EUROPEAN FILE

The new structural policies of the European Community

ENSURING THAT THE BENEFITS OF 1992
ARE SPREAD THROUGHOUT THE COMMUNITY

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In 1986 the Single Act which supplemented the European Treaties set new objectives for the Community of Twelve. The aims include a large market without frontiers to be achieved by the end of 1992 — but also greater economic and social cohesion, which means reducing the gap between well-developed regions or social groups and less-favoured ones.

This improvement in economic and social cohesion is in fact an indispensable corollary of the large market.

It is true that the large market offers many advantages to the Community as a whole. Elimination of the physical, legal or regulatory obstacles which still impede the free circulation of goods, services, workers and capital among the 12 Member States of the Community will encourage competition and help make firms more competitive internationally. Once it is rid of a whole range of barriers, the Community ought to benefit from an increase of 5 to 7% in non-inflationary economic growth and the creation of 2 to 5 million extra jobs. However:

□ Starting conditions vary considerably; the less-favoured regions and groups are not as well-equipped as the others to avail of the benefits of 1992.

- Firstly, there are large differences in prosperity: levels of development in the various regions of the Community were always very uneven, and when new Member States joined — Greece in 1981, Spain and Portugal in 1986 — the disparities became markedly greater. Gross domestic product per head (which is the usual measure of relative prosperity) is more than six times higher in the richest regions of the enlarged Community than in the poorest. In terms of income, regional disparities are more than twice as large in the Community as in the United States. In terms of unemployment, they are three times greater.

- There are a number of specific handicaps corresponding to these divergences. The chances of success for firms — and hence the capacity of a region to attract investment — depend on a number of factors. Potential investors will want to know if there is an international airport nearby, how quickly and cheaply they can reach the ports and railways on which they rely for distribution of their products, how well qualified and adaptable is the workforce, how good is the telephone network and what living and working conditions are like for executives and their families. When there are a number of deficiencies in these respects, the result is that capital and labour are drained away to the regions which offer more advantages making the regional disparities greater than ever.

Up to now national governments have tackled problems of uneven economic development in their own way behind national frontiers. For its part, the Community has provided both funds to support national efforts and a number of regulations to ensure that those efforts do not distort competition. But now that the frontiers are coming down and the impetus for a large market poses a particular challenge to the less-favoured regions and groups, this problem of disparities becomes one for the Community as a whole, requiring solutions at Community level. Of course there is no question of selling bureaucratic obstacles to the increased mobility — and general prosperity — which completion of the large market entails. The answer is rather to help weaker regions and groups to overcome their handicaps. Everyone in the Community must be enabled to benefit from the single market and from its potential for growth, and to make their contribution to it.

- ☐ From an economic point of view the whole Community, and not just the less-favoured groups and regions, has an interest in reducing the present disparities and strengthening economic and social cohesion as the large market is brought into being. This cohesion is actually a condition for the harmonious development of any society. Faced with international competition, Europe cannot allow itself the luxury of such a waste as the under-development or decline of so many regions or the under-use of so many talents. Development of less-favoured regions also stimulates trade and provides more industrialized regions with new markets for capital goods and consumer goods. A wider spread of prosperity, industry and major infrastructure can also help to limit the dangers of congestion and ecological damage faced by the most prosperous regions, many of which are among the most densely populated in the world.

