Regional development and the European Community

European File

Regional differences in levels of economic development exist within all of the Community's Member States. But when one compares regions throughout the Community as a whole, the disparities are obviously much greater. The poorest regions are in the south of Italy and the west of Ireland, where income per head can be as low as a quarter of that in the most prosperous regions — Hamburg, Paris and so on.

The Community's regional problems

The main problem regions fall into two categories :

- first, there are the underdeveloped rural areas, largely dependent on agriculture and characterized by low levels of income, high levels of unemployment, under-employment and outward migration, and inadequate public infrastructure. Typically such areas are in the Italian Mezzogiorno, Ireland and parts of France.

- second, there are the once rich regions based on industries now in decline, like coal, steel, shipbuilding and textiles. Such areas are found in the older industrial regions of the United Kingdom in particular, but in parts of France, Belgium and elsewhere too. They are characterized above all by an outdated industrial structure and high levels of unemployment.

Many of the regions concerned are located at the periphery of both their national territory and the Community, which clearly aggravates the problems. Distance is

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an even more important factor for Greenland, with its special problems due to sparse population and inhospitable climate, and also the French overseas departments.

One must not forget either the problems faced by certain regions adjoining the Community's internal frontiers. For example, the Sarre region of Germany, the south of Luxembourg and Lorraine in France form a contiguous area faced with very similar economic and social problems stemming from the decline of the steel industry.

Finally, there are the problems of congestion, pollution and urban decay which face many big conurbations in both richer and poorer areas of the Community.

Alongside these traditional regional problems, account must also be taken of a more recent phenomenon. The economic crisis has aggravated problems in those regions which have traditionally been the poorest and, at the same time, caused new problems, both in those regions and elsewhere.

A European regional policy — why ?

National governments have for many years operated their own regional development policies, aimed at stimulating economic development in the regions faced with the sort of problems outlined above. This involves in the main two types of measure :

- ☐ financial and other incentives (grants, loans, tax concessions, etc.) to encourage industrial and other firms to set up in these regions, so as to create more jobs;

- ☐ development of the public infrastructure which is necessary both to improve living conditions generally and to help attract outside investors; this involves typically the improvement of the transport and telecommunications networks and of water and electricity supply, the development of industrial estates, and so on.

If the European Community is to develop further, beyond the customs union stage and towards a real economic union, it must accept part responsibility, jointly with the national and regional authorities of the Member States, for helping to narrow the gaps between its regions. The main reasons for this are as follows.

- ☐ National regional policies aim to reduce the differences in levels of economic development within one country. But the gaps are even bigger when seen at Community level. It must also be said that the economic growth of the 1950s and 1960s — which the Community helped to generate — although it brought benefits to all regions, richer and poorer, did not reduce the gaps. The Community must now play its part in reducing them. This is in the interest of the less favoured regions but also of the others : the former will gain the opportunity of more rapid development, the latter an expanding market for their goods.

- ☐ Excessive differences in levels of economic performance, and in particular in levels of productivity, increase inflationary tendencies. This is because of the inevitable political and other pressures to ensure that wage levels and social welfare provisions in the poorer regions keep up with those in the richer ones even though productivity remains lower. This has long been true within the national context, and will become so at European level as the Community moves towards a more closely integrated economic unit. An increased Community effort is needed to help reduce these inflationary pressures, to the benefit of all.

- ☐ Undertaken in isolation, at national level, rival regional policies are both more costly and less effective. For public infrastructure like roads and canals, coordination is obviously necessary between regions on either side of the Community's internal frontiers. But it is also necessary to coordinate state aids to investors; otherwise these can develop a sort of aid auction in which investments go to the regions where most help is available, which forces governments to compete by increasing their aid levels. Common rules make it possible to avoid this waste of funds and to ensure that incentives are greatest in the areas of greatest need rather than in those able to pay most.

- ☐ As more policy decisions in fields such as external trade, agriculture, industry and so on, come to be taken collectively at European level rather than unilaterally by individual governments, they will clearly have their consequences, good or bad, for the regions. The Community has an obvious and direct responsibility here.

- ☐ The persistence of huge regional differences imposes major economic and financial burdens on the governments least able to bear them, and increases the pressures on them to refuse the constraints which further integration inevitably implies. Thus for example, the Irish and Italian governments felt able to agree to join the European Monetary System — which will limit their freedom to adjust their exchange rates — only if the Community agreed to make available to them additional assistance to help develop their poorer areas.

