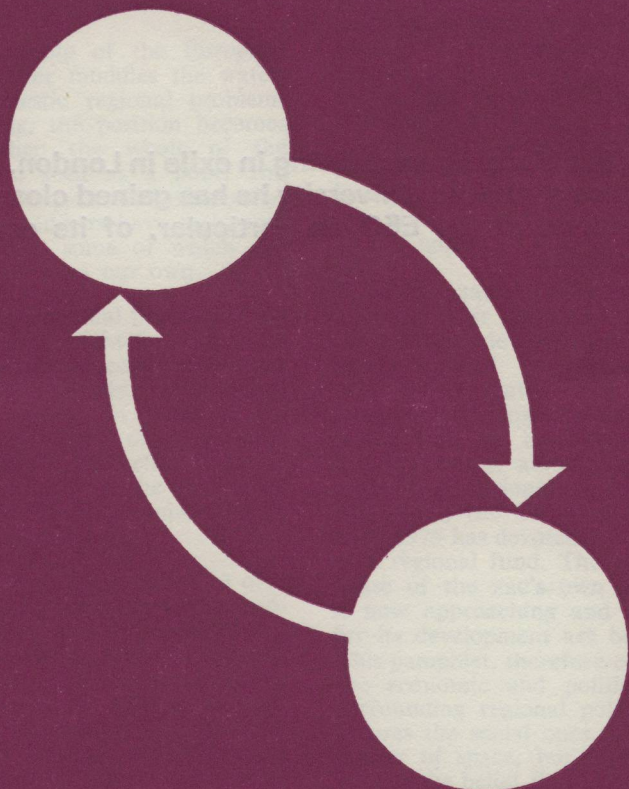


a regional policy for Europe

Mark Swift

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1. introduction

Regional policy is about the reduction of inequality. It is directly concerned with the transfer of resources from rich to poor and for a more equitable distribution of wealth and power throughout society. As such it should be given the highest priority by all socialists. Yet this is so far from being the case that even in the situation in which the failure to resolve regional grievances within the United Kingdom threatens its break-up into mutually antagonistic "nations", the Labour Party cannot even agree yet on an expedient, far less a socialist response.

Britain's membership of the European Community further muddies the water; for if our domestic regional problems seem bewildering, the position becomes even worse when the whole of the British Isles are seen as a poor, and increasingly poorer part of a Community, each of whose members have their own regional problems, some of which are even more severe than our own.

But what is this "regional problem"? At its most general it might be defined as the existence of differences in well-being between geographically segregated groups within society. In order to get beyond the vagueness of any such general statement it is useful, if somewhat dangerous, to divide the concept of well-being into three elements—economic, social and political.

The economic element is easiest to deal with. At present, gross domestic product is six times greater in Hamburg than it is in southern Italy and the gap is widening. Unemployment in Hamburg is only a quarter of the level in Ireland. Furthermore, thousands of workers, either with or without their families have been forced to leave the poorer regions of the EEC in search of work and prosperity in the richer regions. These figures illustrate a chronic imbalance in economic development which leaves millions of people living in relative poverty, whilst millions more, theoretically rich, find their riches devalued by overcrowding, congestion and the environmental destitution of conurbation life.

The social element of the regional problem is less easy to define. In physical terms the poorer regions often lack adequate housing, transport, schools and other elements of the social infrastructure. Psychologically they lack initiative and hope. The social problems presented by the vast conurbations are equally pressing and are hardly improved by the influx of people from the poorer regions. Both types of region would obviously benefit if this trend were reversed.

These economic and social problems might reasonably be expected to create political pressure for policies to alleviate them. This they do, but there is also a distinct political aspect to the problem in its own right. This is a feeling of isolation and neglect — a feeling that political decision-making in Westminster, Paris or Brussels is conducted with the interests of Westminster, Paris or Brussels in mind and those of the regions largely ignored.

If nation states within the EEC are to maintain their unity and if the EEC is to survive and develop, the tensions presently created by regional disparities must be dissipated. This can only be done by reducing the disparities themselves. This has been recognised by the member states, all of which have well established regional policies and more recently by the Community itself, which since 1975 has devoted some of its budget to a regional fund. The end of the first phase of the EEC's own regional policy is now approaching and new proposals for its development are being discussed. This pamphlet, therefore concentrates on the economic and political arguments surrounding regional policy and largely ignores the social ones. This is partly a matter of space, but more importantly reflects the belief that many of the social problems would be largely solved if the necessary improvements were made in economic and political structures.

2. national problems and policies

At first sight the regional differences within the EEC seem straightforward both to describe and analyse. Using the major economic indicators — income level, rate of growth and unemployment — there are startling differences both between member states and within them. The differences in income and growth in the first half of the seventies are summarised in the table below:

EEC INCOME AND GROWTH
1970-75 BY NATIONS

| | gross domestic product per head 1975 | average annual increase in GDP 1970-75 % |
|----------------|--|--|
| Belgium | 123 | 13.1 |
| Denmark | 139 | 11.5 |
| Germany | 134 | 11.3 |
| France | 120 | 11.3 |
| Ireland | 49 | 7.9 |
| Italy | 59 | 6.2 |
| Luxembourg | 115 | 7.7 |
| Netherlands | 113 | 12.9 |
| United Kingdom | 77 | 6.8 |
| EEC | 100 | 9.9 |

source: *Summary Analysis of Annual Information 1976*, European Communities Regional Policy Committee.

Since 1975 the continuing recession has reduced or halted economic growth in member states. It has not seriously affected the rankings in the table above.

In income and growth terms Ireland, Italy and the UK fare very badly and, what is worse, their consistently poor growth rates mean that they will lag ever further behind. This will tend to keep unemployment in these countries higher than the Community average and make it doubly difficult for them to pull out of the recession.

Within member states, economic differences are sometimes equally great as the differences between them. Nowhere is this more the case than Italy, where the northern industrial regions of Liguria and Lombardy have average incomes three times those in Calabria (Italy's "toe"), and where the entire southern

region (the Mezzogiorno) has income levels 30 per cent below the national average.

The primary economic problems of low wages and high unemployment have for decades forced people to migrate from the least prosperous areas. Large scale migration from Ireland to the UK and USA has been in progress for more than a century and has been matched by the migration of southern Italians to northern Italy and northern Europe (3 million moved between 1952 and 1971), by Scots, Welshmen and northerners to south-east England and by provincial Frenchmen to Paris.

With the apparent inability of central governments to solve regional problems or to give them a high enough priority in public expenditure programmes, regional frustration has increasingly taken the form of political action and the development of regional political movements throughout the Community. At times this regionalism has taken a violent turn such as the riots in Reggio Calabria in 1970 in which several people were killed and which were caused by the siting of the regional administrative capital in another town. This was a somewhat extreme case, but both Breton and Welsh nationalists have also used violence against property as a means of publicising their cause. More often regionalism has taken the form of more traditional political action with the growth of regional political parties such as those in Scotland and Wales, Flanders and Wallonia. The form of regional political activity has also reflected differences in outlook from those who regard themselves as nationalists to those merely trying to reverse the centrist tendencies of government and give local authorities more control of public services. Although these two views appear miles apart they are but the ends of a spectrum of political opinion which objects to outside control of public decision-making.

If these symptoms of regional imbalance are relatively easy to describe, their causes are a source of intense debate. It can be argued, for example, that regional

problems are basically geographical, that the peripheral regions of the Community are too far from the market centres to prosper and that nobody in their right mind would prefer Sunderland to London or Sicily to Milan. Such arguments can be backed up by referring to the need for external economies of scale, high transport costs and the lack of specialised labour in all but the central areas. These are attractive arguments to the *laissez-faire* capitalist, because if geography does lie at the heart of regional problems, little can be done to resolve them other than at permanent and punitive cost and the money presently spent on regional policy will never do any good.

the socialist argument

The main alternative argument, and the correct one for socialists, is that the real basis for regional economic disparity is structural, not geographical. Ireland is not poor simply because it is Ireland, but because it has an inefficient agricultural sector and very little modern industry in comparison to the rest of the EEC. There is no immutable law consigning Tyneside to high unemployment in perpetuity. What there is, is an economic history of each nation in which certain regions at certain times have benefitted from economic and political developments to the detriments of the others. The two main structural imbalances presently found within the Community are (a) those regions with a large percentage of the employed population working in agriculture and (b) industrial areas which developed the industrial revolution on the basis of local coal and iron ore deposits which have now been largely worked out and which have failed to attract investment to meet new patterns of demand for manufactured goods.