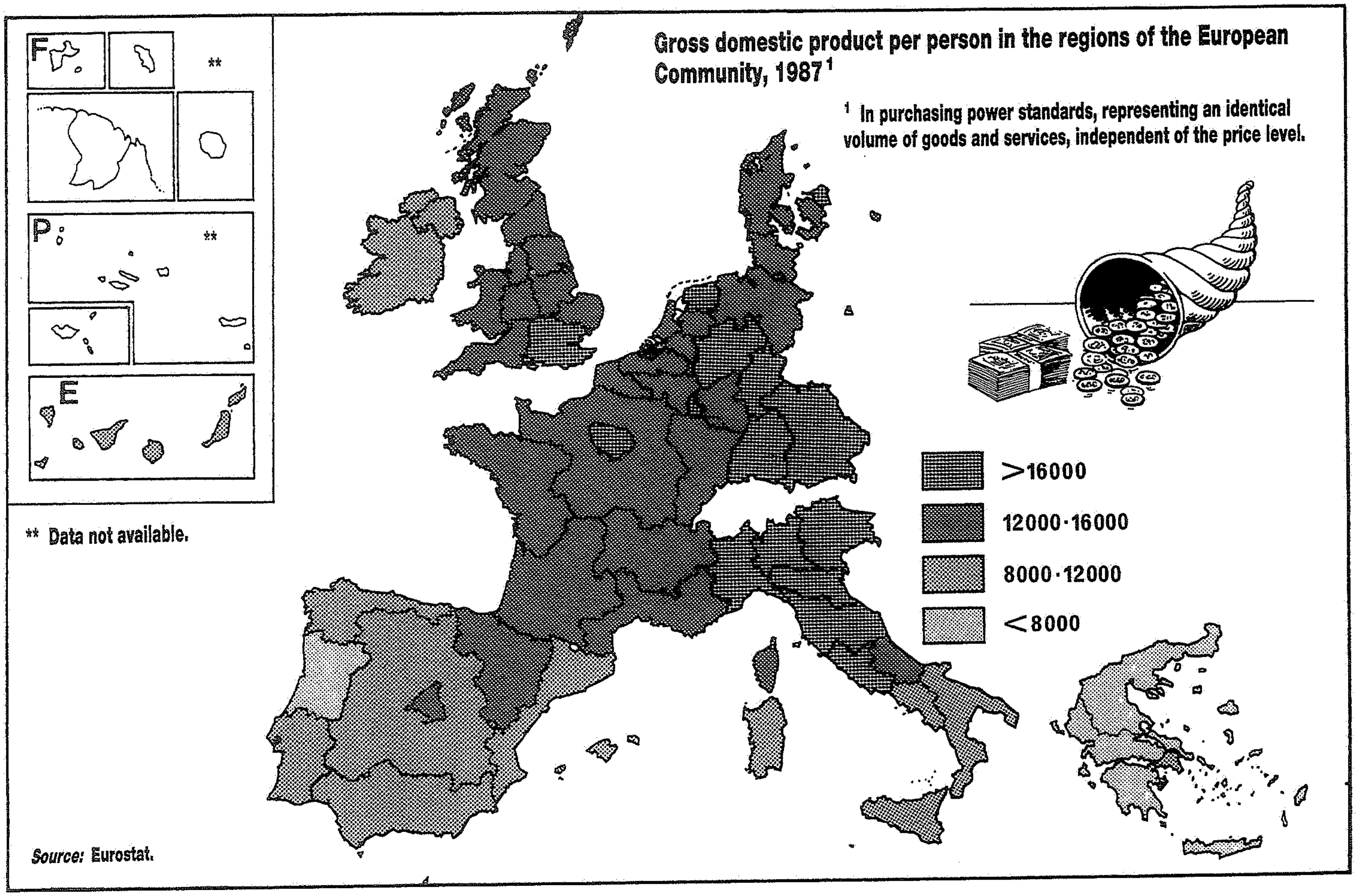
- ☐ In political terms, the completion of the large market demands a number of initiatives and changes, many of which are of a radical nature and require a solid consensus in their favour. The agreement of all the Member States and the active support of the regions in difficulty and of less-favoured social groups can be obtained only by convincing the weaker partners that the Community has an answer to their legitimate anxieties — that it is aware of the risks of the large market as well as of its positive effects. The people who live in these regions or belong to these groups must be assured that they are not condemned to ever-widening divergences in prosperity: on the contrary, they will be able to benefit from new Community structures and from the general increase in prosperity which they will make possible.

These economic and political necessities now have the legal force of a treaty approved by the European Parliament and the 12 national parliaments. That is the effect of the ratification of the Single European Act, which commits the Community to completing the large market but also to strengthening its economic and social cohesion — which entails reducing regional disparities. To that end the Single Act provides in particular for a reform of the Community's 'structural Funds'.

There are three of these Community Funds:

- ☐ The European Regional Development Fund (ERDF), set up in 1975 in order to reduce regional imbalances.

- ☐ The European Social Fund (ESF), created by the Treaty of Rome in 1958 to support vocational training, retraining of workers and, more recently, recruitment of young people.