- ☐ Last but not least, one of the fundamental aims of the Rome Treaty is to help the economic development of the less favoured regions. Indeed, the Community will never gain the active sympathy and support of its citizens unless it can demonstrate its will and its ability to help those who have to live and work in its less prosperous parts.

Community regional policy has two main aims : on the one hand, the reduction of the existing regional imbalances found in both the traditionally less-developed regions and those in the process of industrial or agricultural redevelopment; on the other, the prevention of new regional imbalances likely to occur as a result of the trends in world economic development or of policy measures adopted by the Community. These aims must be achieved within the framework of an active employment policy. In the present economic situation the creation of new jobs in the regions suffering from the greatest structural unemployment must remain a major priority.

Regional policy must be conceived as a comprehensive policy concerning all Community territory and all Community activity. It must involve a variety of specific regional measures, bring a 'regional dimension' to other Community policies and be closely coordinated with, and complementary to, national regional policies.

Community action to date

From its inception the European Community has acknowledged the existence of its regional problems and regional disparities. The Treaty of Rome permits various exceptions to normal Community rules in order to protect the less-favoured regions. And the Community has always had various financial instruments which make available loans and grants to help solve the problems of these regions.

☐ The European Coal and Steel Community (ECSC) has made loans totalling over 5 500 million EUA (1) to help modernize the coal and steel industries or to attract new job-creating industries in coal and steel regions. Such loans totalled almost 800 million EUA in 1978.

☐ The European Investment Bank (EIB) has made available over 10 500 million EUA in loans, the bulk of it for regional development purposes. In 1978 nearly 1 500 million EUA (74% of the value of all loans made) went for regional projects.

☐ The European Social Fund (ESF) and the European Coal and Steel Community have together made grants totalling more than 1 600 million EUA for training and retraining workers otherwise unable to obtain jobs. Grants made in 1978 totalled over 600 million EUA of which three quarters went for training schemes in the poorer regions.

☐ The Guidance Section of the European Agricultural Fund (FEOGA) has to date spent over 1 700 million EUA in the form of grants to help modernize the structure of agricultural production and distribution. The figure amounted to 115 million EUA in 1978. FEOGA rules were also modified in that year to ensure that a greater proportion of the money goes in future to the less favoured farming areas.

☐ The European Regional Development Fund has made available over 1 500 million EUA since its creation in 1975 to help encourage new industrial investment and improve public infrastructures in the Community's problem regions. The 1978 figure alone amounted to 580 million EUA, and the budget for 1979 has increased to 945 million EUA. In addition, a further 200 million EUA is set aside in the 1979 budget to help develop poorer areas of Ireland and Italy in the framework of the new European monetary system.

The Regional Fund is the only financial instrument whose purpose is exclusively the development of the less favoured regions. Until the end of 1978 its resources were spent exclusively according to a system of national quotas which aim to ensure that the money goes to help the countries with the most serious regional problems. Thus around 75% of all assistance goes to the three countries faced with the greatest regional difficulties : Italy, Ireland and the United Kingdom.

(1) 1 European unit of account (EUA) = approx. £0.65 (at rates current on 10 May 1979).

Regional Fund grants to date have been shared out as follows :

Regional Fund grants, 1975-1978

	No of investments aided	Aid granted (million EUA)
Belgium	139	30
Denmark	164	23
Germany	873	150
France	1 057	269
Ireland	388	90
Italy	1 518	527
Luxembourg	3	2
Netherlands	21	37
United Kingdom	2 185	386
Community	6 348	1 514

The Community's total financial assistance has not therefore been negligible, and a considerable proportion has gone to the less prosperous regions. Nevertheless, its impact has not been sufficient in view of the scale of the problems faced, and has been further reduced because many of the grants and loans have been scattered over a very wide field, rather than concentrated on the areas of greatest need.

