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THE PERIPHERAL REGIONS OF THE COMMUNITY AND THEIR PROBLEMS

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1. THE PERIPHERAL REGIONS

1.1 The word "periphery" (and by implication "core") has always been fundamental to the study of regional differences. Such a division existed in agricultural economies around market towns, for example, but it became more marked with industrialisation. The concentration of population inherent in factory production and the grouping of interdependent firms and industries were major factors in the formation of today's industrial agglomerations, factors which were reinforced by the economies of scale in providing services for such centres of population, and by the large localised markets they furnished.

1.2 Such a pattern of industrial agglomerations (or cores) can be seen on a national scale and at the European level. Map 1, (from COM(79) 290 final), which sets out the areas eligible for assistance from the European Regional Development Fund (ERDF) illustrates this pattern, especially when spending is taken into account. Barely 10% of ERDF monies goes to the "core" regions, in Germany, Denmark, Belgium, Netherlands or Luxembourg.

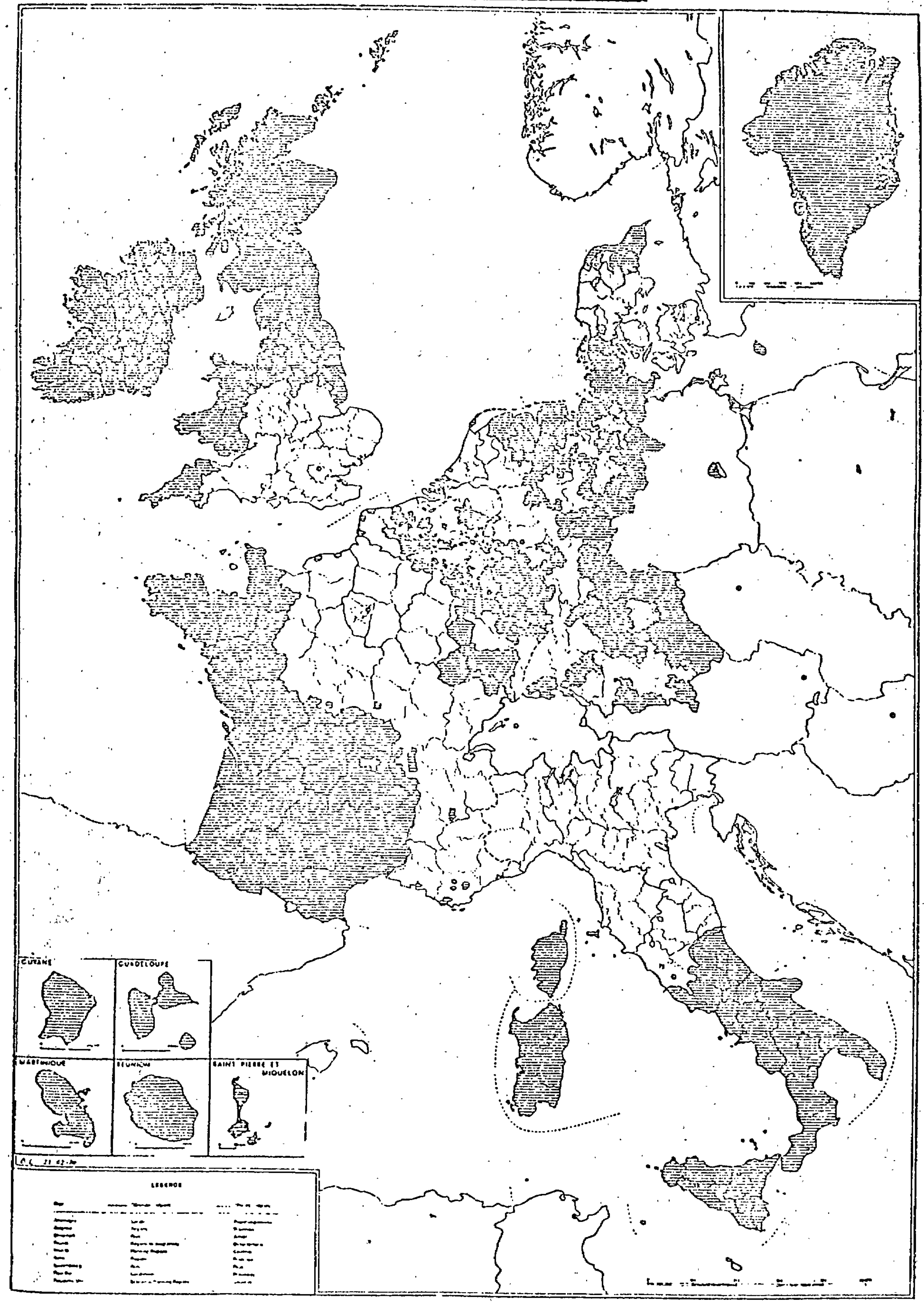
1.3 While the industrial heartlands of Europe are certainly not without their difficulties, these are usually associated with problem sectors of the economy, however. Modern industry is less tied to particular locations than in the past, and the regions which suffer systematic disadvantage from the way the economy works may be called the Western Europe periphery:

- Mezzogiorno and Mediterranean islands
- Ireland
- Northern Ireland
- Wales, Scotland and Northern England
- S.W. France and Brittany

The first three of these comprise three of the five areas recognised as having priority in the Commission's "Guidelines on Regional Policy" of June 1977 (EC Bulletin Supplement 2/77). The other two were Greenland and the French Overseas Departments.

MAP 1

REGIONS ASSISTED BY THE ERDF



NB   Assisted regions in UK have since been reduced.

1.4 These areas are, of course, far from homogeneous and if a broad distinction can be drawn between regions which are disadvantaged because they are underdeveloped and those which are in decline because they rely on "old" industries such as steel or shipbuilding, then the periphery is mostly "under-developed" although areas of decline such as Belfast or Clydeside are to be found within it.

1.5 A rigid division cannot of course be drawn between the under- and over-developed parts of the periphery - the economic health of Belfast, in need of regeneration, for example, has a substantia effect on the rest of the province even if that is underdeveloped in character. Nevertheless, declining areas in the periphery and declining areas in the core face similar problems; in short, the shift of employment from obsolescent to more dynamic sectors. To that extent, this paper will tend to concentrate on the under-developed periphery and its particular problems rather than the common problems of the declining areas.

1.6 The resources necessary to revitalise a declining area should not be underestimated. Nevertheless, much of the physical and social infrastructure is in place, if in need of renewal. For the under-developed periphery, a more fundamental shift is needed if it is to shed its secondary and dependent nature. An all-embracing definition of a peripheral region is not really possible, given the diversity of Europe's regions, but they tend to be:

- frontier or coastal zones, and in each case the barrier makes development lopsided;
- agriculture or fishing dependent;
- areas of high unemployment or underemployment, with little alternative employment in either the secondary or tertiary sectors; they therefore suffer emigration, and are sometimes (but not always) sparsely populated;
- areas of low earnings and productivity, because of the lack of industrial employment; and
- remote from centres providing a wide range of administrative and economic services

2. ECONOMIC SITUATION IN THE REGIONS

2.1 Lack of adequate statistics is a general hindrance to much practical research into regional policy questions. At the Community level, Article 6 of the ERDF Regulation (original and revised versions) requires member states to provide the Commission with regional statistics, but these are often inadequate (see p. 62 of 4th Annual Report of the ERDF). Up-to-date information on the regions is often lacking.

2.2 The Council's Resolution on Guidelines for Regional Policy (OJ C 161; 9.7.77.) called on the Commission to draw up a periodic report on the economic and social situation of the regions; the first such report should be published in 1980. Such a study, albeit much more limited in scale, has recently been carried out under the auspices of the European Parliament's Directorate-General for Research and Documentation. This Study Paper 11 in the Regional Policy and Transport Series is attached as Appendix 1.

2.3 Covering the period 1970-77, the study uses gross regional product per capita as the basic measure of prosperity, although a more complete view of regional welfare would have to consider many other factors as well. The period covered includes the quadrupling of oil prices at the end of 1973, the subsequent recession and recovery, and the steel crisis; it does not cover the recent rise in oil prices and the latest economic downturn. Comparisons between the regions in different countries has been based on purchasing power parities rather than the market exchange rates of currencies.

2.4 In three parts, the study looks at:

- the distribution of GRP per capita (Figs. 1 and 2);
- trends in the growth of GRP per capita in the regions (Fig. 3); and
- growth in regional GRP per capita compared with a common fixed base (Fig. 5).

2.5 The general picture to emerge is not an encouraging one from a regional policy point of view. At a national level, Table 1.2 on page 4 shows that, of the three weakest economies, Ireland about held its position relative to the rest of the Community (GNP per head = 61% of EC average in 1970 and 62% in 1977), but both Italy and the UK slipped (from 76% to 72%, and from 97% to 92% respectively). On the whole it seemed that the richer countries coped better with the mid-70s economic crisis than the poorer ones and the gap between them widened.