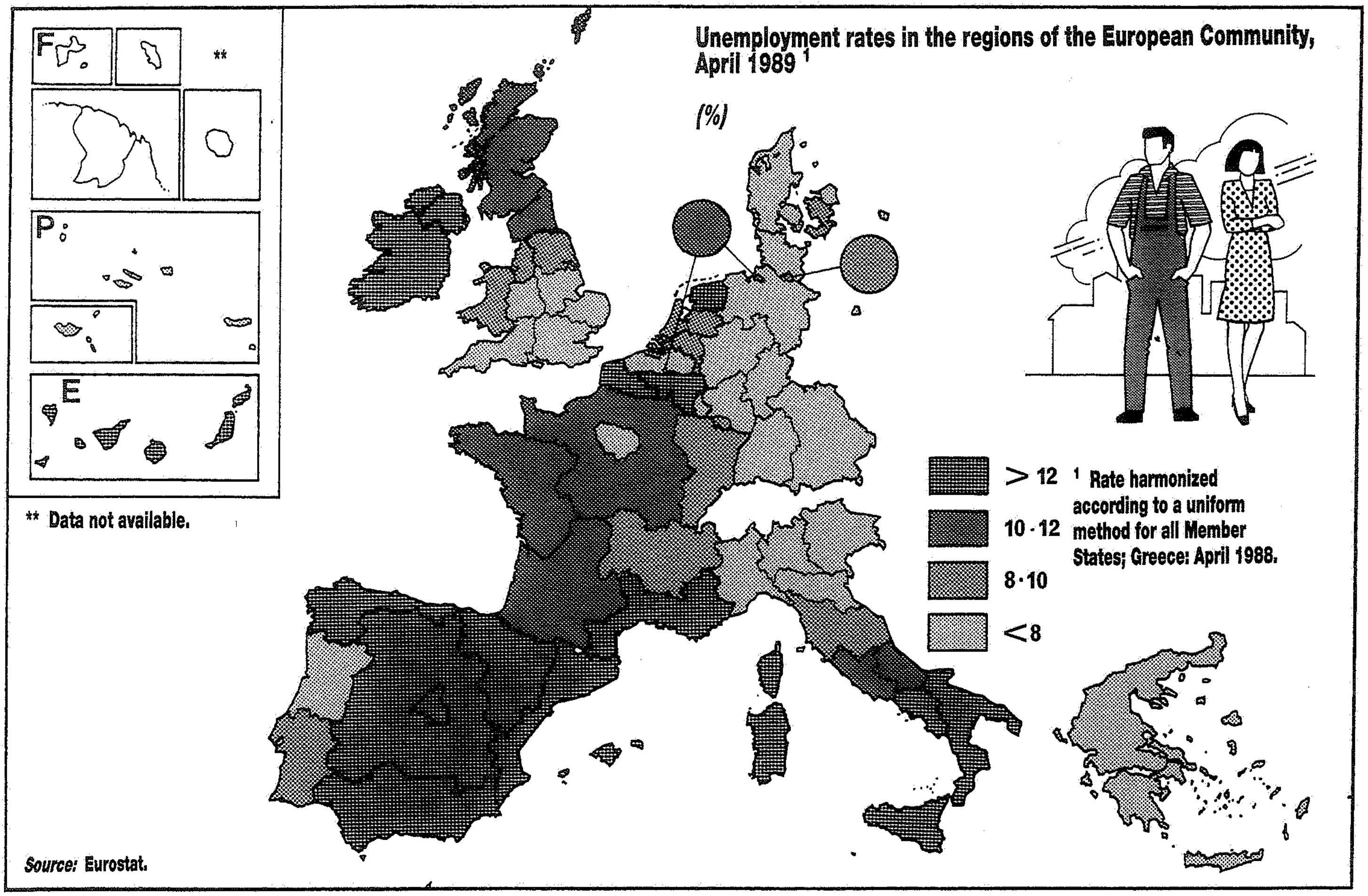
Gross domestic product per person in the regions of the European Community, 1987[1]

[1] In purchasing power standards, representing an identical volume of goods and services, independent of the price level.

Source: Eurostat.

Unemployment rates in the regions of the European Community, April 1989 [1]

(%)



[1] Rate harmonized according to a uniform method for all Member States; Greece: April 1988.

** Data not available.

Source: Eurostat.