The predominantly agricultural regions in the Community are Ireland where approximately 25 per cent of the population works in agriculture (and up to 50 per cent in the West), southern Italy (with between 25 and 40 per cent) and southern and western France (between

10 and 20 per cent). England, by comparison, had only 1.7 per cent of total employment in the agricultural sector (1975) and Belgium and the Netherlands both have less than 4 per cent. Such differences in the size of the agricultural sector can only exist because in those areas with a high percentage of farmers the average farm size is small and/or labour productivity in farming is low. As a result, agricultural wages are low. In southern Italy, for example, less than 5 per cent of all farms have a turnover which Community experts consider to be high enough to make them viable economic concerns. Low agricultural wages in an area of high agricultural population necessarily means that the amount of income available for consumer expenditure is low, that the service sector is in turn adversely affected and the general level of economic activity is low.

The other main structural imbalance, that caused by the decline of old industrial regions, is the single main feature of Britain's regional problems. The areas which led the industrial revolution; Clydeside, the north east, Merseyside and South Wales, have a large proportion of old factories and infrastructure which needs to be replaced to provide more jobs and a more pleasant working and living environment. Similar problems afflict the old industrial areas of north-east France, south-west Belgium and even parts of the Rhine-Ruhr area.

With the recent slump throughout the EEC (and with the longer-term decline of the UK economy) it has been suggested that national structural problems must be solved in order to get the economy moving, that this does not necessarily involve regional structural improvements and that regional disparities are matters of social equity and of secondary importance. This view is similar to the one which maintains that redistribution of income is not what is needed, but rather a general rise in living standards which would see the poor better off than now, but still as relatively poor. Socialists reject this view and they should reject the view that regional policy should merely be a form of social policy. The

regional problem is primarily an economic one and can only be cured by the movement of scarce resources to the economically weakest areas.

the location of investment

Regional policy must therefore ensure that the siting of new industrial investment as well as investment in the more mobile service sector (including the civil service) is directed towards regions which have a preponderance of poorly paid workers and those in which traditional industry is in decline. There is every reason to believe that this is possible. A. J. Brown in his *Framework of Regional Economics in the United Kingdom* (Macmillan, 1973) estimates that industries whose siting depends on natural resources and geographical situation "on a very rough count . . . occupied a fifth of the labour force in 1921, but only occupy about a ninth today (1972). The great and increasing majority is in those manufacturing industries where transport costs of materials are not very important, or in the service and construction trades or the professions and public services where the location of employment is, more often than not, determined by the location of the general population."

If this is indeed the case, it should be possible to direct those mobile industrial to the areas whose regional economy is most out of balance without incurring vastly increased costs or vastly reduced efficiency. However, two factors, in particular, confuse the issue. The first is that, at present, regions throughout the Community are competing with each other in offering the range of incentives mentioned below to entice new investment. To prevent such expensive bidding for investment, a co-ordinated system of incentives throughout the EEC is required, based not on the ability to provide the biggest carrot, but on the need for new investment. The second problem arises when immigrant firms are operating. Very often they do not offer a wide range of new jobs, often they purchase few goods and services from within the

regions and often they have a low commitment to maintain production in the region if problems arise. Ideally home grown firms would be better than these immigrants for these reasons, but typically the poorer regions are lacking in entrepreneurial capabilities. Local firms should be encouraged, but new footloose firms are likely to be vital in broadening and dynamising the employment base.

policies for regional equality

There has been a growing acceptance by governments that regional disparities have fundamentally structural causes and that regional policy should concentrate on "taking work to the workers" rather than vice versa. The basic aims of national regional policies throughout the EEC have, therefore, been to increase the level of investment in the economically weak regions, so reducing unemployment in them and thereby increasing average earnings. In some cases economic measures have been accompanied by moves to give the regions a greater degree of political autonomy. Although a wide range of measures has been used, many have been common to several, if not all, Community countries. The main types of economic measures used are described below.

Financial incentives for the private sector. An array of capital subsidies, labour subsidies, tax reliefs and cheap finance have been offered to private firms if they invested in certain designated regions. Similar forms of help have been given to farmers both to maintain their incomes at an acceptable level and to rationalise the system of agricultural holdings and reduce the farming population.

Incentives to the private sector have been particularly strong in Ireland where the Industrial Development Authority (IDA) which was set up in 1949 and now offers large capital grants (45 per cent in Dublin, 60 per cent in the West) and tax exemptions on profits for export industries until 1990. Along with free port facilities at Shannon,

these incentives have proved particularly attractive to foreign firms, but have also encouraged local companies which by 1976 were responsible for 55 per cent of the 18,000 new jobs receiving IDA help. The UK has offered special grants, tax concessions and loans for industry setting up in development and intermediate areas. It has, via the 1972 Industry Act, also been able to give additional finance to individual firms or groups of firms in order to safeguard jobs, and until the beginning of 1977 paid a labour subsidy (Regional Employment Premium) for manufacturing industry in the development areas.

On the agricultural side a typical structural policy is that followed by Germany, which provides additional capital and land for family farms so that farmers can attain parity of income with other occupations in the region. Originally it gave general aids and had no clear targets, but since 1971 aid has been given more selectively and new investments must now result in a certain income level if they are to be aided. Measures also exist to encourage farmers to leave the land. This approach has also been adopted by the Community for its granting of aids under the guidance section of the Common Agricultural Policy (CAP) dealt with in the next chapter.

Direct state investment. Some member states have deliberately funnelled new investment by the public sector towards specific regions in an attempt to diversify economies. This has been particularly so in Italy, where the Fund for the South (Cassa per il Mezzogiorno) in addition to offering the kinds of incentives to private industry as are available in Ireland, has funded the operation of the state holding companies in their investments in the south. The holding companies—the IRI (Istituto per Ricostruzione Industriale) and ENI (National Hydrocarbons Board)—cover a wide range of manufacturing industries and have spent hundreds of thousands of millions of lire in building vast plants in the Mezzogiorno producing steel, refined oil, chemicals and synthetic textiles. Few secondary jobs have been created

despite this massive inflow of capital and the plants have been derisively christened “cathedrals in the desert”. In theory 40 per cent of all central public investment must go to the south, but in practice, this target figure has proved difficult to achieve.

In Britain the National Enterprise Board, along with the Scottish and Welsh Development Agencies should result in greater state participation in regional investment. The Scottish and Welsh Agencies should be particularly useful because they can offer a package which includes land and buildings as well as the funds required. At present their potential is far from realised because they are new and because they have very limited funding. The UK is also in the middle of a large dispersal programme for its civil service which, though involving some movement of people from London to continue their present jobs at the new locations, will also offer some local employment and boost consumer expenditure in the receiving areas.

Other state assistance. Many of the economically poor regions are lacking adequate infrastructure—roads, schools, housing, telephone and power supplies. These have been widely regarded as a prerequisite for subsequent industrial development. In the UK and Ireland, state factories have also been made available or built specially in the expectation of attracting private industry. In Italy the development of the infrastructure was the initial priority of the Cassa per il Mezzogiorno which in the 1950s and 60s built many thousands of miles of roads and irrigation canals. It is still a major priority in France where the latest Plan (the seventh) unveiled in 1976 makes provision in the period to 1980 for the doubling of telephone lines as well as the improvement of roads, rail and canal networks in the South, South West and Massif Central.

Disincentives. To reinforce the positive efforts to pull new investment away from the richer and more congested regions, some governments have taxed firms setting up in such areas or have strictly

controlled further office and factory building by the issue of development certificates without which any expansion is forbidden. Disincentives, though a necessary part of a comprehensive regional policy can only be successful in helping the poorer regions if the investment which was to have taken place in the restricted area still takes place at all, and if it does take place, that it does so in the area where it is most needed. In France, for example, twin disincentives of an "agrément" system by which all developments in the Paris area creating or extending floorspace require government approval and a tax (*redevance*) on those developments which are allowed, have often led firms to move, but only to just outside the region's border.