2.6 One of the aims of regional policy is to help disadvantaged regions grow faster than others so that their economic performance converge and so that full use is made of economic resources. The rates of growth of the regions are illustrated in Fig. 3. Some "peripheral" regions appear to have made some progress: Brittany and S.W. France, Northern Ireland, Wales and Northern England; the downturn in the UK motor industry is apparent (Midlands) but the late arrival of the steel crisis in the UK does not show up (e.g. Wales).

2.7 Even if a disadvantaged region does manage a higher rate of growth, it is doing so from a lower level: this may generate a smaller absolute increase in wealth than a lower rate of growth in a richer area (i.e. 10% on 50 = 5; 5% on 150 = 7.5). It is the development of this "gap" which is set out in Table 3.1 and Fig. 5 of Appendix 1. Once again, regions of the periphery do not seem to have made much advance: in fact, the picture is the reverse of what one would hope to see, if any convergence was to be achieved. The increasing gap between S. Italy and Ireland and the rest of the Community is striking, if some of the French and British regions seem to have done a bit better. Oil-related activities clearly boosted Scotland's performance, but using statistics covering large areas masks internal differences: oil activities are concentrated on the East Coast, but the Highlands and Islands together and Clydeside continue to have problems. This increasing "gap" is apparent on the national level as well.

3. REGIONAL AIDS : GENERAL

3.1 The Treaty of Rome refers to regional policy in terms of strengthening:

"the unity of (member states') economies and (of ensuring) their harmonious development by reducing the differences existing between the various regions and the backwardness of the less-favoured regions".

Certainly during the post-war period, agreements in favour of policies for disadvantaged regions emphasised the waste of economic resources their backwardness represented. With, at the start of the 80s, many "core" regions and industries having apparently chronic margins of unused capacity, the problem is to generate growth and employment at all rather than having to seek out the margin of unused resources.

3.2 The goal of regional policy has perhaps to be modified as a consequence, and Mr CORRIE in his report on the peripheral coastal regions of the Community (PE Doc. 113/79, attached as Appendix 2) refers in paragraph 20 to the Resolution of the 1977 Conference of Peripheral Maritime Regions: regions were to

"develop their resources and improve the quality of their life so that their inhabitants will benefit from opportunities for living and working in the region of their choice that are comparable to those enjoyed by the inhabitants of Europe's most prosperous areas".

Clearly a formulation open to subjective interpretation, this wording does imply as a goal regions having a large degree of self-sufficiency in both employment opportunities and social infrastructure and implying a stable population.

3.3 In considering the economic forces at work on the regions it is clear that the crucial progression is from a rural agricultural society to an industrialised and usually urban one; this already raises problems for the sparsely-populated peripheral regions, but a degree of industrialisation is necessary to provide a balance of employment opportunities (industry tends to beget services, although tourism and government services are

3.4 The aims of regional policy have been classified by Allen (Studies in Public Policy 41, Strathclyde University) as:

- infrastructure
- state industry
- disincentives and controls
- incentives

3.5 Adequate physical infrastructure is clearly important but it is possible to overemphasise this aspect. In a survey of 350 firms which moved to Assisted Areas in the UK, transport was fourth in the reasons given (after availability of labour, regional incentives and local authority aid). With increasing cost of fuel, however, transport costs will loom larger in investors' calculations. Of course, as infrastructure does not create jobs directly, except during construction, it is sometimes difficult to assess its benefit.

3.6 State industry investment is large. That concerned with providing basic services is not mobile, of course, and many state enterprises are in industries where economies of scale apply and economic plant sizes are large; one in an under-developed region risks being a "cathedral in the desert", providing limited benefit and being uncompetitive. State holding companies having a number of middle-sized firms are better placed to direct investment but not all countries have them. The Italian IRI has gone furthest in having a formal commitment to poorer regions; regional objectives have never figured very large in the debate over the UK's NEB.

3.7 Disincentives and controls on developments in congested areas are really tools for times of high growth. There was widespread evasion of the Industrial Development Certificate (IDC) scheme in the UK during the 1960s, however. The French Government introduced a tax on expansion in certain areas, instead of permits. Both approaches are of limited relevance at the moment.

3.8 Along with infrastructure aid, incentives (usually for investment) provide the main arm of many governments' regional policies. It should not be forgotten, however, that central support for regions amounts to much more than this, comprising in addition general subsidy of local authority spending and the excess of social security payments (higher in poorer regions) over tax receipts (lower in poorer regions).

3.9 Emphasis on investment incentives recognises that few industries are tied to particular locations for technical reasons. On the other hand, 80% of investment is in extensions to existing plant (S. Holland, Capital versus the Regions, p. 262), so the amount of "footloose" investment is limited. It is even more limited in a time of recession and in the UK where the investment record of non-nationalised industry has been appalling.

