration.