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THE POLICY OF REGIONAL DEVELOPMENT IN THE FRAME  
OF THE EUROPEAN COMMUNITY

PROBLEMS - RESULTS - PROPOSALS\*

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The European Community has to admit 26 years after its inauguration its failure to realise many objects in various sectors whose responsibility it assumed in virtue of the Rome treaty of 1957.

The substance of the failure consists in the inability of the Community to impose herself as a world power equally important as the U.S.A. or the URSS despite its creation for this purpose and in order to influence historical decisions.

Undoubtedly those who in the past dreamed of a united Europe and of the important role it could perform, certainly based themselves on comparative parameters which proved elsewhere accurate and influential. From this angle the expansion of the European Community with the inclusion of three new states members will at least in theory strengthen its comparison to the two or perhaps the three superpowers. As a matter of fact the population of the Community of 9 exceeded the population of the USA by 20% in 1973. In 1983 with the inclusion of three Mediterranean countries (Greece, Spain and Portugal) its population will exceed by 50% that of the U.S.A. Most certainly the latter's size is not the most decisive factor of strength in the international arena. In adding, however, that Europe is not substantially inferior to the USA on the basis of the income per head and of technology, at least in certain sectors, and that despite smaller reserves than the European Community the URSS is able to impose herself we are led to the conclusion that the European Community is wasted as it did not understand its substantial possibilities and has not mobilized the weapons at her disposal. It is unluckily true that for the time being the idea of United Europe in the sense of a unique power exists only on paper and not in the conscience of the state members. In 1977 the European Community employed 8.044 permanent and 218 non permanent employees. On the basis of the conclusions of an investigation carried out in 1978 between 9.000 inhabitants of the Community of 9 countries only 12% believed that the decisions of their government on landscape planning were justified in giving priority considerations to the interest of Europe whilst only 14% had the feeling they are first Europeans. The dissimilarity of Euro-

pean nations as far as language, traditions, religion, contribution of civilisation and of politics which often leads to violent collisions, even within a country member, ought to have been foreseen and faced from the start of the European Community. It is clear that if within the latter every country member tries to secure the optimisation of its narrow and national interests which are often in opposition to the optimisation of the larger and long term interests of the Community the latter cannot fulfil its object.

Especially on this point the attribution by those who first contributed to the creation of the Community of greater importance to political and not exclusively to economic factors led to a number of omissions which I believe are in the center of the interpretation of the failure of the European Community.

I will limit myself to stress here the omissions which refer to problems of regional development of the European Community as long as this is the subject of my lecture today. As however the problems of the least developed European areas are not separated from the more general and particularly important problems the European Community faces and as the probable discovery of some solutions for the first group of problems will facilitate the facing of the second, this limitation will be relative.

The decisive and perhaps fatal mistake of the European economic policy from the beginning until now has been the effort to face the problems of its underdeveloped regions with criteria of social justice; of the need of a more equitable distribution of the gross national product between the various regions and the appeal to the welfare feelings of the inhabitants of the more developed regions. In this way it was unavoidable to insist on the necessity of sacrifices of the latter in favour of the inhabitants of the less developed regions. At the same time it was natural not to mention the more general satisfactory results which Europe as an aggregate and as a world power could expect from a successful effort of development of its underdeveloped regions. On the other hand the development of a European conscience is based on the certitude of every state member of its weakness in the international arena and of the increased strenght of a United Europe which will gradually replace the notion of "my country France, Italy e.t.c. by the notion of Europe my country".

The problems of regional development of the European Community ought to be faced and linked since the beginning to the more general problems of a more rapid rate of growth and of a higher degree of econo-

mic efficiency of the European Community; to the necessary effort of reorientation and modernisation of the productive procedures within the latter and to the perspective of improvement of the conditions prevailing in every state member within an increasing and not a given turnover.