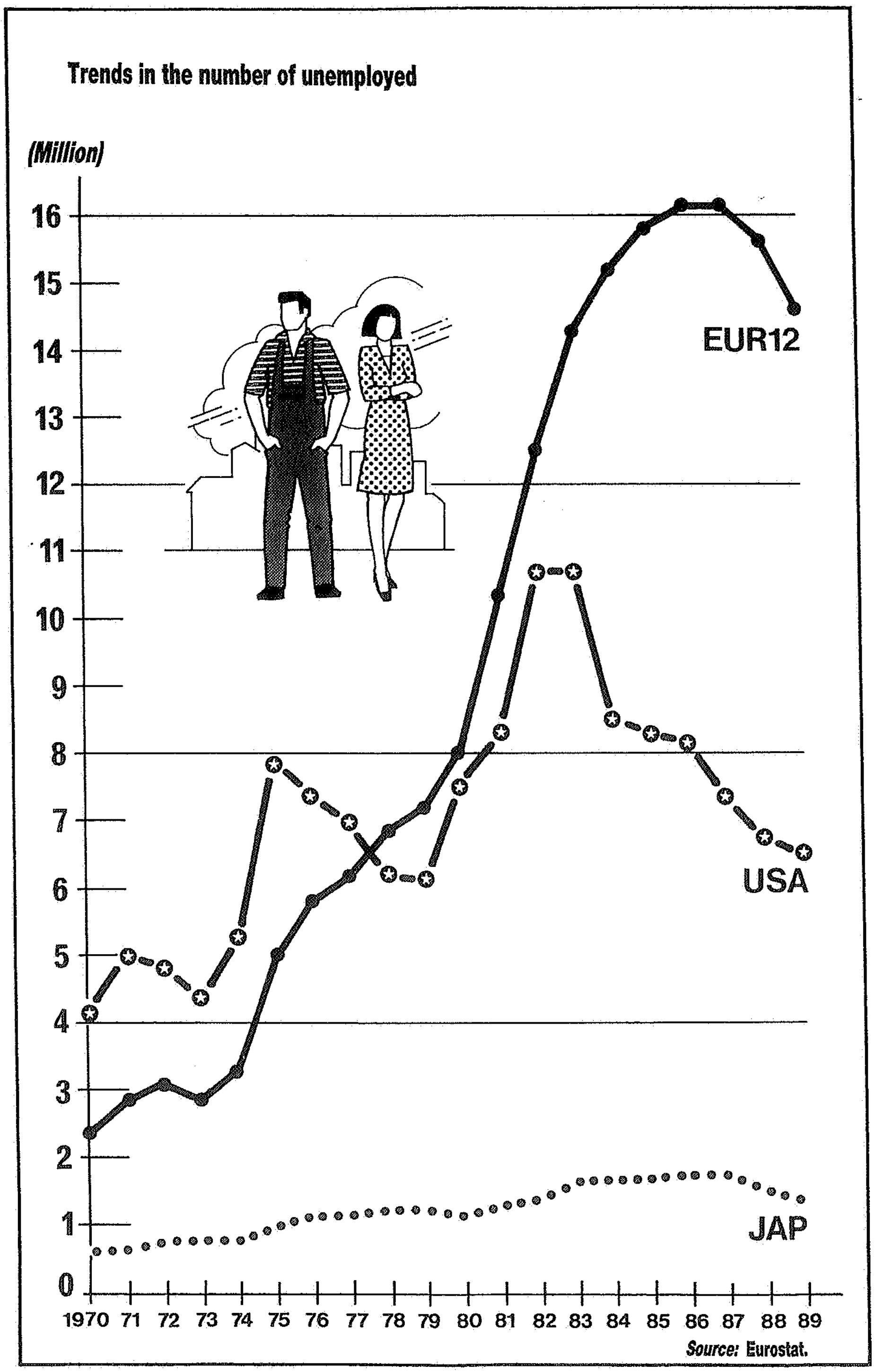

Trends in the number of unemployed
(Million)
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
1970 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89
EUR12
USA
JAP
Source: Eurostat.

Table 1: **Trends in agricultural employment** [1]

	Total persons (× 1 000)				As % of total employment	
	1960	**1970**	**1980**	**1988**	**1960**	**1988**
EUR 12	19 007 [2]	16 968	11 959	9 514	21.2	7.3 [4]
B	300	174	112	100	8.4	2.7
DK	362	266	200	169	17.7	6.3
D	3 581	2 262	1 437	1 155	13.6	4.2 [4]
GR	2 019	1 279	1 016	984	53.9	27.0
E	[3]	3 662	2 205	1 695	41.7	14.4
F	4 180	2 751	1 854	1 428	21.4	6.8
IRL	390	283	209	166	37.0	15.4
I	6 611	3 878	2 899	2 058	31.7	9.9
L	22	13	8	6	[3]	3.4
NL	408	289	244	285	11.1	4.7 [4]
P	[3]	[3]	1 121	887	42.5	20.7
UK	1 134	792	654	581	4.7	2.2

[1] Self-employed persons, persons in paid employment and unpaid family helpers, including game hunting, forestry and fishing, but excluding persons who carry out their principal economic activity in another sector.
[2] EUR 10.
[3] Data not available.
[4] Estimate.
Source: Eurostat.

☐ The Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF), which since 1964 has supported schemes to improve conditions for agricultural production and marketing.

Smaller subventions can also be granted from the Community budget under certain structural policies such as environmental protection, modernization of transport and diversification of energy resources. Finally, the Community can give loans for regional, industrial and other purposes, notably through the European Investment Bank and the European Coal and Steel Community.

Reform: the main changes

The resources of the three major Funds have been considerably increased. In 1987 they had some ECU 7 000 million to spend[1] — about 19% of the Community budget. In February 1988 the Heads of State or Government agreed to double this amount by 1993 (in real terms, taking account of inflation); this

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[1] ECU 1 (European currency unit) = approximately £ 0.74, Ir £ 0.76 or US $ 1.21 (at exchange rates current on 30 May 1990).

means that the Funds will account for one-quarter of the budget of the European Community (see Table 2).