3.10 Two other points might be mentioned. With the expansion of world trade, enterprises are operating on a global scale, and there is a risk that firms will tend to concentrate their labc -intensive operations in the Third World and their capital-intensi ones in regions offering high investment incentives: this is an expensive way of bringing jobs to regions. Similarly as a result of trade, many foreign multinational companies wish to set up in Europe, and Irish experience indicates that this investment is more likely to be attracted to the regions (O'Farrell, Regional Studies Vol. 14, No. 2, 1980). A disadvantage of such investment is that it tends to be in production and/or warehousing facilities alone, hence being rather dependent and using a limited range of skills; in addition, it is more subject to "rationalisation" during recessions and as a result of technological changes as local control is limited.

3.11 The mechanics of granting investment incentives often leaves room for improvement:

- Simplicity is desirable. If the scheme is too complex, then it will tend to be ignored and any grant treated as a bonus. Similarly, benefits should be quantifiable ex-ante : smaller investors cannot afford to make mistakes. The desirability of simplicity extends to administration of the scheme: one reason for the success of the IDA in Ireland is that it is the sole institution with which potential investors have to deal.

- Schemes are often oriented to attracting investment from outside, perhaps in undesirably large chunks, and less attention to fostering indigeneous developments.

- Schemes are usually built around a capital grant. Individual firms' needs differ, however, and some might be better served by certain loan structures, tax allowances or employment premia. Governments might therefore offer certain global amounts of aid but in a form or mix chosen - within limits - by the recipient.

4. PERIPHERAL REGIONS : PROBLEMS

4.1 Attached as Appendix 2 is the CORRIE report on peripheral coastal regions of the European Community (PE Doc. 113/79). In the arc of peripheral regions which are under consideration (see Map 1), many of the disadvantaged regions are coastal or near-coastal and Mr Corrie's comments are relevant in many cases to the external-frontier region of France with Spain: there is a barrier (be it coast or frontier) at which the nature and scale of a region's economic activity changes drastically; part of its economic hinterland is cut off. This note takes the CORRIE report as a base, and this section makes expanded or additional observations as appropriate, loosely under three of the four main headings used in Appendix 2, namely

- transport
- social infrastructure
- lack of employment capacity

Transport and other, public, services

4.2 Transport is clearly of critical importance to peripheral regions, both within each region and in linking the remote region with the rest of the country. Improving inter-regional transport is a two-edged weapon. Poor links with the rest of the country may well protect local industries from too much competition and damp down emigration. Improved links on the other hand will help to stimulate tourism, encourage successful local firms to expand and help attract new industry. In short, major transport improvements should be part of a package designed to make the most of them.

4.3 Internally, good transport links and services effectively increase the population density of a region and hence provide some of the advantages of population agglomerations in the efficient provision of social services, etc. In rural areas, and particularly in sparsely populated ones, public transport cannot match the convenience of the car and as car ownership has increase so public services have been caught in a spiral of declining usage and higher costs. Some improvement can be made through more imaginative use of combined services (e.g. buses carrying post) and even of dial-a-bus services (with some limit as to frequency of use). Unless such developments are pursued there is likely to be increasing pressure on thinly-spread population to draw together in fewer centres.

4.4 The CORRIE report, in paragraph 35, discusses the Road Equivalent Tariff proposal, a method of offsetting the distance disadvantages of remote regions. The problem is, however, a more general one of pricing goods and services: should consumers be charged the average cost (i.e. total cost of supplying everyone, divided by the number of consumers) or should each consumer be charged what it costs to supply him or her individuall (marginal cost pricing).

4.5 The marginal cost pricing versus average cost pricing argument is highly relevant to sparsely-populated rural areas for the provision of services and goods in these areas is much more expensive than elsewhere. Supply of petrol to outlying garages, delivery of letters to farms and the provision of electricity are but three examples. The North of Scotland Hydroelectric Board, which supplies electricity to the Scottish Islands has added 11% to bills for these areas, as it is uneconomi to link the islands to the national grid but local diesel-generator power is more expensive; local authorities are fightinc the move (The Economist, 16.8.80).

4.6 At a highly abstract level, marginal cost pricing can be shown to be more economically efficient. But it is a theoretical construct requiring assumptions which cannot be satisfied, such as perfect marginal cost pricing in every sector, and costless calculation of each consumer's individual cost. The current move towards marginal cost pricing is therefore more likely to be aimed at raising revenue, with no regard for the social consequences.

The 1973 Kilbrandon report (on UK devolution) did point out the importance of notions of equity between citizens, including uniformity in public service provision. "The greater the regional discretion, the less guarantee there will be that citizens will be treated alike in all parts of the country in matters which affect their daily lives" (para. 295). It seems that this "regional discretion" is now being applied not by elected bodies of the sort Kilbrandon was discussing but by nationalised industries providing basic services.

