ISSUE 23 REGIONAL POLICY

# European Community Studies

## for teachers and students

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# Regional Policy

*Much of the wealth of the European Community lies within the golden triangle created by Birmingham, Dortmund and Paris. This central, heavily industrialised area of the Community has drawn much of its manpower from the peripheral regions over a long period. Community regional policy aims to reduce the great differences that exist between regions by giving financial assistance to development projects in the less-favoured ones. Generally speaking, these are areas where farming is difficult but where there is heavy dependence by local people on agriculture; where industry is declining; and where there is a high rate of unemployment and from which people migrate to find jobs.*

*Paul Henri Spaak saw the need for Community action to help underdeveloped regions during negotiations in 1956 leading to the signing of the Treaty of Rome, but it has taken nearly 20 years to launch a European regional policy with financial teeth. It allows for a total of 1,3 billion units of account (£542 million) to be spent in the three years 1975-77, with 300 million units of account (£125 million) this year and 500 million (£208 million) in the succeeding two years. The Regional Development Fund (RDF) is not simply a means by which rich members of the EEC subsidise poor members or a substitute for national regional development efforts. The aim is to bring together national regional policies and from them to build up common Community objectives. Coherent planning in deprived areas is a vital objective of the RDF and by the end of next year projects submitted must be part of a full-scale programme, carefully worked out at national and local level.*

*The following discussion outlines the problems involved in regional policy. It is followed by studies of Italy, Ireland, France, and Germany.*

## General introduction

The need for countries in Western Europe to close the gap between their rich and poor regions is uncontroversial. Scratch off the names of a few free market fundamentalists and there is overwhelming agreement that governments are right to encourage companies with taxpayers' money – cash grants, tax exemptions and holidays, employment premiums and the like – not to invest where they can most easily earn a profit but in places where too many people are chasing too few jobs. Yet despite this common purpose and the creation of an EEC Regional Development Fund,[1] a coherent European plan is made difficult by the fact that areas shaded dark on the map (see insert) by regional cartographers in Brussels as places needing special help, defy comparison.

Germany's poorest areas are as wealthy as the richest of Ireland and Italy, but a German politician who cut out regional aids to Lower Saxony or Bavaria on those grounds would commit political suicide. Voters in such places do not compare their lot with the peasants of the Mezzogiorno and deliver up thanks to the German Chancellor. They judge themselves by domestic standards against richer areas of Germany, just as a Scottish crofter might look at Londoners and decide he is worse off. The small EEC countries bordering on Germany are also among the European elite. Taking 100 as the Community average and using current exchange rates, the gross domestic product per head in Denmark last year is estimated at 148, in Germany 141, Belgium 120, Luxembourg 120 and Holland 116. Ireland came at the bottom of the league table with 50, followed by Italy, and Britain 73.

Even the wealthiest countries claim to have regional problems. Denmark has poor Danes in Jutland and Eskimoes on Greenland to care for. A linguistically torn Belgium has no option but to try to make the wage packets of French speakers in Wallonia as fat as those of Dutch speakers in Flanders. Holland, the most densely populated industrial country in the world, does not want Amsterdam, The Hague and Rotterdam to become one conurbation. Even Luxembourg's politicians have taken a stroll around their state and decided some parts of it need special help.

This, however, ought not to hide the truth that there are four, and only four, areas in the EEC in which the arteries are so hardened that even the strong heartbeat of a European common market cannot make them walk without help. These are northern Britain, the whole of Ireland, southern Italy and south-west France.

In Britain declining industries lie at the root of the problem. Last century's adolescence is this century's senility. France's biggest regional problem is Paris. The French capital has been the master too long, taking labour and capital from the provinces, and leaving an empty south-west. Southern Italy contains parts as unlike as Brittany and the Ruhr, but they are yoked together by the single shaft of poverty and under-development. Ireland is on the outer edge of the EEC looking out on 3,000 miles of ocean and all of its regions are poor.

What is surprising is that all this is so uncontroversial, and even commonplace. Differences of wealth and income between social classes in Europe are wider than are the regional differences within countries. Yet levelling the classes provokes fierce and sometimes outraged reaction while narrowing the gaps between regions does not. In all nine countries in the EEC conventional wisdom says it is better to move jobs to the people than people to the jobs; that the peaks and valleys in unemployment rates ought to be landscaped into a plateau; and that the pattern of population distribution established by the industrial revolution and other events in the past should remain as little

[1] Note that EEC regional policy is not just the development fund. The European Investment Bank, the Social Fund, the European Coal and Steel Community and Guidance section of the common farm fund are all actively engaged in regional development as well.

changed as possible. The reason why arguments to the contrary have gone by default is largely because the opposition is bunched in the extreme camp of *laissez-faire* doctrine, which holds that if areas are allowed to stagnate, wage rates will eventually become so low and unemployment so high that industrialists will sniff profit in the decay and move in with new job-creating investments.