Table 2: **Structural Funds appropriations for the period 1989-93**

(Million ECU [1])

Objective			Amount
1	Regions lagging behind in development		38 300
	of which — Community support frameworks	36 200	
	— Community initiatives	2 100	
2	Regions in industrial decline		7 205
3 & 4	Long-term unemployment and vocational integration of young people		7 450
5 (a)	Adaptation of agricultural structures		3 415
5 (b)	Development of rural areas		2 795
Transitional measures and innovation			1 150
	Total		60 315

[1] At 1989 prices.

What is the precise task of the structural Funds? A long and difficult one. To catch up, the weaker regions have to make faster progress than the others — even though they have numerous handicaps:

□ Inadequate or dilapidated infrastructures, particularly transport (roads, railways, ports, airports, etc.), sewerage, water and power supply and telecommunications.

□ Weak or outdated industrial structures, often using inadequate production methods or producing goods which do not suit the market.

□ An agricultural sector dominated by archaic structures but which still needs to be on its guard against surplus production due to badly thought-out modernization.

□ Urban decay and rural depopulation, which cause social and environmental problems as well as economic ones.

- High unemployment, which causes particular hardship for young first-time job seekers and for workers with few or inappropriate qualifications, who tend to face longer and longer periods of unemployment.

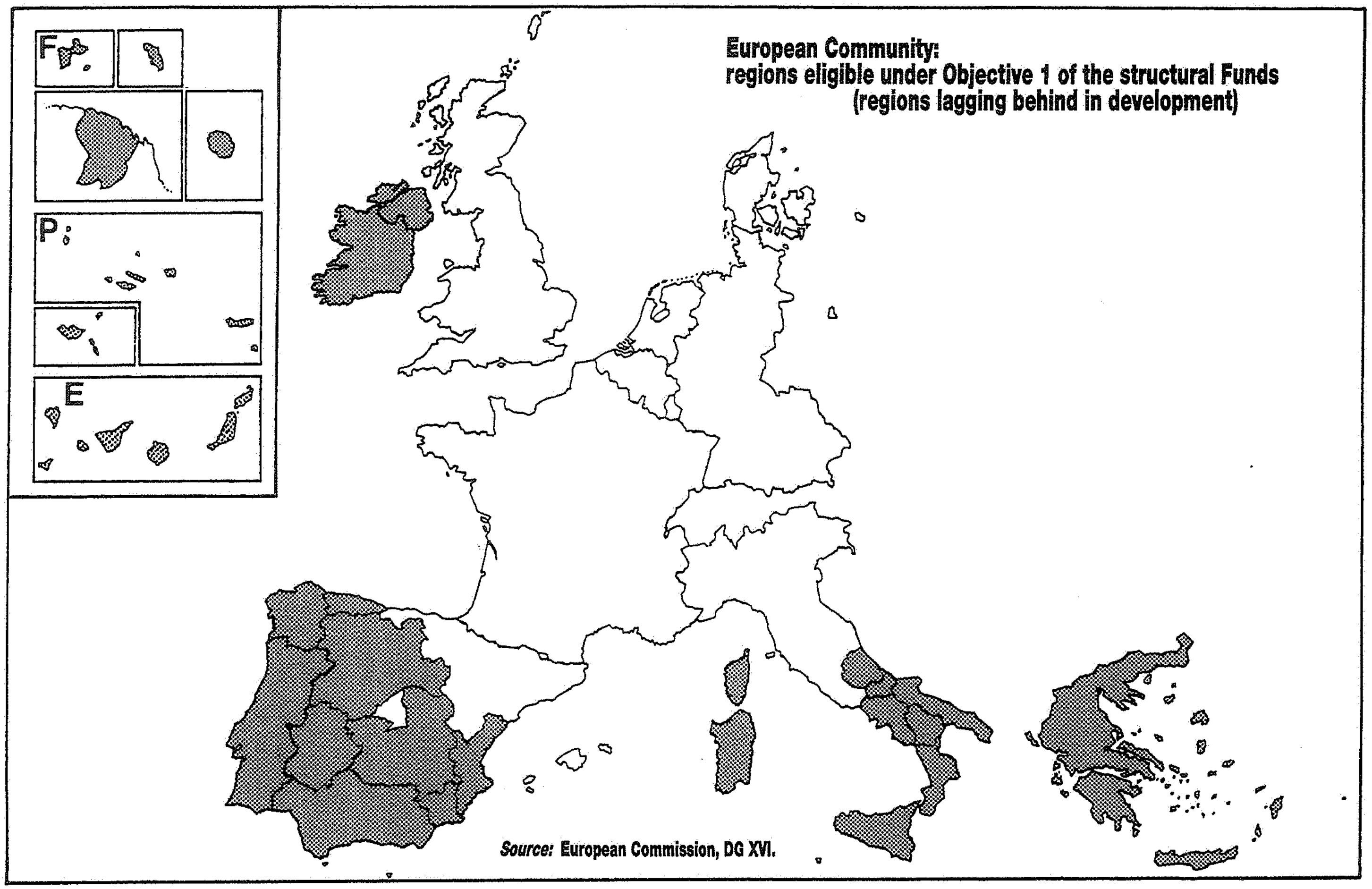
More than a fifth of the Community's population lives in regions where all these problems are present, resulting in income per head lower than 75% of the Community average. These regions include all of Greece, Ireland and Portugal, as well as large parts of Spain and Italy, Corsica, the overseas departments of France, and Northern Ireland.