It is certainly true that since 1973 as long as the economic crisis deepens, it becomes constantly clearer that the solution of the problem of regional development within the European Community has to be founded on exclusively economic criteria. It must be observed however that the disappointing results of the regional policy of the European Community have created a bad precedent. Thus it will be difficult to persuade the state members not to limit themselves to the effort of securing from the FEDER aid, not lower than their contribution to the European Community.

I intend in the first Part of my talk to refer to the results achieved by the regional development policy of the European Community in combination with the means available. On the other hand in the Part II, I will try to propose certain directives and solutions which might to be adopted by the European Community in the frame of the new international economic order which clearly started showing up.

## *PART I*

### RESULTS AND MEANS OF THE REGIONAL DEVELOPMENT POLICY OF THE EUROPEAN COMMUNITY

#### *§ 1. Results*

It is somewhat difficult for somebody studying the regional problems and the latter's evolution to reach a general conclusion. This difficulty seems to be attributed mainly to the lack of clarity of the goals which try to reduce inequalities between the various regions of a state member and of all regions within the European Community. However the results of the application of numerous methods for the calculation of inequalities of the income per head per region allow the following conclusions:

1. Until 1970 there is a slight tendency to diminish inequalities of the income per head in the European Community of nine which however is stronger when examining the regions of the same country than within the European Community. This more equal distribution per

head until 1970 cannot easily be attributed to the European Community's regional development policy. This is due not only as we shall see in § 2, to the European Community having not been able until now to plan and to apply a common program of regional development, may be as the regions do not show homogeneity, but mainly because it would be wrong to attribute the slight improvement shown until 1970 to the application of a national or of a Community policy of regional development. As a matter of fact by combining the statistical data on population and on income of this period it becomes clear that the diminution of regional inequalities of income per head ought to be attributed nearly 100% to the move of population from the less developed to the more developed regions and not to the successful effort of economic development of underdeveloped regions.

Despite the fact that with those population moves between the regions it seems that the goal No 1 of the various programs has been achieved, in reality it must be clear that it is not the result of regional development:

- as long as the underdeveloped regions not only did not develop but at the same time contributed with a part of their productive manpower to the expansion of the economic importance of the more developed regions which means to the increase of the development differences in favour of already developed regions;
- as long as the local means of production and the development possibilities of every region have not been exploited so as to secure a better geographical distribution of the economic activities and the enlargement of economic horizons;
- as long at last as with this evolution all the problems caused by the excessive economic, demographic, and administrative concentration in certain centers did not improve but deteriorated; they lead thus to the diminution of the national rate of economic growth when they bypass the "critical point of development" without successor - centers; they continue to expand then with intensification of parasitism and of inflation as long as the overexpansion of certain centers contributes to disequilibria between increased demand and smaller supply, to the abandonment of the search for economic and productive solutions and of the possibility of expansion of the markets e.t.c.

The slight diminution of regional inequalities of income per head in the years 1960-70 is simply the result of a quick economic growth of

capitalistic economies without problems; it was natural to strengthen population moves both within every economy and between the state members of the European Community.

2. The period after 1970 and even after 1973 which was by chance linked with the oil crisis is the beginning of important structural difficulties for the capitalistic economies. The interest for a more equal income distribution in combination with full employment diminishes constantly. The same happens with the belief in the efficiency of planning and with the admission of positive results from the strengthening of the public sector. The economic crisis which clearly appears this time in combinations excluding any results from the application of the well-known methods facing same pushes always more the capitalistic economies to spasmodic and not appropriate choices. In this surrounding the capitalistic economies seem to have as goal to secure the biggest economic result by fighting exclusively inflation without caring for the increasing rate of unemployment. This means inability of exploitation of the available productive possibilities and of solution of all the problems connected with a more equal income distribution. Thus, they return backwards towards the classical model which has been considered bygone after 1936 and which is mainly based on supply. The propensity to invest does not seem to be influenced by these arguments and it is clear it continues to be based on the constantly diminishing demand. The general economic climate prevailing after 1973 becomes always more opposed to what appears as a need for regional development which wrongly is considered to be linked with problems of more equal income distribution, with the need of sacrifices of the more developed regions and with more general welfare considerations. The climate of economic crisis prevailing after 1973 with short and not clear interruptions does not favour a regime of sacrifices and of welfare. The problem of the development of the underdeveloped regions of Europe could secure the importance it has only if it could be presented as a solution of the economic problems of the world economy. I believe this ought to be the appropriate position since the beginning. It is a pure economic problem and not a social one as it is presented independently of the appearance of social results. It is a problem which if not faced rationally and at once may endanger the unification of Europe and on long term exclude it for the arena of decision makers on important world problems. As a first but very important notion of substantial regional inequalities in Europe which insists on its identity let me mention:

- on the basis of 100 gross national product per head in the European Community of nine Calabria had in 1981 18,32 and Luxembourg 281,64; when the Greek underdeveloped areas will also be considered the gap will increase;
- the differences of gross national product per head between the regions of the Community which are bigger than between those within every state member have the tendency to increase; 1,8 in 1970; 2,7 in 1975;
- the regions with high agricultural unemployment are those with the lowest income per head, the smallest productivity and the highest unemployment percentage; after 1973 the difficulties stopped the limitation of agricultural employment in the underdeveloped European regions and constitutes another factor of enlargement of regional inequalities;
- in the European Community of nine the percentage of households living in 1981 under the threshold of poverty with net income 50% lower than the average income was 11,5%; this percentage which is independent in every country from the average income per head and which is combined with the mode of income distribution is very high in Ireland and in Italy and higher than the average in Denmark, France and Luxembourg.

## *§ 2. The measures of the policy of the European Community*

The regional policy of the European Community is and was virtually inexistent meaning that no clear lines were traced and no goals not contradicting each other had been fixed. It has however used certain measures with main goal the limitation of regional inequalities. I believe that any effort to answer the question how conditions would develop without this inefficient regional policy is not possible. We can however refer to the measures applied in the latter's frame.

Before however undertaking the effort to judge those measures, their direction and their probable repercussions, I have to stress that the total resources of the European Economic Community available for regional development amounted in 1981 to 0,15% of their gross national product. On this basis positive results of any regional policy could be expected only if wonders materialised.

The means available for regional development are following:

a) The FEOGA (agricultural program) which as well known constitutes for the time being the only common policy of the Community



and covered 65% of its total expenses. The percentage of FEOGA expenses for structural agricultural transformations which are probably the most decisive in the case of regional development was 14,7% in 1969, 3,1% in 1978 and is estimated to be 5% in 1981-3. From this Italy absorbed 1964-78 26,4% of its total accepted programs, Germany, the Netherlands, Belgium, Luxembourg and Denmark 60-70%, France and Great Britain 40-55%. The first conclusion derived from these comparative data is that the FEOGA - orientation expenses supported mainly state members with low agricultural employment and not those with high agricultural employment as Ireland. On the other hand the general conclusion of the recent investigation by the RICAP group is that the FEOGA expenses end in supporting chiefly the average and great farms of Northern Europe and not the small and poor farms of the South. This is due to the support of FEOGA given in proportion to the volume of agricultural production and according to the farm products involved. Milk, cereals and sugar and not fruits and vegetables produced in the South get preferential treatment.

b) FEDER has funds provided by the budget of the European Community and constitutes the specialised organ of regional development. The activity of this Fund has a special characteristic: it has national quotas in the total aid which is granted by the FEDER and this is decided in advance.

It is certain on the basis of statistical data available that until 1980 FEDER'S aid favored particularly Ireland, Italy, the United Kingdom and France. These are member states showing a sufficiently important difference first between the FEDER aid they got and the percentage participation of their population to the total European Community population, second between the aid they got and their percentage national contribution to the FEDER.