Regional planning. There is little point in having a regional policy of disparate policy tools and criteria for assistance unless there is an attempt to consider the measures affecting individual regions as a whole and ensuring that they are all operating with the same end in mind. There have, therefore, been attempts to develop plans for regional development, either to stand by themselves or to form part of a national plan. France has the longest record of such "indicative planning" (since 1946) and has gone to considerable lengths to incorporate a regional element into it. This has been achieved by the setting up (in 1964) of a regional development commission, DATAR (Delegation de l'Amenagement du Territoire et de l'action Regionale), which as well as the Plan operates the disincentive side of French regional policy. It also controls some public investment and some of the financing of small firms through the Regional Intervention Fund (FIAT). As far as the Plan itself is concerned, a regional chapter is drawn up, with a region-by-region breakdown of public investment programmes. The regional planning strategy is based on the theory of growth centres; areas with good growth potential into which new economic development is concentrated. External economies and the most efficient use of the social and economic infrastructure are the factors considered vitally important, and if the initial loca-

tion is right, so goes the theory, sustainable growth is assured. Accordingly eight "Metropoles d'Equilibre" have been designated. Of these, three (Lille, Nancy/Metz and Strasbourg) are on the north east border, two are on the west coast (Nantes and Bordeaux), two in the south (Marseille/Fos and Toulouse) and Lyon in the south east. To cajole firms into moving, tax exemptions and regional development grants have been used as well as various decentralization subsidies for firms leaving Paris altogether. The success of this strategy has been mixed. Some of the growth centres have not really grown, others have grown for reasons unconnected with the Plan whilst others do appear to have benefited from it.

In theory, Britain also possesses a comprehensive regional planning structure preparing long and short term regional strategies. Nominated Regional Planning Councils exist in the eight English regions, Scotland, Wales and Northern Ireland. They are supported by a planning Board consisting of civil servants employed by economic and environmental ministries at regional level. The Councils sit and prepare often excellent reports, but because they have no powers and because they operate under the aegis of the Department of the Environment rather than the Department of Industry, which actually hands out the money for industrial development, their effect on what eventually happens is small.

political institutions

On the political side, there exist within the Community a range of regional institutions ranging from directly elected regional assemblies to centrally nominated regional advisory bodies. Of all the Community countries, Germany, with its eleven regions (Länder) with elected assemblies and large budgets gives the regions most power not only in relation to regional policy but also in the whole spectrum of governmental activities. German regional policy itself is administered entirely by the Länder, paid for jointly

by Länder and Federal Government (50 per cent each) and determined by a Planning Committee for Regional Economic Structures on which both Federal and Länder representatives sit. In Italy, regional councils have existed in all twenty regions only since 1970. Before then, the constitutional requirement for such councils had been met only in the five "special regions" which have a particularly strong regional character (Sicily, Sardinia, Val d'Aosta, Friulini-Venezia Giulia and Trentino-Alto Adige). Although financially independent and having some legislative powers, especially in areas of social policy, their budgets are small compared to the national budget.

The strength of regional political feeling has grown quickly over recent years and at present there are firm plans to grant greater powers to the regions in both the United Kingdom and Belgium (where linguistic and economic rivalry between Dutch-speaking Flanders and French-speaking Wallonia has been heightened by the depression). Even in France, the most centralist member of the Community, the long-standing Breton nationalist party is being joined by other and newer groups demanding a greater role for the regions in political and economic decision-making.

Despite all the money spent on regional policy by member states of the EEC, despite all the attempts at planning and all the debate on regional policy, the regional differences (especially those of wealth) within the Community have increased rather than diminished. It is impossible to tell how much worse the position would have been without national regional policies and it is impossible to quantify, with any degree of confidence, the effect of individual policy measures. It is possible, however, to assert that for socialists at least, the case for a regional policy which aims at reducing inequalities in wealth by encouraging or undertaking investment to create jobs and improve regional industrial structures is unanswerable. For the alternative, to let regions whose agriculture or industry is not fitted for pre-

sent day conditions slide into ever greater unemployment, economic and social deprivation is simply not tolerable in any society which claims to be civilised, let alone socialist.

The case, having looked at national regional problems and policies, for an EEC regional policy is equally clear. The richest area of Ireland is poorer in average income, in level of employment, in the social facilities it can afford to provide for its citizens, than the poorest in Germany. The weaker Community countries by themselves have not the means to effect the economic regeneration and development which would improve their position compared with the stronger. If socialism is to be more than a chauvinistic force, it must aim to reduce disparities in wealth and wellbeing between as well as within nations. National regional policies by their very nature cannot hope to do that, and cannot hope to have more than a limited success in reducing internal disparities unless they are co-ordinated and until they are supplemented by a forceful interventionist regional policy at Community level.

3. the Community

The establishment of the EEC and Britain's subsequent membership of it added a new dimension to regional problems within the member states. The possibility and avowed aim of economic and monetary union (EMU) within the Community has the further effect of making regions out of entire member states and the whole question of reducing regional disparities becomes one of the crucial ones if the Community is to develop into an integrated economic and political unit. This section looks at the effects of Community membership on regional differences, examines the regional implications of EMU and describes the measures taken by the Community to date to improve the regional balance within it.

the implications of a "common market"

Other than the highly interventionist common agricultural policy, the internal economic activities of the Community were originally almost exclusively concerned with the removal of restrictions in the flow of trade, capital and labour within the Community. This negative integration was pursued in order to turn the Community into a single and common market in which the free operation of market forces could take the field unhampered by national restrictions. A competition policy was formulated to apply "Queensberry rules" to capitalism and the multinationals have made good use of this opportunity.

The result has been to fix the area centred on the Ruhr more firmly as the growth centre of Western Europe and to confirm existing trends of capital and labour flow towards the central area. It must be stressed, however, that these flows were much in evidence before the EEC had any effect whatsoever and that, for example, migration northwards from Italy was at its highest level before the Treaty of Rome was signed. Similarly, the way in which capital is seen to slosh around western Europe owes more to the recent development of the Eurodollar market which has occurred completely independently from Community initia-

tives, than to anything the Commission has achieved in reducing national restrictions on capital movements. These other factors notwithstanding, it is patently obvious that the existence of the EEC with a free competition outlook has worsened the position of the peripheral areas.

Even in the relatively short period of 1970-75, the difference in gross domestic product per head between the richest area (Hamburg) and the poorest (Western Ireland) has increased from five times greater to six times greater and the three poorest countries as we have seen have also slipped even further behind. This occurred not because of any great cost or efficiency advantages obtaining in the centre, but because business expectations have become even more wedded to the idea that the already rich areas offer the best opportunities for growth and profits. In recent years, however, the Community has begun to act more vigorously to counteract these effects, but has clearly a long way to go if they are not only to be countered but reversed.

Against this general worsening of the position of the already disadvantaged areas, some regions, previously peripheral within their nation states have found themselves favourably affected by EEC membership because they are in the central area of the Community as a whole. These are primarily the coalmining areas of southern Belgium, western Germany and north west France, and if a case could ever be made out for the co-ordination of national regional aids, this area demonstrates it perfectly.

On the political side, mere membership of the Community makes the neglected areas even more worried about the remoteness of decision-making, because decision-making has literally become more remote. "Rule from Brussels" sounds a lot more formidable and alien in Glasgow or Calabria than it does in Liege or Lille. But the non-democratic and secretive system of decision-taking at Council level can only reinforce this feeling, and political cohesion within the

Community will only be achieved when the regions have a greater say in the decisions which affect them.

economic and monetary union

It is one of the problems surrounding economic and monetary union (EMU) within the EEC that there is no agreement on exactly what the process involves. Certainly by a casual reading of the three major Community reports covering EMU (the Werner report of 1970, the *Marjolin Report* of 1975 and the *Tindemans Report* of 1976) the differences in emphasis appear very great indeed. There can be less doubt, however about what a complete union would involve. It would require a single monetary policy and authority, a common currency and a common debt management policy. More crucially, it would need agreement between the partners on the economic priorities to be pursued and the political will to transfer traditional areas of national economic decision-making to supranational institutions.

These institutions would assume the type of powers at present possessed by national parliaments, administrations and central banks for dealing with economic matters. As well as developing powers of taxation and budget, a union would, in its early stages, need to devote much of its energy towards breaking down the institutional and psychological barriers between member states. In its final form it would act on all matters requiring central action by the union in the same way as national entities act at present, and the concept of "the united states of x" would replace that of "the nation states within x".