Helping these regions which are lagging seriously behind is the structural Funds' priority task: 'Objective 1' as it is called. Most of the resources available — up to four-fifths of the Regional Fund, for example — will be devoted to this objective. The rest of the resources will be used to tackle the same problems as they occur elsewhere in the Community. Some of this money will go to selected areas hard-hit by industrial decline (Objective 2) or requiring a special effort in rural development (Objective 5 b); some of it will be used to address the specific problems of the long-term unemployed (Objective 3) and of young people entering the labour market (Objective 4), and some of it will be for modernizing agriculture (Objective 5 a).

- This is the first major change introduced in the operation of the structural Funds. Instead of each having its own set of rules and priorities, they now combine and concentrate their efforts on five shared objectives. Some of these concern the whole Community; the others are concentrated in selected areas, chosen because they face the severest problems (see maps on pages 10 to 12). Thus the principle of concentration disciplines the Funds and helps prevent the waste that comes of spreading resources over too many aims in too large an area.

- The next major principle introduced is that of partnership. This means involving people at all levels — local, regional, national, Community — at each stage in the Funds' operations. The reason for this is the realization, based on experience, that the chances for development are best if the impetus comes from the regions themselves, based on their own potential. Those responsible at local level are always best placed to define the needs of their region and mobilize its strengths, relying on the interaction of public investment at all levels and private funding. So the idea of partnership is to draw on local ideas and enthusiasm.

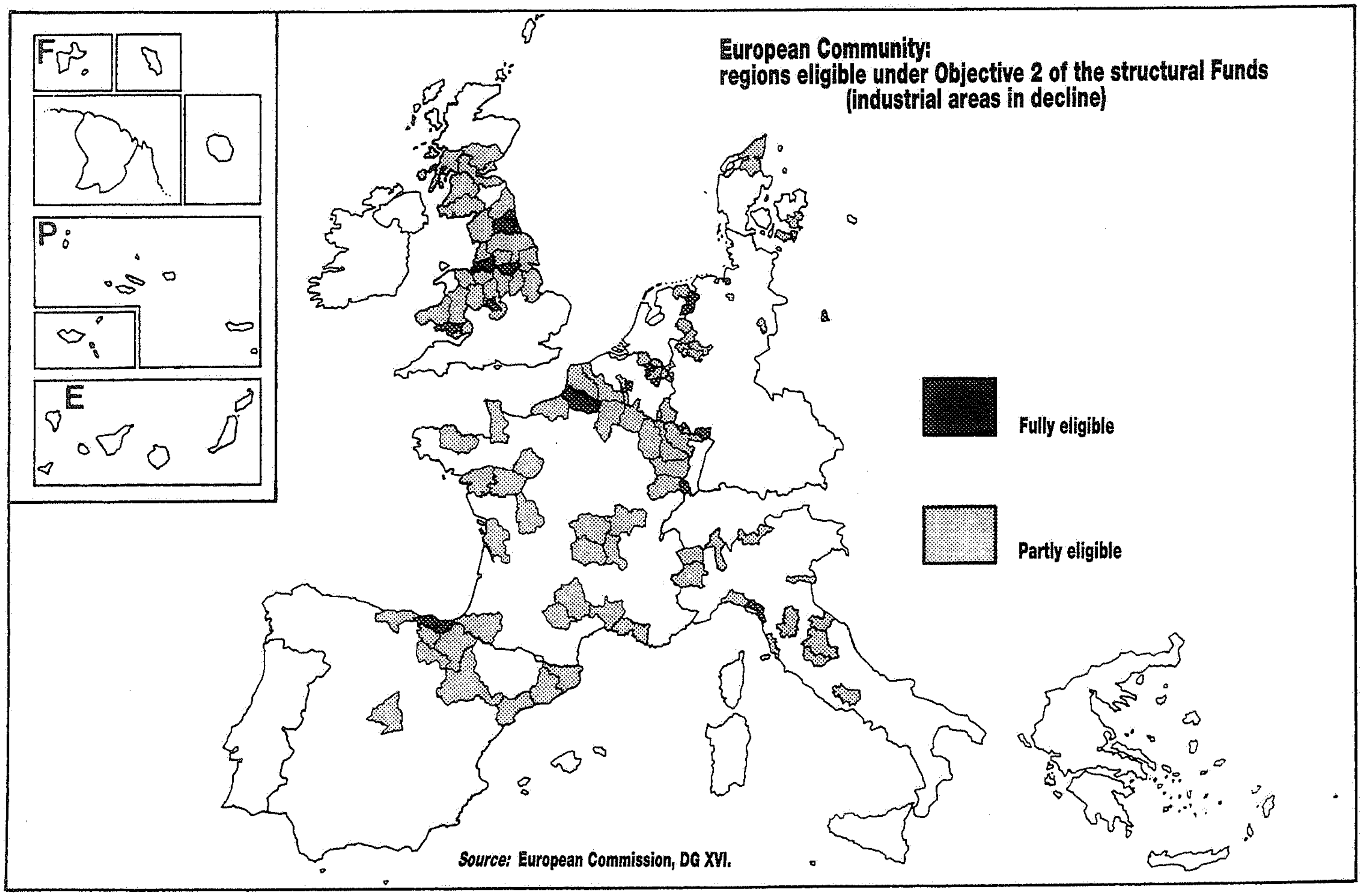
  On behalf of the Community, the European Commission joins in the partnership. One of its tasks is to ensure that Community resources are spent in accordance with Community priorities and policies. It therefore ensures that the severity of the problems in an area selected for Community assistance is judged by Community-wide standards. A region which is poor by the national standards of a relatively prosperous Member State could be among the better-off in the Community, so that Community assistance would not be justified.