Social infrastructures

4.7 One problem not addressed by Mr Corrie concerns housing and in particular the emotive issue of second homes. Up to a certain level, the purchase and renovation of second homes as weekend or holiday homes can be of benefit - it brings into the housing stock buildings often previously derelict and provides some local employment. Beyond that level, however, the increase in house prices makes them too expensive for local people, and too many empty houses destroys local society. It is once again the fragile economy of the Highlands and Islands that has least margin to cope with this problem.

4.8 One approach to regional disadvantage is to regard it as a series of drawbacks which are minor in themselves but which culminate in a position of dependency (Myrdal, Asian Drama). In this, the role of a unified as opposed to a regional banking system is often overlooked. If, for example, industry in a core region shows a slightly better rate of return than industry in a peripheral region, then with the fast information disseminati and easy transfer of funds allowed by a unified system, not only will investment at the core be preferred but also deposits at the periphery will be transferred and used in that investment. Local capital is not built up, and local industry is caught in the low-investment/low return circle. It is instructive to recall that the Credit Agricole, originally given tax advantages but restricted to promoting agricultural business, grew into France's third largest bank; a similar attempt might be made on a regional basis.

4.9 The role of the banks is an example of dependence resulting from the functioning of institutional factors as opposed to structural factors (such as supplies of raw materials, climatic advantage, trade patterns, etc.) which have to be taken as given. More generally, this functional dependence results from lack of local control over local firms and plants: some disadvantages of this have been mentioned already in paragraph 3.10.

Employment capacity

4.10 One result of having a single regional policy has been the overlooking of the differing needs of the regions. Capital incentives aimed at attracting large or medium-sized plants are clearly one way of aiding declining industrial areas. If the projects are chosen carefully, there is a useful role for such developments in well-populated rural areas. Sparsely-populated regions can only rarely offer a suitably-sized unemployed workforce in one locality able to receive even a medium-sized project. As small firms are understandably reluctant to relocate to development areas, any policy for sparsely-populated regions ought to emphasise the development of local potential.

5. THE HIGHLANDS AND ISLANDS

5.1 The Highlands and Islands of Scotland provide an extreme example of a peripheral region and its problems, and a great contrast with the old industrial agglomeration of West Central Scotland.

5.2 The Highlands and Islands have never had an industrial base. Traditionally devoted to primary industry, it has even now only 16% employment in manufacturing (Underdeveloped Europe, Eds. Seers, Schaffer, Kiljunen) although the service sector has grown to 61%. Bucyant until competition from colonial produce undercut their markets, the Highlands and Islands entered a century-long decline of high unemployment and emigration.

5.3 Both unemployment and emigration trends have shown signs of improvement since the middle 1970s. Unemployment is still high but has improved relative to the rest of the UK, although the low rate of female activity and low productivity in both prima and tertiary sectors do point to some underemployment. The population of about 280,000, on a large area of rather poor land, has stabilised in the last decade, although this masks continuing emigration from the Western Isles and Caithness. As usual, it is the young and more able who leave, job opportunities being a major factor in their decision. Earnings appear to be 10-15% lower than those in the rest of Scotland, themselves 10-15% less than those in the UK as a whole. It is however difficult to be precise about many aspects of the Highlands and Islands, because of the collection of statistics on a Scotland-wide basis, includin the industrial belt. Oil activity is concentrated on the East Coast and Shetlands.

5.4 The Highlands and Islands Development Board was set up in 1965, and the Board's chairman recently reflected that "... it is perhaps only where an economic vacuum exists to be filled that such powers are likely to be awarded to a single agency" (Alexande 1977 Symposium, Reading University). Not replacing any major existing institution, nor having direct powers regarding infrastructure, the HIDB nevertheless provides additional resources of finance and expertise. It is distinguished by (a) selectivity concerning project support, and (b) its comprehensive approach both sectorally and the range of inducements it can offer. It is involved in all sectors and can help with grants, loans, equity, land, buildings, plant, training and advice; it can even operate businesses itself. Nevertheless, these theoretical powers have been constrained by the need to deal with government departments having responsibility for particular industries, and by lack of funds (e.g. £ 11.2 million was spent between 1965-70, creating 5000 jobs).

5.5 The HIDB has designated three areas as suitable for large-scale industrial growth (Moray Firth, Caithness, Lochaber) and these contain about half the labour currently available. To counteract the danger of successful developments in these areas drawing in population and reducing the chances of recovery elsewhere twenty-five development points have been identified. The population base of the Highlands and Islands is inadequate to support a full-scale "development poles" strategy in which investment in concentrated so that proximity of industries generates self-sustaining growth. The minimum size for such poles is debated, but 300,000 has been suggested. Nevertheless, it is hoped that some benefits will accrue albeit on a smaller scale.