One effect of such a union is to remove from national governments the policy tool of exchange rate adjustments to solve internal problems of either unemployment or inflation caused by unrealistic price levels within one or more of the regions of the union. This will only be a problem if the different regions have different trade-offs between inflation and unemployment, different

preferences between inflation and unemployment, or if they have differing productivity rates or productivity growth rates at the time at which internal exchange rates are irreversibly fixed. Unfortunately within the EEC, such differences in performance and preference do exist, with the poorer regions having persistent payments deficits and persistently low productivity rates.

exchange rate parities

The disturbing feature of discussion of EMU in the Community at present is that it tends to favour the fixing of parities before and without there being the necessary Community funding for the deficit regions within it. The Werner and Tindemans reports, for example, stressed the need for the speedy fixing of parities via currency parity harmonisation has been largely forgotten.

Indeed, the whole discussion of EMU had been swamped by the pressing problems of the depression until Roy Jenkins, Commission President, reintroduced plans for EMU based largely on monetary integration in the autumn of 1977. He immediately created a split in the Commission with ex-President Ortoli in particular saying it was unrealistic, and a draft Commission *Communication on the prospect of Economic and Monetary Union* presented to the 114 summit in December 1977 contained a very much toned-down version of the initial Jenkins proposals. This latest set of proposals envisages a five year action programme with increased financial resources being made available to the Community for spending on economic policies and the establishment of common rules for dealing with monetary problems. These proposals would not of themselves result in EMU, but would represent significant steps towards it.

If much greater economic integration as a necessary precondition for monetary union is to be advocated (as opposed to greater monetary co-operation), the importance of a Community regional policy is even greater. For if such integration

is to take place, the economies of the member states must more closely resemble one another in terms of patterns of employment. In achieving this objective, differences in wage and price levels must be greatly reduced, and this can only be achieved if a large regional fund is directed at the structural problems identified earlier.

If by any chance it were decided to fix irretrievably exchange rates before economic integration takes place, regional policy would have to effect a massive restructuring of the economies of Ireland, Italy and Britain if larger scale unemployment in those countries was to be avoided. In the final chapter, in which specific policy proposals are discussed, it is assumed that such a madness has been avoided but that increased monetary co-operation accompanies increasing economic integration.

community regional policy

A commitment to doing *something* about the regions is contained as early as the preamble to the Treaty of Rome where "reducing the differences between the various regions and the backwardness of the less favoured regions" is cited as one of the main aims of the Community. As with so many things, however, it has taken the EEC some considerable time to tackle regional policy in its own right, although other Community funds set up for different purposes have been showing a distinct regional bias for almost two decades. Before the inception of the European Regional Development Fund or the Regional Policy Directorate within the Commission, four sources of aid with regional implications were made available by the Community. These were the European Coal and Steel Community (ECSC) fund, the European Investment Bank, the Guidance section of the CAP fund (known as "FEOGA" from the initials of its formal title expressed in French) and the Social Fund (ESF). Between them these funds have, in recent years, provided grants to the level of approximately £1 billion per annum and loans of approx £2 billion per

annum for identifiably regional projects. They were all aimed at some aspect of regional structural deficiency. Similar funds were also available in the developed regions.

Coal and Steel Community. The treaty setting up the European Coal and Steel Community (ECSC) in 1952 was much more specific than the later Rome Treaty in its provisions for the spending of money. It provides funds in declining coal and steel areas to aid new economically sound activities which will reabsorb redundant workers into productive employment. It also provides money for tideover and resettlement allowances to workers made redundant and finances vocational retraining for such workers (Article 56, Treaty of Paris). In recent years these aids have totalled approximately 60 million units of account (mua) (for budgetary purposes £=2.4 units of account) and have provided retraining courses for over 15,000 workers a year.

The main areas affected by ECSC activities are the old industrial regions of Britain, France, Germany and Belgium, where the coal and steel industries themselves also benefit from ECSC funds. Loans are made for new investment in the industries under Article 46 of the Treaty of Paris and are often large (for example the £7.7 million made available to the British Steel Corporation for blastfurnace improvements at Ravenscraig in May 1977). In the first four years of membership of the EEC, the UK received ECSC loans to the extent of £612 million and grants of £34 million.

European Investment Bank. The Bank was set up in 1958 under Articles 129 and 130 of the Treaty of Rome as an autonomous institution to support projects aiding development of the less developed regions of the Community, modernization and conversion projects in the declining industrial areas and projects of interest to several member states or the Community as a whole. It borrows money on the European and us capital markets and has offered loans of between £1 and £18 million, in some cases to intermediate financial institu-

tions which have relented the money for eligible smaller projects. In 1976 it provided 1036 m.u.a. in loans and guarantees within the Community. Three quarters of this amount went to the less favoured regions and concentrated on energy, water supply and the distribution, transport and telecommunications sectors, with the main beneficiaries being Italy (35 per cent of total) and the UK (38½ per cent). In the UK it helped finance, amongst other things, North Sea oil production installations and pipelines, a new ferry on the Holyhead-Dun Laoghaire service and British Rail's Advanced Passenger Train. The Bank has a curious relationship with the other Community institutions. Its members are the member states of the Community, although the Commission has a representative on its Board of Directors and the Commission gives its opinion on each proposal. Regular consultations are held between the Bank and the Regional Policy Directorate General on policies with regional implications. It is in no way accountable to the European Parliament.

The Common Agricultural Policy. The common agricultural policy dominates Community spending. Even in 1976 it was still accounting for 72½ per cent of the Community budget with a figure of 5,393 m.u.a., of which 90 per cent goes to the "guarantee" sector, the intervention system on which the policy is based. The rest goes on the "guidance" sector which is spent on modernising farms and generally improving agricultural structures within the EEC. The majority of funds are spent under Regulation 17/64 which covers grants mainly to capital projects such as processing plants, dairies and land drainage projects. The inadequacy of this kind of assistance by itself to solve the structural problems in the agricultural sector was one of the main conclusions of the Mansholt Report of 1968, in which the Commission Vice President annoyed many farmers by saying that their farms were too small, that they were too numerous and that something should be done about it.

Three years later, the Council adopted the outlines of a modernisation pro-

gramme which resulted in the passage of three basic Directives in 1972. They provided for:

the modernisation of agricultural holdings. Farmers submitting development plans to their national government can receive interest rebates of up to 5 per cent on loans up to 40,000 u.a. per labour unit, and other assistance is available if they can satisfactorily show that their income, as a result of the development, will reach the average gross wage of non-agricultural workers in their areas;

aid for farmers leaving farming. A pension is provided for farmers aged 35-65 who cease farming and give up their land for farming or other rural development schemes. A premium is also given in proportion to the area of land released;

training and retraining schemes for farmers. Special advisers are provided to give farmers training on how to farm more efficiently or prior to their taking up non-farm work.

The Directives are intended to benefit farmers in the poorest regions and those regions with a high concentration of farming in overall employment by providing variable levels of assistance. They have been supplemented by a Directive in 1975 which gives additional help to hill and mountain farmers.

All this is excellent in theory but in practice the Directives have proved difficult to integrate with existing national provisions for the structural improvement of agriculture, and it appears that it is the more efficient farming countries; the UK, Denmark and Benelux which have most fully implemented them, whilst the ones most intended to benefit, Italy, France and Ireland, have dragged their heels. (A Commission report on their effectiveness in March 1976 avoided reaching this rather dismal conclusion, but an internal report later in the year which looked at their regional impact could not help doing so.) In response the Commission have proposed that the amounts available under the Directives should be increased and has produced additional

proposals to aid processing and marketing developments, producer groups, forestry and young farmers. However, with some countries not liking the thought of having to pay more for what they regard as ineffective schemes, or any more at all, the grand plans of Mansholt seem as far from fruition as ever.

the social fund

The Community's social (that is employment) policy covers a bewilderingly wide range of matters, from the free movement of labour to the protection of workers from radiation damage and to the training of handicapped persons. The Social Fund is somewhat less wide ranging and is essentially an employment fund of special relevance to regional policy in its provision of cash for the training and retraining of workers. As a result of a reform of the Fund in 1971, such training programmes are aided in certain special areas. Article 4 of the reformed Council Decision on the Fund provides assistance in certain sectors (agriculture and textiles) and to certain disadvantaged groups (migrant workers, handicapped and young people). Money is also available (under Article 5) for programmes in declining areas, industries "subject to the pressure of technical progress" and to groups of undertakings in difficulties. Although small compared to total CAP expenditure, the Fund has grown in recent years, from £97.6 million in 1973 to an estimated £257 million for 1977.

