Regional development and the European Community

European File

Every Community country faces the problem of regional disparities. But the difficulties appear even more acute if viewed on a Community scale. The poorest regions of the Community are in the South of Italy, Greece and the west of Ireland; the most prosperous include the Hamburg and Paris conurbations.[1]

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 unemployment, underemployment and frequently inadequate public infrastructure. These regions are to be found principally in Greece, in the Mezzogiorno in Italy, in Ireland and in certain areas in the west of France;

- ☐ Second, there are the once prosperous regions, whose wealth built on industries now in decline, such as coal, steel, shipbuilding and textiles. These areas are found in the older industrial parts of the United Kingdom, France and Belgium. They are characterized by worn out industrial structures and high levels of unemployment.

Many of the regions concerned are located at the periphery of both their national territory and the Community. This clearly aggravates their problems.

The situation has been further worsened by the recession whose effects will be felt for a number of years to come in prosperous and poor regions alike.

[1] This file updates and replaces our No 8/81.

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European regional policy – why ?

National governments have for many years pursued regional development policies which attempt to stimulate economic progress in problem regions. Two main activities have been tried:

- ☐ Financial and other incentives (grants, loans, tax concessions, etc.) to encourage industries and other businesses to set up in the poorer regions and create new jobs;

- ☐ The development of public infrastructure, to improve living conditions and attract outside investment. This has involved the improvement of transport and telecommunications, water and electricity supplies, the building of industrial estates and the development of social services.

Alongside the national and regional authorities of Member States the European Community has a role to play in reducing regional disparities. This role will strengthen as the Community moves towards a genuine economic union, because:

- ☐ National regional policies aim to reduce the differences in levels of economic development in one country. On a European perspective, these gaps are even wider. It must be the Community's job to close them. Poorer regions will benefit by speedier economic development; wealthier regions through the enlargement of the market for their goods;

- ☐ Excessive gaps between the economic performances of different regions, especially their levels of productivity, can increase inflation, both within one country, and in the Community as a whole, as it progresses towards economic union. Increased efforts by the Community are needed to combat these inflationary trends. The benefits would be felt by all but especially those Member States with acute regional problems;

- ☐ National regional policies conducted in isolation, sometimes even in competition one with another, are more costly and less effective. For regions on either side of the Community's internal frontiers, coordination is clearly necessary in the development of public infrastructures like roads and canals. But it is equally important to coordinate State aids to investment. These can otherwise degenerate into an aid auction, with investment attracted to the regions offering the most generous terms. Governments can be drawn into damaging competition with one another by increasing their level of regional incentives. Common rules make it possible to avoid such a waste of funds;

- ☐ More and more policy decisions are being taken at European level and not by individual governments in fields such as external trade, agriculture and industry. Sometimes these decisions can have negative effects for the regions. The Community has an obvious responsibility here;

- ☐ Last but not least, the economic development of the least favoured regions is one of the fundamental aims of the Treaty of Rome. To retain the active support of its citizens, the Community must show itself willing and able to help those who have to live and work in its least prosperous regions.

How the European regional policy works

Community regional policy has three main lines of action. It gives a regional dimension to other Community policies by assessing and taking into account the effects that these policies are likely to have at the regional level. It attempts to coordinate national regional policies, both with one another and with other Community activities. Finally, it gives financial support to regional development projects in a range of different ways.

To be able to evaluate the conditions for effective action in each of these fields, Community officials must be able to place specific regional problems in a European context. A region regarded as poor by a wealthy country might be regarded as moderately prosperous by a poor one. Community criteria are needed to make valid comparisons and establish priorities for action. For this reason, the European Commission draws up, every two and a half years, a report on the social and economic situation of all regions in the Community, whether prosperous or not. On the basis of this report it proposes priorities and principles for future action to the Council of Ministers. The first of these reports was presented in 1980. The second is soon to be published.