Notwithstanding that these countries have greater regional problems than the other member states I want to stress that the efficiency degree of the Community's regional policy ought not to be calculated only on the basis of the absolute aid percentage each country gets within the aggregate regional FEDER aid. There are other factors which if not considered at the same time necessarily take away from the above isolated criterion a substantial percentage of efficiency. Let me refer precisely to some of these factors for the years 1975-80:

— first the aggregate territory of the European Community which has been indirectly admitted as "problematic" justifying so FE-

DER, aid represented 61% of its total whilst its population amounted to 41% of the Community's total population. It is doubtless that the regions admitted as "problematic" present special problems. At the same time these problems are not of the same importance in all regions. When considering how small the funds which the European Community supplied are for goals of regional development of its members are the conclusion reached, namely the non concentration of the efforts for regional development, the non existence of criteria of choice, and of priority fixing, the effort to offer a nearly equal and small subsidy to all areas considered problematic is without probabilities *ex ante* to end in positive results. Certainly this fundamental measures of directing FEDER's aid must be linked to the corresponding behavior of the European Community's state members and particularly to their refusal to understand the reason of FEDER's creation and of United Europe. I refer particularly to the methodic effort of the state members to secure in principle from FEDER a higher aid percentage in relation to their own contribution and certainly not a lower one.

— Second serious both concret and detailed studies how and where the Community's regional aid ought to be used in order to secure the best possible results are not available. It is not yet clear when the relative results of a new investment would be considered satisfactory or very good; when the latter causes a substantial increase of local employment or on the contrary increases the regional gross product per head or when it increases products with a high percentage of exports or when it mainly strengthens the secondary or the tertiary or sector when it introduces new technology in the region? etc, etc. The criteria chosen by the FEDER are a bit of everything; this prevents or at least complicates for the time being any effort to conclude on the priority, geography, production sector, labour or capital intensity, export or substitute oriented etc of any planned investment. At the same time it is not at all possible to prevent another argument very dangerous for those in favour of regional development, namely that any planned effort of economic decentralisation will probably prevent the operation of the market mechanisms endangering thus the national growth roles.

— Third the ascertainment of a deviation between the aid per inhabitant of a state member and the aid per inhabitant of those regions which were considered problematic ought to be considered as an

important factor of a successful regional development policy for all countries except Ireland and Luxembourg whose whole territory constitutes a single region. The greatest deviations on this point are marked in the cases of Denmark, France, Italy and of the Netherlands. Despite the non availability of relative complementary informations we could risk the conclusion that it is very probable in their case that the Community's regional aid is granted on the basis of better chosen criteria than in the case of the other state members where this important deviation is not marked.

- At last I shall mention some supplementary elements which I believe can change substantially the degree of efficiency of the absolute aid amount which every state member secures from FEDER. Ireland followed by France, Luxembourg and the United Kingdom, secures the highest percentage of subsidy on the aggregate expense of a realised investment. On the other hand the expense incurred by any state member receiving a subsidy from FEDER on an investment calculated as percentage on this subsidy is the highest in the case of Ireland (which however secures the highest percentage of subsidy on every realised investment). Italy, the U.K. and the Netherlands follow. Germany appears as the country with the lowest level of subsidised investment for employment realised and is at the same time the country with the lowest unemployment percentage in its active population (after Luxembourg). This is probably due until now to the substantial capital accumulation which secures to Germany a very high capital-labour ratio in comparison with the other member states. On the contrary Belgium which has one of the highest unemployment percentages in the Community has at the same time the greatest level of subsidy for the creation of every new employment whilst Luxembourg which appeared in 1978 with the lowest unemployment level in its active population has at the same time a very high level of subsidised investment for every new employment. Except the missing of clear criteria on the basis of which the FEDER aid is granted to state members and which render impossible the drafting of some form of function between the unemployment percentage and the level of the subsidy required for the creation of every new employment it must naturally be recognized that whilst (at least until 1973) the unemployment percentage was connected with the trade cycle, on the contrary the evolution of the average capital-labour

ratio is structural and cannot consequently be modified decisively in a short time.