5.6 The advantage of having development bodies dedicated to particular regions is that they can take account of their region's particular needs. To that extent the HIDB is able to meet some of the difficultues pointed out in the previous section. It is especially aware that diversity is desirable for an economy such as that of the Highlands and Islands, and that useful industrial projects are those which have strong linkages with the existing economy. Thus each £1 spent by the fish processing industry in the Shetlands creates another £2.82's worth of activity through the "multiplier" effect, whereas each oil development £1 creates only £1.40 (study quoted in The Economist, 16.8.80).

5.7 Nevertheless, the Highlands and Islands economy remains vulnerable to national policies and to lack of control over industry in the region. This dependency is typified by direct subvention by central government, which amounted to 5.6% 1973 GDP in Scotland as a whole and which accounted for 28% of employment in the Shetlands (Underdeveloped Europe, above). Structural dependence becomes more marked in more peripheral areas, and industries in the Shetlands purchase 30% of their inputs from outside the region,(McNicoll, 1976) although the influence of the oil industry on this figure is unclear. Ownership of industry shows a similar pattern of dependence. In 1973, 55% of Highlands and Islands industry was controlled from Scotland; although this is a higher-than-average figure (Scotland as a whole, 41%) the newer, larger and more dynamic the enterprise, the less likely it was to be local. The proportion of outside ownership may well have increased since, with the development of the oil fields.

6. EUROPEAN COMMUNITY ACTIVITIES

6.1 The main formal aspects of the Communities' policies affecting the regions are outlined below, but it should not be forgotten that changed trading patterns engendered by the formation of the customs union may in the long run affect regional fortunes. In addition, efforts to aid particular sectors (e.g. textiles, through trade agreements) will have a differential impact on regions quite apart from any direct transfer of funds. Similar comments apply to the Guarantee Section of the agricultura policy, where the sums involved are much larger than any other Community spending.

European Regional Development Fund

6.2 ERDF spending is allocated by quota (I - 39%, UK - 27%, F - 17%, Irl - 6% approx.) and administered via national aid programmes. A non-quota section, amounting to 5% of the total, has yet to get underway; it aims much more to provide advice and aid for local initiative than traditional programmes (see CRONIN report 1-715/79).

6.3 Article 4 of Regulation sets out the limits to the type of investments aided:

- those exceeding 50,000 EUA;
- those in industry, handicraft or service sectors as long as they provide or maintain at least 10 jobs;
- infrastructure projects; and
- infrastructure in certain hill-farming areas.

For job-creating projects, the ERDF will meet 20% of the co: as long as this is less than half the national aid to the project and the investment is less than 100,000 EUA per job created (50,000 if job maintained). For infrastructure projects of less than 10 MEUA, the ERDF will meet 30%, and 10-30% for larger projects.

6.4 Minimum project size requirements are disadvantageous for projects in sparsely-populated rural areas, where a 10-job project is a large undertaking. A simplified procedure might be adopted for smaller projects. Similarly, the aid is biased towards investment incentives: the Commission regularly notes with regret (e.g. paragraph 137 of 4th Annual Report of the ERDF) the few applications concerning the services sector. For these, however, it may well be that an employment subsidy during the build-up period is more important than a capital grant.

6.5 In the peripheral regions discussed previously (i.e. Ireland, assisted areas of UK, West and South-West France, Corsica and the Mezzogiorno), ERDF spending in the period 1975-78 was as follows:

	ERDF meua	EUA per head in assisted areas	Approx. division between industry etc infrastructure and hill-farming infra-structure
Italy	517	25	26 / 69 / 5
UK	393	15	40 / 58 / 2
(Scotland	101	19	36 / 57 / 8)
x France	202	16	37 / 58 / 4
Ireland	90	27	44 / 44 / 11

(x N.B. Second and third columns refer to France as a whole, i.e. including some aid to Eastern regions)

Source: ERDF 4th Annual Report

These peripheral regions therefore accounted for 85% of the total ERDF spend in the period.

Common Agricultural Policy

6.6 In addition to the price guarantee section of the policy, referred to in paragraph 6.1 above, there is a guidance section aimed at promoting more efficient farming. Roughly half the funds are spent on improving production efficiency and roughly 40% on improving marketing methods. (These figures and those below are from COM(79) 579 final, the Eighth Financial Report on the EAGGF: Guidance Section).