**The sensible argument against regional development aids is that they depress living standards in general.** Instead of investing, say, in Coventry where it can make a profit and so pay the taxes which help finance social services, a company is given public money to go to Clydeside. The costs are obvious. In Coventry, this company would be a normal taxpayer – by keeping it on the Clyde, it remains dependent on the national budget. And the same applies to those workers on the Clyde the company employs. The money the government spends to keep them on the Clyde could be spent moving those who wish to go to Coventry and building them better homes there than their Glasgow tenements.

**Getting help**

To qualify for assistance from the Development Fund, a region has first to be designated an assisted area by national policies; then to have a gross domestic product per head below the Community average; and finally to meet one or more of three specific requirements:

(a) heavy dependence on agricultural employment;

(b) at least 20 per cent of local employment in declining industries (defined by the Commission as coal and textiles), accompanied by chronic unemployment or net outward migration;

or

(c) a persistently high rate of local unemployment generally, reaching at least 3·5 per cent and representing, over a period of years, a level at least one-fifth above the national average, or a 10 per cent or more net rate of outward emigration of the population over a sustained period.

The Fund may contribute up to 50 per cent of the national aid expenditure on a given industrial investment, provided the Fund's contribution does not exceed 20 per cent of the investment value of the project, and up to 30 per cent of public expenditure on infrastructure. **The Commission emphasises that this money is designed to increase spending on regional development, and does not mean that national governments can consequently cut back on their own expenditure.**

EEC countries have, implicitly at least, rejected the strategy of moving people to jobs in opting for regional development aids which aim to stabilise present patterns of population. Their argument for doing so is that otherwise the richer regions would become even more appallingly congested than they are already. The irony is that through the EEC's agricultural policy they are committed to a different course. All the Nine say they recognise it is uneconomic to keep so many people on the land and so they are supporting farm incomes at a level which slows down but does not reverse the drift from rural areas into the towns and cities. Their intention here is to make the pace of economic change tolerable, not to defy the change.

Such coherence is lacking in industrial regional development policies. Countries which accept that the population ratio between country and town must change are still committed to the idea that the ratio of people between northern and southern Britain, or between northern and southern Italy, must stay much the same in the 1980s and the 1990s as it was in the early 1970s.

That, of course, is an impossible ambition. The economies of the nine EEC countries are drawing closer together. They are locked into a wider European economy which, in raising living standards by promoting intra-European trade in a common market, also puts irresistible strains on population patterns moulded in the pre-1958 era of more segregated economies. The growth centre of the EEC is the area around the Ruhr – the so-called circle of Lotharingia – and those areas which are farther away from it are at an increasing disadvantage. Southern Italy, northern Britain, Ireland and the south-west of France can attract industry only so long as lower wages and continuing government handouts offset the higher costs of isolation from the industrial heartland and the central market. They will slip back as soon as they lose this competitive edge.

Seen in this way, the kaleidoscope of regional differences in the EEC can be shaken into a pattern that makes sense. Governments find the political strains produced by the powerful magnet at Europe's centre intolerable. They try to counteract the pull with regional aid. But, as with support for poor peasants on their unworkable farms, they cannot, with these limited means, really do much more than cushion people against future shock. The small battery of weapons used for regional strategies may soften the worst effects of industrial decline or social decay, or it may slow down the steady flow of emigrants. But it cannot reverse those trends. Governments do not like to admit this. But unless – and this is unlikely – regional policy is pursued on a scale and with an intensity of planning that few of Europe's governments are ready to contemplate, present frustrations are likely to grow.

## A European dimension

Finding better ways of monitoring how regional aid is spent is one of the EEC Commission's main tasks now that there is money in the EEC regional development fund. The sum (£542 million) is not much to be disbursed over an experimental period of three years, but it is a start. The Commission now at least has a small lever for pushing the Nine's different regional policies in a European direction. The job of nudging the Nine out of their present habits is not going to be easy. None of them, and least of all Britain, want the EEC to interfere too energetically with their own systems of regional aid. The money available this year for regional projects is only a fraction of what Britain alone is now spending every year on regional aid (about £500 million in 1974). So except to a tiny country like Ireland, the money the EEC can offer is unappealing. All the same the Commission can carve out a role for itself. Deployed with skill its admittedly limited resources could make the RDF into much more than a device by which Germany pays the British, the Italian and the Irish treasuries to help offset their current regional aid bills. Burrowing from the other direction, in the hope their tunnels will meet in the middle, is the Competition Office[2] under its Commissioner, Mr Albert Borschette. **The common rules setting limits for granting regional aid which it is now hammering out with the Nine under the legal umbrella of articles 92 and 93 of the Treaty of Rome could be the EEC's toughest weapon of all.**

The EEC Commission's plans for how the RDF is to be spent have been considerably reshaped since their first introduction in 1973. Its original map of the EEC's development regions which were to qualify for money from the fund covered a third of the Nine's population and, Greenland included, four-fifths of its surface area. The Germans rejected the idea of sprinkling money, as they put it, from a watering can over so wide an area. Instead, nearly three-quarters of the new fund will now be concentrated on the neediest areas of the poorest countries, Italy (which will get 40 per cent), Britain (28 per cent) and Ireland (6 per cent).