Assessing the regional impact of other Community policies

Community policies in many areas – agriculture, industry, international trade, etc. – have consequences for the less prosperous regions. Care must be taken to ensure that these policies do not run counter to the aims of regional policy. Also, efforts must be made to ensure that they support regional development work. For these reasons, a process of systematic assessment of the regional consequences of all Community policies has been set up. Certain results have already been achieved, for instance in adapting aspects of the Community social and agricultural funds. But more needs to be done, especially taking account of regional disparities in the Community policy on farm prices. One recent advance has been the introduction of 'integrated operations', which coordinate a number of Community funds in the development of a particular area. An integrated development programme for the Mediterranean regions of the Community was proposed by the Commission in 1983.

Coordinating Member States' regional policies

It would be neither desirable nor possible to impose a uniform regional policy on all Member States. But some coordination of national policies is essential to fit them into a Community framework. This is especially important in the field of regional investment aids. The Commission has fixed ceilings on national aids for would-be investors in poorer regions. These ceilings take account of the gravity of the problems in each area. Their aim is to ensure that resources are deployed where they are most needed and will be most effective in ensuring a gradual improvement in the distribution of wealth and economic activity.

One of the fundamental ways of ensuring the coordination of national regional policies is through the regional development programmes, which Member States are required to draw up for areas eligible for assistance from the European Regional Development Fund. These programmes permit a better comparison and coordination of national efforts towards regional development. They also serve as a guide for the allocation of the European regional fund's resources, of which more later.

Community financial assistance to the end of 1982

The Community has a number of financial instruments which help to solve regional problems through the payment of grants and loans:

- The European Coal and Steel Community has made loans totalling more than 8 200 million ECU [1] for the modernization of coal and steel industries and the attraction of new job-creating industries to coal and steel areas. In 1982, these loans totalled nearly 700 million ECU.

- The European Investment Bank has made loans totalling more than 21 000 million ECU, mainly for regional projects. In 1982, around 2 600 million ECU (76% of the total) was loaned to regional development schemes.

- Since 1979 a New Community Instrument (NCI) has made loans to infrastructure developments and, since 1982, to small and medium-sized industries. More than 1 800 million ECU has been made available in this way. Of the 791 million ECU loaned in 1982, the largest part went to poorer areas and 230 million ECU went to small and medium-sized businesses.

- Within the framework of the European Monetary System, interest rate subsidies totalling 800 million ECU, including 209 million ECU in 1982, have been given to two of the poorer Member States, Ireland and Italy. Cheap loans totalling 4 000 million ECU have been made available in this way.

- The European Social Fund and the European Coal and Steel Community have, between them, paid out grants worth more than 6 300 million ECU for the training and retraining of workers. In 1982 payments totalled more than 1 780 million ECU, with 85% going to the poorest regions.

- The guidance section of the European agricultural fund (EAGGF) has given more than 4 200 million ECU, including 788 million in 1982, for modernizing agricultural production and marketing infrastructures.

- Finally, the European Regional Development Fund has paid out since its creation in 1975 nearly 7 200 million ECU to attract investment and improve infrastructures in the problem regions of the Community. In 1982 the Fund paid out 1 864 million ECU. In 1983 its budget should top 2 000 million ECU.

[1] One ECU (European currency unit) = about £0.58, Ir. £0.73 or US $0.86 (at exchange rates current on 14 October 1983).

The European Regional Development Fund

The European Regional Development Fund is the only Community instrument whose sole objective is to foster the development of less-favoured regions. Its main aim is to bolster national regional development work. The fund breaks down into two sections, termed 'quota' and 'non-quota'.

☐ The 'quota' section accounts for 95% of available resources. It is shared between Member States according to national quotas to ensure that a large part of the fund goes to the countries with the most serious regional problems. Thus three-quarters of the money in this section is reserved for Greece, Italy, Ireland the United Kingdom. Since the accession of Greece, each Member State has received the following share of resources in this section:

Belgium	1.11%	Ireland	5.94%
Denmark	1.06%	Italy	35.49%
Germany	4.65%	Luxembourg	0.07%
Greece	13.00%	The Netherlands	1.24%
France	13.64%	United Kingdom	23.80%

The quota section helps to finance two categories of projects already receiving national government aid:

- Projects creating new jobs or preserving jobs in industry and the services sector. Aid from the Fund can cover a maximum of 20% of the cost of a project and must not exceed 50% of the aid allocated by the Member State. More than 500 000 jobs have been created or preserved with the aid of the Fund since 1975.