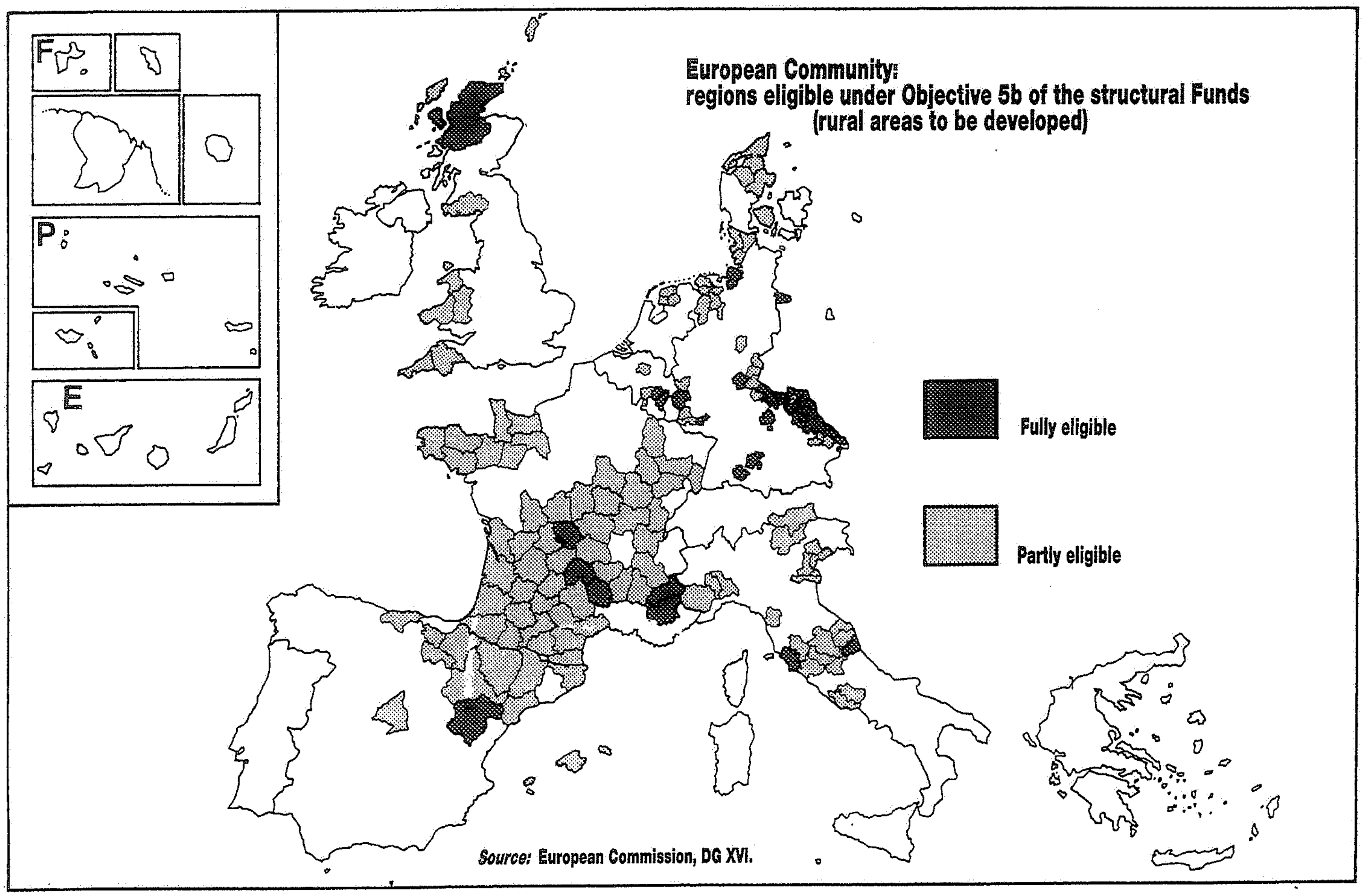
**European Community:
regions eligible under Objective 1 of the structural Funds
(regions lagging behind in development)**