With the deepening of the recession and the high levels of unemployment in the Community, the Fund has looked increasingly inadequate to provide any general improvement in social conditions. In an attempt to make the best use of what money there was available, the Vice President of the Commission, Henk Vredeling, made proposals in March 1977 to improve the Fund's administrative procedures, extend the kind of projects it can aid and, most importantly, concentrate the aid in those regions with particularly severe unemployment prob-

lems or with declining industries. These proposals represent a step in the right direction, but do not answer persistent criticisms of the Fund that, in setting its priorities for spending on the basis of regional structural imbalance, it is cutting across the rightful work of the Regional Policy Directorate. The new Commissioner for regional policy proper, Signor Antonio Giolitti, has been given the job of co-ordinating all Community spending (see below) but the suspicion remains that regional and social expenditure is not being distributed in the best possible way.

regional policy

The sources of regional funds have already been mentioned but hardly constituted a policy. They were completely unco-ordinated, quite as likely to work against each other as together and obviously failed to do anything more than pay lip service to the fine words of the Treaty. At the same time regional differences within the Community were growing. Although memoranda on regional policy had been drawn up by the Commission in 1965 and 1969, it was not until the Paris summit in October 1972 that it was decided to set up a Regional Development Fund, to be financed, after the first stage of EMU, out of the Community's own resources. At the same time it was decided that the national regional policies of member states should be co-ordinated.

George Thomson became Commissioner for Regional Policy in early 1973 and drew together a small dedicated regional policy directorate, headed by Renato Ruggiero, a former special adviser to Mansholt. By May 1973 they had produced a "Report on the Regional Problems in the Enlarged Community", 290 pages of figures, graphs and arguments demonstrating the scale of the problem and the need for swift action. They then produced proposals for a Regional Development Fund. Originally, it was envisaged that £1,100 million would be spent in the three years 1974-76. The criteria for eligibility were to be: a

lower domestic product than Community average; heavy dependence on declining industries; persistently high unemployment; or a high rate of net immigration. Projects eligible for Community funds would also have to fit in with national regional policies. This aid was to be in the form of a capital subsidy of up to 50 per cent of the national subsidy on new investment in industry and up to 30 per cent of national public expenditure on infrastructure projects.

The proposals, by making eligible at least some areas of virtually every member state were designed to have something for everybody and were met with widespread criticism. The Germans thought the fund too large, the French thought it was too general, the Irish and the Italians didn't think it was big enough and civil servants throughout the Community leapt in defence of their preferred solutions. All was far from happy in the Commission. The Competition Directorate (which had decided what would be eligible state aids well before Thomson reported) didn't like anything that smacked of intervention with market forces, and although it was unable to find any objection with the actual proposals it grumbled about Britain's regional employment premium (which distorted competition — the ultimate sin) and, all in all made a difficult situation even worse.

With the advent of the oil crisis, elections in three member states (including the UK) and talk of renegotiations, discussion of the proposals dribbled to a halt. The new British Labour Government's attitude was clear. If the fund brought in Community funds to offset the UK contribution to the Community budget, they were in favour of it. It would help the balance of payments and it was a useful argument to have in the eventual Referendum campaign in which the regions most likely to vote "No" were the ones most likely to benefit from the fund. This cynical attitude typified the low level of debate and commitment to the fund at this stage. It also illustrated the Labour Government's tacit adherence to the gaullist concept of *juste retour*, the

selfish proposition that whatever you put into the Community kitty so should you get out — an obvious nonsense if the Community is to effect a transfer of resources to the areas (either geographical or social) which most need them and a complete negation of socialism.

The size and distribution of the Fund were not agreed until the Summit in December 1974, over eighteen months after the Thomson report. They further watered down the original modest proposals nearly halving the amount available over the first three years to 1300 mua and widening its area of operation to cover all those regions already designated by member states as worthy of regional aid. (By doing so, it included the French overseas departments, Guadeloupe and Reunion.) The fund regulation sets out who gets what, and the main beneficiaries are Italy (40 per cent), Britain (28 per cent), France (15 per cent) and Ireland (6 per cent). The Fund still consists exclusively of investment grants along the lines mentioned above, and the formal applications for Fund finance must be submitted through the appropriate national government departments (in the UK, although other Departments may get them first, the Department of Industry makes the application). The first applications were to be made in July 1975 and 300 mua was made available for spending in the first year of operation.

Two committees were set up at the same time, a Regional Policy Committee and a Fund Committee. The Regional Policy Committee is the senior of the two and consists of senior national officials, one of whom is chairman, and a Commission representative. It has to consider applications for infrastructure projects costing 10 mua or more. It also examines regional development programmes (see below) and more generally oversees the policy, especially the co-ordination of national and Community measures. It reports jointly to the Commission and the Council. The Fund Committee, again national civil servants plus a Commission chairman considers draft Commission decisions to grant aid from the

Fund. In practice it almost always approves them. It is the regional policy equivalent of the agricultural and customs management committees and in addition to agreeing how the money should be spent, it deals with all the detailed administrative problems arising from the day to day operation of the Fund.

It may be seen that the Regional Fund and the Community regional policy appear to follow the usual uninspired tradition of Community activity and would seem little more than palliatives. To write them off as such would be mistaken in view of two of the other elements in the package. These are the new system of co-ordination of all Community aids to the regions and the Community requirement for regional development programmes.

It has already been described how the money from the various Community funds was doled out in completely unrelated dollops. The effect of this unco-ordinated approach was soon realised by the regional policy directorate and consisted, in George Thomson's words, of "forms of Community aid, useful and well justified as individual acts of policy when looked at as a whole (which) appear to be actually widening the regional gap rather than closing it" (*New Europe*, Spring 1976). This topsy position had been detailed in a report prepared for Thomson by the Battelle Research Centre in Geneva. The study, which looked at "Community financing for regional policy purposes or effect (1954-72)" showed that in terms of Community subsidies per head amongst the original six members, the main beneficiaries were the Netherlands, France and Belgium, with Italy (with by far the worst regional problems) receiving much less. Within the individual member states the same pattern was to be found so that, as the study modestly concluded "The regions which benefitted most from Community financing were not always the ones most in need of regional development assistance". In an attempt to reverse this situation, an "inter-services" unit was set up within the Commission to monitor all

spending on structural change from the EIB Social Fund and other sources. Each individual project is now considered by all the directorates concerned and more detailed investigations are also undertaken on the effect of all Community financial instruments on a particular industrial sector. Early examples of this kind of work were done on spending in the textile and clothing sectors. Other studies have also been undertaken with Fund resources at the request of member states and have covered such subjects as deconcentration measures and communications in the area adjacent to the border between Northern Ireland and the Irish Republic.

policy co-ordination

By taking the initiative, the Regional Policy Directorate has largely succeeded in overcoming the traditional lack of co-operation between directorates and even bullied the Finance and Foreign Ministers at their April 1976 Council meeting into accepting the principle of co-ordination as a means of "encouraging a closer alignment of the economies of the member states" (Council President). A practical step towards this goal was made with the new Commission of January 1977 in which Antonio Giolitti, George Thomson's successor, was given charge of regional policy and the co-ordination of all Community funds. Although it is too early to assess his impact, there can be no doubt that if it is possible to co-ordinate Community spending into an overall regional strategy, the regional effect could be greatly increased. The total Community budget is 20 times the Regional Fund itself and at 7577 m.u.a. (£3157 million) for 1976 was a sizeable amount. Although a large proportion of this goes automatically as CAP price support to farmers in prosperous regions, the bulk of the rest goes in promoting the development of the regions most in need of structural change.