- Infrastructure improvements which contribute to regional development, such as roads, ports, industrial estates, tourist facilities, etc. The Fund's contribution in this area can be as high as 40% of the total cost.

Requests for assistance from the Fund can only be made by the national auuthorities of each Member State. The projects submitted must fit into the framework of the regional development programmes mentioned earlier. In 1982, more than 5 000 projects were submitted to the Commission, which selected over 3 000 for grant aid. Almost the whole of the resources allocated to the fund are used each year. The grants are paid to the national authorities which can, according to the regulations governing the Fund, either hand them over to the promoter of the project or treat them as a part repayment of their own regional aids. In all Member States industrial grants are retained by the national authorities in this way. Grants for infrastructure developments are mostly passed on direct to the local authorities but practices vary from country to country.

☐ The second, 'non-quota', section of the Regional Fund was only set up in 1979. Representing only 5% of the total, it allows investment in specific Community measures without any prior agreement on national shares. Projects selected under this section underpin other Community policies and, above all, attempt to counteract the negative effects of the Community in certain regions. The first five projects under this heading were selected in 1980 and are currently in progress. They aim to ward off the adverse effects of the enlargement of the Community in certain areas and forward Community policies in the steel, shipbuilding and energy sectors. The regions to benefit are the south of Italy, parts of France, Belgium and the United Kingdom. A special programme is also being funded in the border areas of Ireland and Northern Ireland. A total of 220 million ECU is to be spent on all these schemes over five years. A second series of 'non-quota' programmes was proposed by the Commission in 1982: they mainly involve the extension and continuation of the original schemes but also include a new programme to back up Community policy for the textile industry. Parts of Greece, which was not a member of the Community when the first series of schemes was agreed, are to be included for the first time.

Non-quota section grants are not allocated to individual projects but go towards multi-annual development programmes in the areas chosen. Each programme includes a range of measures covering both specific development projects and the promotion of general improvements through business management counselling services, innovation and improved access to venture capital.

The creation of the non-quota section of the Fund signals a new departure in Community regional policy. Traditional regional policy, based on the attraction of investment into problem regions, is moving towards a policy of mobilization of their true development potential, notably through fostering small and medium-sized enterprises.

Aid from the European Regional Fund

	Quota section 1975-82		Non-quota section 1981-85
	Number of projects	Million ECU	First programme million ECU
Belgium	304	70.26	6
Denmark	561	84.48	–
Germany	1 795	392.08	–
Greece	488	474.85	–
France	2 687	1 128.48	55
Ireland	695	450.82	16
Italy	6 975	2 740.03	85
Luxembourg	9	7.23	–
The Netherlands	51	100.40	–
United Kingdom	4 238	1 707.19	58
Community	17 803	7 155.82	220

The European Commission has proposed to the Council of Ministers a fundamental reform of the Regional Fund to reinforce existing policy trends. This would involve the concentration of the money available on a smaller number of areas (the poorest regions and those hit hardest by industrial decline), a more widespread adoption of programmes rather than projects, and directing more aid towards the development of the indigenous potential of the poorer regions, rather than the attraction of investment from more prosperous areas.

△

Community regional policy is a relatively recent development. It has grown rapidly since its creation in 1975. In the future its impact must be even greater. It is clear that, working separately, the Member States and the European Community cannot make the great strides which are needed – and will be needed for some time to come – to bring within reasonable bounds the disparities between wealthy and poor regions in the Community. Joint action is even more necessary with the present low level of economic growth. The narrowing of regional differences is one of the most fundamental conditions for economic and political progress in the Community ■

The contents of this publication do not necessarily reflect the official views of the institutions of the Community.

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