Source: **European Commission, DG XVI.**

European Community: regions eligible under Objective 2 of the structural Funds (industrial areas in decline)



Source: European Commission, DG XVI.


European Community:
regions eligible under Objective 5b of the structural Funds
(rural areas to be developed)
Fully eligible
Partly eligible
F
P
E
Source: European Commission, DG XVI.

It is also important that all the Community's activities should work in the same direction. For example, to receive financial support from the Community, rural development projects must be consistent with efforts to adapt the common agricultural policy to the needs of the market and to avoid overproduction. Conversely, Community policies in sectors such as transport, telecommunications and research must take proper account of the need to help backward regions catch up. Proper coordination of the Community's policies and financial instruments is therefore a constant concern.

This insistence on coherence is reflected also in the third major idea running through the reform of the structural Funds, that of integrated planning and programming. In plain words, this means that efforts to help weaker regions should look at their problems as a whole, form an overall stategy and apply that strategy for a few years at a time. Experience shows that past efforts have too often failed to respect these basic rules. It is pointless to build a factory if nobody has thought to run the necessary training courses to provide a skilled workforce. A prestige project quickly becomes a white elephant if it does not fit in with other developments in the area concerned. It is also simply wasteful to leave last year's jobs half done, because this year's strategy is a new one and next year's will be new again. The reform of the structural Funds aims to avoid these mistakes.

- ☐ Finally, it is important to check throughout the implementation of plans and programmes that they are being carried out as provided for; there must also be evaluation after the event of the contribution which has been made to economic and social cohesion. This concern for continuous follow through and evaluation is also an integral part of the reform philosophy.

The structural Funds at work

Nineteen eighty-nine was a busy year for the Commission and all those involved in the new partnerships, as they put the new rules into operation.

- ☐ First the Member States submitted plans for each of the five objectives. In order to ensure continuity, these covered periods of up to five years, but never less than three. They had to show the ways in which they were proposing to tackle the problems of depopulation, poor communications, industrial job losses and so on and to indicate where their priorities lay and how they wanted the Community to help.

- ☐ There followed a period of intensive negotiations, involving all the partners. Inevitably, the bids of the Member States amounted to more than the structural Funds could spend, even with their increased resources. The Commission set about getting the list of priorities slimmed down and the result was a whole set of agreed Community support frameworks showing the broad lines of Community funding, whether grants or loans, for the next three to five years.

□ The work does not of course end there. The partnership is still at work, turning the Community support frameworks into operational programmes, making sure the funds are spent in the way intended and assessing the results so that the next round of decisions can profit from the present experience.

The Commission has the continuing task of seeing that Community funds make a contribution over and above public expenditure already planned — the so-called additionality principle. This means that national governments cannot simply pocket Community money as savings in their own budgets.

The Commission can also propose programmes on its own initiative. It does this when it sees special need, for example to help areas hard-hit by the decline of a particular industry (steel, shipbuilding and coal are current examples) or to tackle a particularly grave problem such as the threat to the environment, especially around the Mediterranean.

Making diversity Europe's strength — a commitment through the 1990s

Europe is rich in variety — in culture, in human achievements and in natural resources. To fulfil all its promises the single market must exploit all these riches to the full. If the Community were to neglect its weaker regions and the disadvantaged groups in its society, the whole 1992 enterprise would be put at risk. The Single European Act does not allow of any such neglect: it does not admit the notion of a second-class citizenship, which is what could emerge if existing gaps are allowed to widen.

Thanks to the reforms launched by the Single Act, since 1989 the Community is well placed to make a real impact on the structural problems of its weaker regions and disadvantaged citizens. This job will not be completed by the end of 1992, but this part of the Single Act has no time limit. The Community has a long-term commitment to giving everyone a chance to share in increased prosperity and make their contribution to it[1] ■

[1] Manuscript completed in March 1990.

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