The second innovation introduced at Commission initiative and incorporated in Article 6 of the Fund Regulations

requires regional development programmes to be submitted by national governments so that it should be possible to judge which projects need support on the basis of clearly defined priorities. After discussion following the introduction of the Regulation, it was decided that the programmes must contain five chapters: *Economic and social analysis*, showing the causes of regional imbalances, the region's development potential and the resources required for this potential to be realised; *Development objectives*, quantitative objectives in terms of employment production and income and the provision of infrastructure, and how these fit in with national macroeconomic policy; *Development measures*, the regional development measures envisaged; *Financial resources*, estimates of the financial resources required to carry out the programmes (whether Community, national or local) and *implementation*; who is responsible for carrying out the programme and a schedule showing how it is to be done.

The first such programmes were produced in 1977 (the UK's was released on a trial run in February) and cover a three to five year period. They supplement the present system of annual information statements on regional problems and policy and the annual statistical summaries which quantify the results of the previous year's funding. If national governments comply fully with the spirit as well as the letter of the requirements of these programmes, and it is as yet too early to say, they will not only complement the Commission's own attempts at co-ordination, but should provide the framework within which the Community's overall regional strategy can be properly planned.

These two measures represent a victory for the interventionists versus the free-competitors within the Commission and within the Market and constitute the real achievement of the Regional Policy Directorate (although the CAP is interventionist, it follows traditional forms of support in the original member states and does not represent a significant increase in intervention in the agricultural

sector). The Directorate has found allies in the European Parliament's Regional Policy and Transport Committee and the Economic and Social Committee's Section for Regional Development, and although the Competition Directorate still presses on with "ceilings of intensity" for permissible regional subsidies, the whole emphasis of Community thought has swung firmly and in spite of itself in favour of *planned* structural development of the regions within it.

The development of the policy itself is described in the *First Annual Report on the European Regional Development Fund* (June 1976) which also gives details of spending from the Fund during its first year. It shows that 60 per cent of the money went on infrastructure projects, the rest going on industry and services projects. It suggested that the grants committed in the year would create "rather more than" 60,000 new jobs, as opposed to the 200,000 created by national regional aid. As the Community's regional fund is a mere 15 per cent of total regional expenditures by member states, this figure appears to show that Community aid is much more effective than national aid in creating jobs. This is misleading, because in practice the Community has largely reimbursed governments' own regional spending (see below). The 60,000 is, therefore, part of the 200,000, not an addition to it.

current problems

Despite its good points, there is still much wrong with the Community's regional policy. In the first place it spreads the money available far too widely and fails to concentrate resources in the areas most in need seriously reduces its effectiveness.

Secondly there is the vexed question of "additionality" and "topping-up". The Fund Regulation says that Community aid can be used on top of national aids for investment on specific projects (that is to "top-up" such aids) or can form part of the existing level of grant avail-

able nationally for the project, so long as the national funds replaced are used elsewhere as part of national regional policy (and so add to total funds available—hence “additionality”). In practice “topping-up” has only occurred with infrastructure projects and presented problems in only a few member states (including the UK), whereas additionality has posed more widespread difficulties. For example, if a member state decides to use the money it receives from the regional fund to reduce its budget deficit and not on regional aid at all, who is to know? For even if the amount of total regional expenditure remains constant in the year before Community aid is received and in the first year in which it is, a government can claim that, but for Community help, their national regional expenditure would have had to be reduced by an equivalent amount.

Thirdly, and most sadly of all, the regional fund is a carve-up between the Community and national bureaucracies. The Decision which set up the Regional Policy Committee (Article 5) says that the Committee may take evidence from regional authorities and professional organisations, but in practice, and with the exceptions of Germany and Italy (where elected regional authorities have statutory control of certain aspects of regional policy) regional authorities don't get a look in. The national governments decide which projects should go to Brussels, they form the committees which decide which are accepted and they are responsible for implementing the projects assisted. They present the regional development programmes and are responsible for them, and can exclude the regions from having any say on how the policy should develop. There is no wonder that Brussels often seems so remote.

current proposals

The original regional fund was due to be reviewed by the Council of Ministers by the end of 1977 and in June 1977 the Commission put forward its proposals for future Community regional policy. At

the time of writing these proposals are still under discussion. They deal both with the regional fund itself and with the other aspects of Community regional policy. After reiterating the aims of Community policy — to reduce present regional imbalances and to prevent new ones occurring — there are a series of specific proposals, which fall under the following main heads.

Analysis. It is proposed that every two years the Commission should prepare a detailed analytical report of social and economic developments in the regions. The report would form the basis for fixing regional policy priorities. In order to make the analysis credible, it is accepted that special efforts will be needed to improve the regional statistics available.

Regional impact of Community policies. In order to make sure that the Community's various policies form a comprehensive approach to regional problems it is proposed that “regional impact assessments” should be made to see how these policies are working. By pointing out where policies appear to be in conflict, these assessments should point the way to the effective co-ordination of policies in the future.

Co-ordination of national regional policies. The importance of co-ordinating national regional policies, including the co-ordination of disincentive measures, is stressed. Regional development programmes are seen as being particularly useful in this connection.

Regional Policy Committee. It is hoped that the proposed biennial analysis and the other proposals will strengthen the Committee, and that the Committee will involve the regions more in preparing policy.

Finance. It is proposed to divide the Regional Fund into two sections. The larger section would maintain the quota system and would be intended to cope with underdeveloped regions and ones in decline and needing structural change. These, roughly, are the regions covered

by the present Fund. The new, smaller section would not be based on quotas and would be designed to counter problems caused by other Community policies or by world economic developments, and would also deal with the special problems of frontier regions. This section is seen as becoming increasingly important as other Community policies develop. It is envisaged that some regions with complex problems will be eligible for money from both sections of the new fund. The fund would be used in a more flexible way than at present, and in addition to a range of grants, loans and guarantees, it would give interest rebates on loans from the EIB, the ECSC and the EEC. The size of the fund would be fixed annually and should rank as non-obligatory expenditure, to be fixed by the European Parliament rather than the Council of Ministers.

Information. In addition to present regional information activities it is proposed to give greater publicity to Community regional studies and to the aid systems of member states.

the future

These proposals are sensible and build on the first few years' work of the Regional Policy Directorate. Many of them would form part of any realistic Community regional policy. In particular, the greater flexibility which they introduce is welcome, as is the proposal (not in itself new) that the size of the fund should be controlled by the European Parliament. The Parliament has always shown itself keener to see a larger regional fund and a stronger regional policy than has the Council of Ministers, an approach which is likely to be strengthened with direct elections after which Euro-MPs will be mini-regional representatives. The loan facility is also a useful step, although the belief of its supporters that it will greatly increase the Community's ability to effect development is probably over-optimistic. Where the proposals fall down is in their timidity. It is almost as if the regional policy directorate has given up daring

to suggest things which it knows are necessary, but which it doubts if it can get through the Council. Caution is all very well; over-caution is the last thing which is needed.

Regional problems within the Community are not of such a small scale that they can be resolved by modest reforms and mere exhortation to greater things. The gap in prosperity between the richest and poorest Community regions is vast and is growing. It will increasingly threaten the Community's existence. These new proposals for the second stage of Community regional policy will not prevent the gap widening, far less begin to close it. A more radical approach is needed. The next chapter attempts to provide it.

4. a regional policy for Europe

Having described and criticised existing regional policies at both regional and Community levels, it now remains to set out an alternative. The following proposals assume: that any enlargement of the EEC is accompanied by an appropriate increase in Community funds rather than a proportionate reduction in the amounts available for individual Community policies; and that, along with any regional policy developments, there will be parallel developments leading to a greater integration of the members states. Such developments would include the democratization and strengthening of the European Parliament and an increase in co-operation on monetary and general economic strategy.

Detailed costings of the proposals are not included. This is because, in the long term, it is impossible to predict detailed trends in inflation, income and growth and in the short term, the relevant amounts will depend on the parallel progress of other Community policies, especially moves towards monetary integration. Also it is the principles which are of paramount importance at this stage, not the precise amounts. If the policy is based on sound principles, the level of funding will affect the rate at which the policy goals are achieved, not its ultimate success.

the socialist objective

The ultimate object of a socialist regional policy is to contribute to the achievement of an egalitarian society by eliminating disparities of wealth, income and power based on the geographical location of people and resources. The accident of birth is not just a question of class — it is also a question of geography, and regional policy must, therefore, be concerned as much with the problems of prosperous areas as of poor ones. Similarly, just as we judge the success of redistribution between classes by the extent to which it reduces inequalities between them, so the success of a regional policy by the Community or by nation states depends solely on its effect in reducing inequalities between the

regions. All other aims and effects of a regional policy are quite secondary.