6.7 For the period 1973-78, Guidance Section spending in the four countries receiving the bulk of ERDF spending received the following:

Italy	343 MEUA	(30% of total)
UK	127 MEUA	(11% of total)
France	204 MEUA	(18% of total)
Ireland	70 MEUA	(6% of total)

Thus these countries account for about 64% of Guidance Section spending, a less noticeable bias than with the ERDF. Of the remainder, roughly 20% goes to Germany and about 5% each to the smaller countries.

6.8 Annual Guidance Section expenditure would seem to be equivalent to about half the relevant ERDF expenditure in Ireland and Italy, about two-thirds in France but only one-fifth in the UK.

6.9 Unlike the ERDF, however, where expenditure is concentrated in disadvantaged regions of recipient countries, Guidance Section spending is spread over the whole country. The proportions of national receipts and overall spending received by the disadvantaged regions would appear to be:

Italy	34%	(6% of overall Guidance Section)
UK (Scotland	71% 25%)	(8% of overall Guidance Section)
France	34%	(6% of overall Guidance Section)
Ireland	100%	(6% of overall Guidance Section)

Thus those areas (within these member states) which receive 85% of all ERDF spending account for only 30% of Guidance Section spending despite the fact that they are above-averagely dependent on farming and despite the fact that their farm structures are most in need of improvement.

Other Instruments

6.10 Three other Community instruments need to be mentioned as having a regional impact, the European Social Fund, the European Coal and Steel Community and the European Investment Bank. Their operations have become more oriented towards the disadvantag regions of the Community either by design or, in the case of the ECSC, as a result of the steel crisis.

6.11 The amended Social Fund Regulation adopted in 1977 called for at least 50% of the aid to regions eligible for ERDF aid, with a higher rate of grant per project in priority regions (see paragraph 1.3). In 1978, 80% of ESF monies were spent in ERDF-eligible areas, although more concentrated in declining industrial areas than the rural periphery.

6.12 Three-quarters of EIB lending in 1978 went to regional development projects; this amounted to nearly 1500 MEUA. Major recipients were Italy (47%), UK (24%), France (17%) and Ireland (8%) and spending was concentrated on providing services such as roads, telecommunications, water and energy. Despite the regional orientation of lending the paucity of projects in S.W. France, Northern Ireland and Scotland is noticeable in the 1978 report; some have been undertaken since.

7. CONCLUSIONS AND THE FUTURE

7.1 The central concern of regional policy is employment, and it is unfortunate for the more rural and/or sparsely-populated peripheral regions that the employment problems of the old industrial agglomerations are the more obvious, for regional aid programmes thus tend to be oriented towards the latter regions. The needs of the two types of region differ, but large-scale redundancies and visible decline in the fabric of a city are more obvious than long-term emigration from and underemployment in often beautiful areas.

7.2 Although large-scale industrialisation has its place in peripheral areas, especially if labour is plentiful, the needs of peripheral regions would often seem to be better met by a plethora of smaller projects of diverse natures, and by concentrating on developing local enterprise. Few regional aid programmes are oriented in this direction.

7.3 Having appropriate institutional arrangements greatly assists the development of sensible aid policies. Devolution of political power is relevant here but other developments can have major impact: Regional development boards can tailor programmes to local needs (e.g. HIDB), but they need to be given substantial powers and money. Secondly, the banking system is particularly important for peripheral regions: in addition to the risk that it drains capital from a disadvantaged region, it is also true that the small businessman or farmer - especially important in these regions - is highly dependent on his or her bank. Local banks or subsidiaries are an advantage, especially if they can be given special tax status for promoting certain types of business.

7.4 In the Communities' regional policy it is clear that there are too many instruments. The 2nd ERDF Annual Report (1976) described the coordination of these instruments as "urgently necessary". The multiplicity of instruments disguises the real thrust of Community regional policy, which is particularly concerned with infrastructure rather than more flexible instruments of aid. The remedy may lie more with member states than the Commission.

7.5 Efforts are now being made to organise coordinated programmes, but the first two locations - Naples and Belfast - indicate a preoccupation with declining industrial areas. The peripheral regions require much more specifically rural approach and including the Guidance Section of the agricultural policy. At the risk of introducing yet another instrument of Community policy, one might envisage two regional development programmes, one for industrial areas, one for rural ones.

7.6 Short of such a development, three specific amendments might be made to existing instruments, in addition to expansion of the non-quota section of the ERDF:

- removal or reduction of minimum project size limits under the ERDF; these militate against developments in peripheral areas particularly;
- introduce choice as to the way aid is given, to include at least cheap loans and employment premia as well as capital grants, with the recipient to choose (member states themselves have not used the ERDF subsidy option on EIB loans);
- review the methods of and limits in giving Guidance Section aid from the agricultural policy, so as to concentrate its impact in areas eligible for ERDF aid.