In ending Part I of my lecture the following short conclusions may be presented:

- a) The Community's regional policy seems to supply the same confusion and the same mistakes which with very few and usually very short exceptions exist also in the regional policy of the various national economies.
- b) It is impossible to ascertain complete, consequent and continuous results of a real effort for the economic development of the European backward regions. The tendency to reduce regional differences of the gross national product per head independently of its reversion after 1973 cannot be considered as the result of regional development of backward regions as long as this seems to be due exclusively to population moves from backward to developed regions. Such a facing of the regional problem even if it leads to a better distribution of the G N P on national or on Community level (which is no more the case after 1973) does not enter the broader philosophy and the fundamental principles of regional development; it comes into collision with them.
- c) The unwillingness of the richer economies or regions to contribute decisively to the development of backward regions in both national and community levels seems absolutely justified as long as the sacrifices requested from the former do not seem to have a counterpart and as long as it is clear that the securing in the future of greater credits to face the regional problem would not lead to its solution with the status quo.
- d) The general evolution which seems to prove that the rich regions become richer and the poor regions poorer ought to create very serious doubts for the role and the consequences of the operation of the market mechanisms in the frame of the evolution of the regional problem. The excessive economic concentration in certain centers seems to create accumulating results which in the one hand secure the continuation of their expansion and on the other prevent the development of successor centers. Unhappily however it must be recognised that also in the years 1960-70 when the general climate favored planning and state intervention in all sectors the regional problem could not be faced rationally. The fundamental cause of this failure must be found in the incentives with which the

latter had been linked and which are totally irrelevant with its nature.

## PART II

### PROPOSALS-SOLUTIONS

Criticism without making proposals is easy but without interest. I intend so to present certain thoughts which are the result of my research until now in problems of regional development in the frame of the European Community. Thus my talk will have been duly completed. I have to insist that I do not consider these proposals and solutions as definite. Of course there is a tremendous distance between theory and application as also between forecasts on the results of a decision to act and its final results. I would add that even personally I have some doubts for certain solutions which I will risk to propose in as much as I need proofs naturally theoretical which I do not have for the time being. Thus I expect a lot from the discussion which I hope will follow.

I want to stress to begin with that I consider the problem of regional development on both national and Community levels as a purely economic problem. More concretely I consider the development of backward areas as corresponding to territorial expansion whilst the population remains given. For the idea of united Europe the development of its backward regions from this angle signifies to begin with its expansion in the world economy from which depends its possibility to influence on a scale worth mentioning the political evolution of the world. If the problem of regional development is thus posed the European backward areas stop to be considered as a heavy burden and their rational development an unbearable sacrifice. On the contrary they may appear as non exploited possibilities promising a lot. I would like to add without for the time being concrete proofs that in theory the rate of growth of backward areas when their development will start must be expected higher than the corresponding national or Community averages as long as in the first stages of development the elasticity of substitution of labour by capital is greater than unity.

This placing of the regional problems is, I believe, independent from the trade cycle. It is valid both in prosperity and depression whilst naturally the linking of the problem of regional development with social criteria can not survive in depression. Independently of this general assessment the present economic crisis which I believe has no trade cycle

but structural elements despite the many difficulties it accumulates in all sectors, includes however certain sides which could initially help first the appropriate assessment of the nature of the regional problem and following its successful facing.

I will certainly not be original when admitting that Europe mainly in view of the economic crisis and of its special nature is already in very difficult conditions. I believe this is a crisis between two intermediary stages of capitalism, namely the end of the stage of the traditional industrialisation and the beginning and preparation of the succeeding stage one may christen conventionally and vaguely "post-industrial". In this new stage the purely industrial activities lose gradually their importance and are replaced by others which will constitute combinations of secondary and tertiary production and will need high and complicated technology. It has to be admitted that Europe is very late in preparing to enter this new stage in comparison with the U.S.A. and Japan. If Europe does not understand very soon this delay, if it cannot concentrate its strength and cannot exploit same rationally it is theathened to remain outside the international readaptations and to support the consequences of the decisions others will be taking.