The development of Community regional policy

Regional development is not just about money, although the transfer of financial resources from the Community's richer to its poorer parts is very important. The European Regional Fund, and the other sources of financial assistance listed above, have to be seen within the overall concept of Community regional policy. Since 1977 in particular, when it published its 'Guidelines for Community regional policy', the European Commission has laid increasing stress on the overall nature of regional policy. The main points of this new approach were endorsed by the Nine in a resolution on regional policy which it adopted in February 1979. They are :

(a) **Drawing up Community priorities**

What is a poor area by the standards of a more prosperous country may clearly be fairly rich in the context of another country. In the European Commission's view, Community-wide criteria are necessary if Community money is to be concentrated on helping the areas of greatest need and with real development potential, rather than being spread fairly widely as in the past. The Commission will therefore prepare every two to three years a regular report on the comparative economic and social situation of all the Community's regions, richer and poorer, and will propose to the Nine priorities and guidelines for future action. The first report should be ready in 1980.

(h) **Assessing the regional impact of other Community policies**

Community activity in many other fields — agricultural policy, policy on the different industrial sectors, external trade ágreements, etc. — have their consequences for the less prosperous regions. A regional element should be built into all of them, so that their regional consequences are beneficial and not the opposite. This has already been achieved to some extent, for example in certain aspects of how the Agricultural and Social Funds operate; but much more needs to be done. The European Commission would like, for instance, to see regional differences taken account of in the Community's farm price policy. However, Community decisions clearly cannot be dictated just by the interests of the less favoured areas; in some cases decisions are bound to have adverse effects on certain regions, and here the Community has a clear and direct responsibility to find other ways of giving help to offset whatever difficulties may arise.

(c) **Coordinating the Member States' regional policies**

There is no intention of trying to impose a uniform pattern of regional development in all Member States of the Community. However, both the European Commission and the Council of Ministers consider that some coordination of national regional policies is essential, especially as regards the Member States' regional development aids. This it necessary in order to ensure that resources are used where they are most needed so that a more even balance of economic activity and prosperity can be gradually achieved.

Member States have to draw up regional development programmes as a guide to where European Regional Fund money should be spent. These programmes also provide the best means of comparing and coordinating national regional development policies.

Future of the Regional Fund

New rules for the European Regional Fund came into force in February 1979, making it a more flexible instrument, better able to help solve the very different problems which different regions face.

The main part of the Fund will continue to offer support for national regional development measures as before. It can help finance two types of investment in Member States' aided areas :

- ☐ industrial or service-sector investments which create new or guarantee existing jobs; rates of grant can go up to 20% of investment cost;
- ☐ public infrastructure works which contribute to the development of the region concerned (roads, ports, industrial estates, tourist facilities, etc.); rates of grant can go up to 40% of investment cost.

Grants are paid to the national governments which, in accordance with the Fund rules, can either pass the money on to the investor or treat it as part reimbursement of national aid. In all Member States grants to industrial investments are retained by the national authorities; for infrastructure investments the grants are in most cases passed on to the local authority involved, though practice varies from country to country.

The national quota system was modified slighly in February 1979 to increase the French share, for the benefit of France's overseas departments. Each country now receives the following share of the Fund resources :

Belgium	1.39%	Italy	39.39%
Denmark	1.20%	Luxembourg	0.09%
Germany	6.00%	Netherlands	1.58%
France	16.86%	United Kingdom	27.03%
Ireland	6.46%		

Application for grant can be made only by the national authorities of each Member State, and must concern investments which fit into the general framework of the regional development programmes mentioned above.

The new rules create a second, 'quota-free' section of the Fund, which will finance specific Community measures, outside the national quota system, in particular to help the implementation of Community policies in other fields or to offset any adverse regional consequences they may have. Until the end of 1980 the resources of this section are limited to 5% of the overall Regional Fund budget. At the time of writing the detailed rules of the new section were still being worked out.

Regional Fund grants, whether from the main section of the Fund or from the new 'quota-free' section, can have a much greater impact if they are properly coordinated with these of the other Community financial instruments (Agricultural and Social Funds, Coal and Steel funds, European Investment Bank). The European Commission is therefore developing the concept of 'integrated operations' where the Regional Fund and one or more of the other instruments can provide coordinated assistance to help solve the problems of specific areas in the least favoured regions.

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Neither the European Community nor the Member States can alone undertake the major effort which is necessary, and will remain necessary for many years, to bring within acceptable limits the gaps which exist between rich and poor in the Community. In today's circumstances of slower economic growth, joint action is still more necessary. For the reduction of those differences is one of the preconditions of the Community's further economic and political progress ■

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