7.7 Enlargement of the Community, to include Greece, Spain and Portugal, will raise new regional problems, not the least of which will be the remoteness of these countries. Appendix 3 sets out some basic data on the three countries, which indicates the progress which needs to be made if they are to match the Community average. What it does not show (except by implication in Table 11) is the degree of regional polarisation within those countries: industrial and service activity is concentrated in one or two regions which are surrounded by regions of under-developed agriculture.

7.8 The regional impact of enlargement is difficult to predict, and the Commission is completing studies on this subject. Certainly, farmers in the South of France and Italy will suffer severe competition. On the other hand, S.W. France will cease to be a "peripheral" region and, in addition, is adjacent to the most developed parts of the Spanish economy. The expansion of trade following the opening of the border will provide a long-term stimulus to the region.

APPENDIX 3

INFORMATION

ON

GREECE, SPAIN AND PORTUGAL

Table 3

Gross Domestic Product

(Eurostat, OECD)

	GDP (1978, Mrd EUA)	Average Annual Volume Growth 72-77	GDP per head (1977, EUA)
EUR 9	1524.5	2.7	5341
F.R.G.	500.3	2.3	7371
France	369.5	3.3	6285
Italy	185.9	3.0	3042
Netherlands	101.7	3.0	6726
Belgium	73.8	3.2	6907
Luxembourg	2.7	1.5	6760
U.K.	238.0	1.8	3832
Ireland	9.4	3.2	2568
Denmark	43.1	2.5	7920

Note: Comparison at current exchange rates, which do not accurately reflect the domestic purchasing powers of currencies.

Greece	24.7	3.8	2438
Spain	110.7	3.7	2759 (1976)
Portugal	14.0	3.8	1449 (1976)

Table 4

Employment, Sectoral Shares, 1977

(OECD, Eurostat)

	Civil Working Population		Employment by Sector, %		
	'000	% of total	Agriculture	Industry	Servi
EUR 9	107,549	41.5	8.2	39.9	51.9
F.R.G.	25,541	41.6	6.8	45.3	47.9
France	22,055	41.6	9.4	37.8	52.8
Italy	21,392	38.5	15.9	38.6	45.5
Netherlands	4,773	34.4	6.3	33.2	60.4
Belgium	3,968	40.4	3.3	37.9	58.8
Luxembourg	150	42.1	5.7	44.1	50.2
U.K.	25,997	46.5	2.7	40.0	57.3
Ireland	1,129	35.4	23.1	30.4	46.5
Denmark	2,544	50.0	9.0	30.4	60.5
Greece	3,202	34.6	28.4	30.3	41.3
Spain	12,462	34.0	20.7	37.4	41.9
Portugal	4,107	42.0	32.5	33.1	34.4

Table 8

GNP per capita, adjusted for purchasing power differences

(COM(78)200 final)

1970	$/head	EUA/head	1975	$/head	EUA/head
F.R. Germany	3518	3441	France	3945	3179
Denmark	3468	3393	F.R. Germany	3753	3025
France	3436	3361	Denmark	3736	3011
United Kingdom	2995	2930	Belgium	3492	2814
Netherlands	2985	2920	Netherlands	3312	2669
Belgium	2983	2918	United Kingdom	3274	2639
Italy	2558	2502	Italy	2742	2210
Ireland	2332	2281	Ireland	2512	2025
USA	4790	4686	USA	5109	4118
Japan	2764	2704	Japan	3331	2685
Greece	1853	1813	Greece	2309	1861
Spain	1904	1863	Spain	2384	1921
Portugal	1297	1268	Portugal	1504	1212

Table 11

Poorest Region in each EC 9 State : GRP per capita

(1974, Eurostat, European regions only)

	GRP per capita (EUA)	GRP p.c. as % of national average	GRP p.c. as % of EC 9 average
FR Germany : Schleswig-Holstein	4187	83	112
France : South-West	2909 [(1)]	77	77
Italy : South	(1519)	66	40
Netherlands : East	3463	85	92
Belgium : Wallonia	3595	86	96
Luxembourg : -	5513	100	147
United Kingdom : Northern Ireland	2460	86	65
Ireland :	1860	100	50
Denmark : East (non great belt)	4649	88	124
Greece : Thrace	1024	65	27
Spain : Extremadura	1307 [(2)]	59	35 [(2)]
Portugal : Vila Real, Braganca	398 [(3)]	52	11 [(3)]

(1) for 1973

(2) for 1975

(3) for 1970