With some remnants of optimism for the future of our old Europe and with faith in its unexhausted possibilities I do believe that Europe did not use already its last card and that this may constitute the passport for a relatively easy passage to the post-industrial stage and for a bigger share of the new international market. Thus we ought to consider the offer of the development of its presently backward areas. Naturally such an effort from whose outcome will depend on long term Europe's destiny cannot be undertaken on the basis of the narrow national interests of every state member. It is clear it concerns all Europeans. From this angle the enlargement of Europe, even with Mediterranean countries and consequently of a lower development degree than the average economy of the Community must be considered as a positive and not as negative element. The great difficulty consists in the creation of the faith in Europe's destiny from which the European conscience will develop. "Europe my country" ought to be the signal which will conquer every European citizen. This certainly means that the interest of Europe as an aggregate passes before all national interests. It further means that competition, the effort to dominate, any frontiers and limitations do not exist between us but refer to the outside world, I mean to those who do not belong to a united Europe. These were certainly the dreams

of those who first conceived the European Community. Their materialisation has never been so urgent.

Let us return however to the European Community in reference to its regional development which must be considered as synonymous with its survival. As I admitted already I do not have a complete plan in this question. I beg to be allowed to present the general directives which I believe might be included in a plan of action. To begin with we need a detailed presentation of the weaknesses and of the possibilities of every European region. Let us start with the certitude that they all belong to us and that all may prove precious for the success of our general effort. As far as I know something like this has been attempted with the study FLEUR (factors of space in Europe) which once more as far as I know has not been used. According to its possibilities every region will specialise in the production of one good or of a service or of a part of it. It is naturally understood that these new activities must mainly belong to what the post-industrial stage will include.

On the other hand I oppose in principle the proposals which seems to lead to the admittance of a Europe of two speeds, mainly because "they continue to cultivate wrong criteria of social justice and welfare in facing an exclusively economic problem. It is however clear that the creation of a Community agency of regional development with substantial credits which it will be allowed to invest outside national shares and independently of national claims there where their yield will be greater and quicker is indispensable. The concentration of the efforts and not their generalisation neither their extension, at least in the initial phases appears indispensable as long as the general goal will be the passage of Europe to the post-industrial stage". As Europe still has sufficient countries and regions where the ratio of salary and wage earners towards self-employed is low and consequently in the stage of evolution I believe it has margins of exploiting the economics of demand whose application secured Europe from the end of World War II until 1973 the highest rates of growth in its history. It is true that this period seems to end in 1973. It could however continue if the underdeveloped European regions could participate. If this supposition proves right, this would constitute the most precious contribution of the backward areas to the more general European effort, because then the reinforcement of the demand side would no more be stagflation but would constitute the motor driving energy of Europe.

Certainly for all these for the time being utopistic thoughts a real regional policy of the Community to which the national regional policies

have to be incorporated is needed. That is the contrary of what happens now. The great and justified anxiety is if the European Community will be able to develop from a bureaucratic institution it has been until today to one which will be able to perform in the near future a more decisive and realistic role. If the answer is negative then the European Community and all its member states are condemned. In reality a more complicated answer than yes or no is needed. The answer has to come from the nations composing the Community and are simply represented by the employees of the Community. Unluckily the European nations have not yet secured the conscience of their unexhaustible possibilities which will derive from a real future unification nor of the dangers threatening them if the latter does not materialize. The forging of this conscience is the first duty of every European in the near future. In this it is certain that the regional problem of Europe will be rationally faced, I mean starting from the negotiation of the division of a market, which expands and not of one which shrinks.