The single main cause of economic disparities between regions is structural. The poorest countries and regions of the Community lack a balanced economic structure, and until this lack is made good they are bound to lag behind. In order to improve this balance between the various sectors of employment, an improvement in the economic and social infrastructure is also required and this must be given equal priority with structural policies. An effective Community regional policy must aim to reduce the level of congestion in the central areas by encouraging, and in some cases enforcing, the movement of capital and investment away from them. Parallel attempts must be made to change the social structure which influences and reinforces the economic structure. This will be particularly difficult — to change attitudes is very much a long term job.

Unlike EEC policy in other areas (for example the operation of the customs union), regional policy cannot and must not be seen as a matter of harmonization. Obviously, a certain degree of uniformity is required in, for example, the level of aids offered in the various regions, to prevent competitive and wasteful bidding for new investment. But neither the exact nature of the problems in different regions nor past experience of national regional policies suggest that what is successful or appropriate for one region is necessarily successful or appropriate in another. Disincentives have been a greater success in the UK than they have been in France; growth centres have been more successful in France than they have in Italy. There are other examples, but the point which must be taken is that the Community's regional policy must be flexible enough to permit the continuation of a wide range of different policy tools by national and regional administrations, yet must be sufficiently well co-ordinated to prevent policies working against each other.

The only way in which to effect this difficult reconciliation is through a sys-

tem of planning. It is not possible to co-ordinate after the event.

Ideally the Community should be able to plan the rate of its own economic development. Ideally it should break this general programme into regional components. Although this ideal is, at present, a mere twinkle in the Eurocrat's eye, there are a series of practical steps which should be taken now in the regional policy field to make this ideal more nearly a reality.

One final general economic point. The main thrust of Community regional policy should be to move resources towards the people most in need of them and not the other way round. This is not to say that the present distribution of population within the Community is considered optimal or completely permanent. Some movement of population both between regions and, to a greater extent within them, is bound to take place as a result of both social and economic pressures. A successful regional policy would prevent the future necessity of large numbers of people being forced to move in order to realise their economic and social potential. It should not attempt to prevent such movements from choice.

Along with the regionalization of economic policy must go a decentralization of decision making and political power. Over a wide range of government activity there is no evidence that centralised decision-making improves the quality of the decisions nor the speed and flexibility often claimed for them. Within a democracy there is no justification for the retention of power by the central, and therefore most remote, level of government if this can be exercised at regional and local level without jeopardising the entire policy with which those powers are concerned. At present within the Community too much power resides at national level, too little at regional and Community level. If the Community is to act for the benefit of the regions, it must be able to deal directly with them. The political equivalent of the Community's economic regional development

policy must, therefore, be a political development policy for regional and Community institutions.

tactics

Some things can be done more quickly and easily than others, and as a convenient division of those measures which should form the "nuts and bolts" of a Community regional policy, I shall consider in turn those which should form the next stage of Community policy and those more long term measures which are either more appropriate to, or only politically possible at a later stage of Community integration. The shorter term measures, covering roughly the next five years, should include the following.

A further reorganisation of the Commission — the new unit set up to co-ordinate Community spending with a regional impact is all very well, as is the designation of Giolitti as Commissioner responsible for the co-ordination of Community funds, but it doesn't go far enough. All the moneys from the Social, ECSC, CAP and Regional Funds should be considered as one for budgetary purposes and the budget should be regionalised. It should then be possible to see what the regional impact of all the policies is going to be *before* the money is spent. In order to do this, the special co-ordination unit should be strengthened in size and given a more influential role by taking over the responsibility for drawing up the budget and monitoring expenditure made under it. To get the Commission as a whole to think in primarily regional rather than national terms when looking at Community expenditure is essential but difficult corollary to this change and the whole thing should, therefore, be controlled by one of the most senior and influential Commissioners.

A larger fund. This should be as big as politically possible, but however big that is, it won't be big enough. There is no point pretending that there is any economic rationality about the size of

the present Fund or that there will be about the next. For some considerable time to come the only relevant influences on the size of the Fund will be the determination of the richer countries to keep its size down and the persistence of the poorer countries to increase its size.

Regions receiving aid. The Commission is already attempting to concentrate its regional fund expenditure in those areas within the regions most desperately in need of it. Again this is a step in the right direction which is simply making the best of a very bad job. The shares of the regional fund going to the various countries should be revised and the number of regions benefitting from the fund should be reduced. By tightening the conditions which would make a region eligible for regional fund aid, the effect would be to funnel more money into the three countries with the biggest regional problems and the least amount of resources to do anything about them (for example, Italy, Ireland and the UK). The Commission suggestion for a separate section of the Fund to be used for frontier regions and as aid to regions adversely affected by Community and world economic developments has much to recommend it, if only as a way of appeasing those countries which would stand to gain little or no thing from the main part of the Fund. At this stage, however, any second section should be relatively small (no more than 15 per cent) because the regions which suffer most from recession or other international changes are, by and large, the ones which have already suffered most and which would already be receiving help from the main section of the fund.

Ways and means. The form of aid granted should be diversified to meet national and regional requirements. Capital subsidies should be continued, but should be linked more closely with job creation. Not all new investment would be capital-intensive, however, and in some cases starting capital is not the appropriate form of aid. In the construction and service sectors, the amount of capital spending may be small in relation to the jobs and additional income

generated. What is required in these cases is a temporary labour subsidy to give an income support whilst the firm is taking on new labour and running at below average productivity which can be expected to improve as the workers gain experience in their jobs. An "additional employment premium" should be introduced to last normally for five years, but extendable if particular and identifiable teething troubles are taking longer to be overcome. Such a premium could be jointly financed by member states and the Community and would take the place of national or Community grants for those projects receiving it. For small firms a new and important form of assistance should be that of exchange risk cover which would give them greater confidence to begin and expand export production.

On the agricultural side, the balance within the CAP must be progressively tilted in favour of the structural improvements made possible by the guidance second. In doing so, the amount required under the guarantee sector will be automatically reduced as the number of farming incomes requiring support are reduced. Every attempt must be made to simplify the range of aids available under the guidance directives and to direct them more successfully to the regions with the worst agricultural structures.

Disincentives. Two forms of disincentive should be used. A Community Development Certificate should be required before new investment above a certain size takes place in all areas of the Community, and a payroll tax, payable via national administrations to the Community, should be imposed on all employment in the most congested areas. For these purposes, the Community should be divided into three types of areas, congested, intermediate and development. The congested areas would cover the major urban concentrations outside the development areas. (Although Glasgow and Naples are highly congested, they are even more in need of new investment. It should be up to regional planners in those areas to recon-

cile new investment and the urban environment.) The intermediate areas would include all regions where the rate of growth and either the level of employment or income is above Community average.

The Development Certificate would have the double advantages of flexibility and stringency. In the congested areas, such Certificates would normally be refused, the chief exception being the replacement of capital and buildings which provided no new jobs. In the intermediate areas, a certain predetermined number of Certificates could be distributed. The types and sizes of investments allowed under such Certificates would vary between regions depending on their particular needs, but would obviously need to be co-ordinated at Community level. In the development areas, the Certificates would rarely be refused, but the information gained simply by issuing them would help build up a complete picture of investment developments within the Community. They could also be a tool of intra-regional planning policy. The payroll tax would be restricted to the congested areas and should be a percentage of income rather than a fixed amount per head, in order to be broadly neutral between various occupations and regions.

To operate such a scheme successfully would be extremely difficult, especially during a period of recession when there is the real possibility that any disincentive may prevent new investment altogether. This should not prevent the attempt being made, however, as it should be remembered that in one respect, at least, a Community disincentive scheme has a great advantage over a national one. This is that to many large firms, the Community represents a distinct market area and whilst national disincentives might result in them relocating just over a border in another Community country without disincentives, firms would be less likely to relocate outside the Community altogether.

Defining the regions. So far the necessary size or characteristics for determin-

ing what should constitute a region for policy purposes has been avoided. The geographical, historical, cultural and economic factors which go to make one section of a state more of a cohesive entity than if bits were added or subtracted from it vary enormously. So does the degree of cohesion. In practice the size of the regions used for planning purposes varies greatly within the Community and I do not believe that the exact size makes a crucial difference. Nor do its exact boundaries, for although regions have been referred to throughout this pamphlet as though they were discrete, they often coalesce to such an extent that planning can only proceed sensibly if certain decisions affecting contiguous regions are taken jointly by their regional authorities.

Within regions, the case for growth centres versus blanket development varies very much between regions and with such factors as terrain, infrastructure and existing population distribution. It is a matter of drawing a balance between sucking much of the population into a few areas and leaving the rest of the region depopulated, and spreading development so wide that initial infrastructure costs are prohibitively high and any external economies unexploited. The optimum is different in Calabria and Northern Ireland. In deciding exactly where the balance should be struck, regional rather than national planners should have the last say.

State investment. The member states in the EEC control a sizeable proportion of industrial investment through their ownership of, or holdings in industry. Such new investment should be channelled more towards the developing regions wherever possible as already happens in Italy. The Commission should prepare a Directive which would bind member states to a greater proportion of capital spending by state controlled industries in the poorer regions.

Planning. Much stress has been laid on the need for regional, national and Community planning and that the regional development programmes already re-

quired by the Commission are a necessary first step. The degree to which the Community can effect macroeconomic planning is likely to be small in the short term, but the co-ordination of regional plans and their addition into a Communitywide plan will not only give a more comprehensive picture of economic development than has previously been the case, but will also provide the basis for a Community industrial policy (which might usefully begin by reporting on the various sectors in the Community economy in much the same way as the NEDC has in the UK since 1976). The Commission might also consider drawing up planning agreements with the largest firms operating at Community level.

Regional participation If the Community's regional policy is to work and be seen to work, not only must regional authorities be directly responsible to the people in their region, but must also participate directly in all stages of the formulation, development and implementation of the Community's regional policy. There is little the Community itself can do except exert pressure on national governments to persuade them to give regional authorities some powers and a direct popular mandate, but the Commission could bring them into the formulation and operation of its policy to a greater extent. This should be done in the short term via a new "Regional Policy Advisory Committee" which would consist of members of existing regional authorities (elected and unelected). The Advisory Committee could be set up by a Commission Decision (there are precedents in the agricultural and customs field) and although it would not have formal powers, it would enable the Commission and the regions to work closely together where now they are often separated by an overweening national bureaucracy. In practice, it could become a very influential body and would do much to relieve the frustration felt in the regions against a Community which they cannot now influence.

These proposals necessarily involve a shift of power away from present national institutions. The measures

described below would involve an even greater shift. Such a trend will be fiercely resisted by national bureaucracies and national governments, which will not savour the prospect of losing some of their powers. There should be a movement of power both down to the regions and up to the Community institutions because many decisions now taken nationally would be better taken at these levels. It will be important to prevent this resulting in new swollen bureaucracies, especially at Community level. At present the very small staff of the Commission can barely cope with the tasks laid to them, and as these tasks increase so must its size. It will be up to the European Parliament to exercise direct control to prevent its future growth getting out of hand.

The measures so far described should keep the Community busy for the next five years. They are partial, but are limited by the lack of political will at present prevailing in the Community. If the assumptions made at the beginning of this section hold, however, and parallel developments lead to a more progressive attitude by the Council of Ministers, the following developments, which are at present non-starters politically, could transform the regional policy into the major motor of economic development within the Community.

Development of existing policies. Although additional elements of policy will need to be introduced at this stage, the existing practices should continue and develop both in size and scope. The resources aiding new investment could be progressively increased, the planning systems should be tested and improved by experience and the concept of regionalization should become a political and economic watchword. To strengthen this concept the following should also be put into practice.

Regional labour subsidy. The structural change which is vital if regional disparities are to be reduced will necessarily be a long term process. In the meantime and as a supplementary aid for employment a regional labour subsidy should

be paid to all firms in designated regions in both manufacturing and service sectors in proportion to the labour employed. It should also go to the poorest farmers. It would be in addition to the selective employment premium scheme suggested earlier (which only covers new investment). The subsidy would be primarily a means of increasing regional income and, as currencies within the market become more closely aligned, would serve as a form of regional devaluation. It should be payable to those regions where per capita income is, say, 25 per cent below Community average. For this purpose, money income and current exchange rates are not appropriate, and real disposable income is the relevant comparative measure. To estimate such real incomes, an "income index" should be constructed, based on the cost of a weighted basket of consumption goods expressed in units of account. The funds for this subsidy could be raised from the Community's own resources if the VAT element in these resources (up to -1 per cent of total VAT collected by member states) were increased. VAT is a Community tax, so it should be increasingly a source of Community revenue. The 1 per cent maximum has no economic significance — it was decided on purely as a politically acceptable figure.

This general subsidy could be objected to on the grounds that it would help to ossify existing inadequate regional structures. In the poorest regions these are already ossified, and to give no additional help in the short run would only help to ossify a new and even higher level of unemployment in those regions. The principle of giving people an income support whilst attempting to make their form of employment more efficient is not new to the Community. It is the basis of the CAP. This proposal only extends the principle, but does so without directly increasing consumer prices.

Industrial strategy. The sectoral studies mentioned earlier should be completed by this stage and should show what needs doing to improve performance over the whole spectrum of industrial activity. In

some areas, such as aerospace and computers, this is dramatically clear already. If the Community is to pursue a successful industrial strategy, instead of just talking about it, it must take a direct share in such industries on a Community basis. The European Investment Bank should develop into a European Holding Company so that it could do just that, and operate on an EEC level in the same way in which the IRI and ENI do on a national basis. The Holding Company should be directly responsible to the European Parliament for its general policies and to regional assemblies for the environmental, planning and consumer impact of its activities in particular regions. Once having control of particular firms and industries, its investment could be channelled to the poorer regions in the same way as national public investment should be directed to them. Regional authorities should also be encouraged to set up Regional Holding Companies which could take a share in firms whose activities were largely confined to a particular region.

Chamber of the Regions. The Regional Policy Advisory Committee suggested earlier would lack any formal decision making power and is very much a second-best solution. As more regions acquire elected regional assemblies they should form a second house of the European Parliament, in the same way as the Bundesrat forms a second chamber of the German Federal Parliament.

With these changes it should be possible to evolve a more logical division of powers between the various layers of government under which the problems primarily affecting regions and capable of solution at regional level would be dealt with regionally, and problems which require national or Community decisions could reside at those levels. This would inevitably lead to a reduction of power at national level and an increase at regional and Community level. The nation's loss would be democracy and socialism's gain.

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a regional policy for Europe

In this pamphlet Mark Swift describes the enormous differences in economic performance between the different regions of the EEC and how both national governments, and more recently the Community itself, have attempted to reduce them. The pamphlet also examines the growing political demands for greater regional power. The picture which emerges is one of structural weakness in the poorer regions and a sense of remoteness from decision-making which is only partly geographical. The author stresses the impotence of national governments to solve these problems and describes how moves towards economic and monetary union within the EEC will make a strong Community regional policy vital if even greater unemployment and income disparities are to be avoided.

The author concludes that the only way to tackle effectively these problems is to transfer both powers and resources up to Community institutions and down to regional ones. In many cases the nation state is simply the wrong level at which decisions should be taken. Along with the movement of powers must be the development of Community-wide financial aid, disincentive measures and economic planning.

young fabian group

The Young Fabian Group exists to give socialists not over 30 years of age an opportunity to carry out research, discussion and propaganda. It aims to help its members publish the results of their research, and so make a more effective contribution to the work of the Labour movement. It therefore welcomes all those who have a thoughtful and radical approach to political matters.

The group is autonomous, electing its own committee. It co-operates closely with the Fabian Society which gives financial and clerical help. But the group is responsible for its own policy and activity, subject to the constitutional rule that it can have no declared political policy beyond that implied by its commitment to democratic socialism.

The group publishes pamphlets written by its members, arranges fortnightly meetings in London, and holds day and weekend schools.

Enquiries about membership should be sent to the Secretary, Young Fabian Group, 11 Dartmouth Street, London SW1H 9BN; telephone 01-930 3077 (01-222 8877 from Spring 1979).

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