The EEC fund for modernising backward farms scatters money through the Nine. The EEC Commission wants to avoid this with the regional fund. The lesson it drew from studying the Nine's regional policies was that it is likely that random aid damages more than helps a backward or depressed area. So it planned to grant EEC regional aid only for projects in areas where the development authority submitted a coherent regional growth plan. That was a laudable ambition the Nine should copy. Of the three poorest countries only Ireland has anything like that at the moment. Unhappily, the Commission recognises the Nine may not be ready to swallow this proposal yet.

That will limit the scope of the committee of regional experts – drawn from the Nine and the Commission – which is to scrutinise requests for aid from the RDF. All the same, the Commission is far from ready to operate as a rubber stamp. It wants to fix with the Nine criteria for aidable projects which will push regional policies in new directions. Under Mr Thomson, Commissioner for regional policy, Brussels regional officials want money concentrated on industrial projects that create most jobs. Declining industries, the great beneficiaries of regional aid in Britain, would get a look in, certainly. But open-ended support to, say, textile or shipbuilding industries is likely to destroy more jobs in the Commission's view than it will save. Backward Ireland and Italy need roads, dams and so on, and, reluctantly, the Commission is ready to grant aid to infrastructure projects even though they create fewer jobs than industrial investment. It wants to discourage investment in showy automated steel or petrochemical plants that create only a handful of jobs in the first place, and little or no secondary employment afterwards. Rather, it would like investment in the EEC's poor regions to go to labour-intensive, growth industries.

If, in all this, the say of Mr George Thomson is as yet small, the influence of Mr Borschette and his Competition Office is very large indeed. Under the Treaty of Rome's competition articles, that office has the last word on whether a country's state aids distort competition or not. If it rules that they do, it can oblige that country to get rid of them. The influence of Mr Borschette's office on shaping regional policies is seen, as a result, by many as almost wholly negative. Under strong pressure from both the Labour and Tory parties in Britain, the views of the Competition Office in the Commission about common limits for regional aid have grown much more pragmatic. And they have become better at selling what they are doing to suspicious regional policy-makers, who see them as legal-minded troublemakers. In its own defence, that office claims it does not want to stamp out regional aid, but that it wants to make it much more selective and efficient.

By sharply restricting the amount of aid governments can give in rich areas that do not need it, ceilings on regional aid encourage them to concentrate on areas that need help the most. Wealthier countries would always be able to afford better inducements to attract investment than poorer countries – unless the Community applies limits to aid in its better-off regions. That is the theory – and Mr Borschette's office's argument. Inevitably, his office is both a Jekyll and a Hyde. Part of Mr Thomson's task is now to persuade that office to use its powerful weapons to improve and not just restrict the Nine's present policies. But his task is hard. Shared rules about granting regional aid form a wedge, which the Commission can use to shape EEC regional policy. But in shaping that wedge Britain's loud demands for freedom to decide its own aids have to be appeased. The rules must not be bent too far. **The point of coordinating regional aids is to discourage pursuit of regional policies in rivalry.** Regional problems are no longer in any true sense national, and so far the depressing lesson is the failure of governments to cope with regional imbalances alone. As labour and capital gravitate naturally to the hub of Europe, the need grows for shared action to develop the rim. The poor areas there have to become a shared responsibility. But a common EEC regional policy is still some way off in the future.

**No Rubber Stamp**

Suspicions that the EEC's regional fund management committee, which vets the requests for money, would simply rubber-stamp the applications proved wrong when the first applications were considered. The committee is filled jointly by Member States and the Commission. The Germans were particularly careful to scrutinise a number of large road-building projects submitted by Italy, Holland, France and Germany itself. Some of these were postponed until next time. The Germans have insisted all along that EEC grants for large infrastructure projects should be closely tied to the creation of new industrial jobs and not treated as just a way of keeping public spending down.

[2] The Competition Office is concerned with restrictive practices, dominant positions, rules of competition and state aids, all of which can distort trade between member states

# Ireland

*Typecast with southern Italy as an underdeveloped outsider, Ireland unmistakably has geography against it. Look away from Europe and there is only the Atlantic ocean. Its economy is backward. Catching up with even its poor industrial partners will be a slow business. The Irish produce less, work more on the land, have fewer jobs and are readier to quit their country altogether than any other Europeans save the southern Italians. But Ireland's position on the fringe of Europe, for all that, is not nearly as bad as many – including the Irish themselves – often like to make out.*

## Historical legacy

Every acre of the Irish republic counted as a development area under the EEC's original plan for a regional development fund. That is not surprising, since Ireland's problem is less to put domestic imbalances right than to raise the level of the economy as a whole. An oyster knife could not separate regional planning in Ireland from its growth policy. Despite the strong pull of Dublin, Ireland's population of three million is still spread fairly evenly through the countryside. It has resources enough for a small population if people and resources can be properly harnessed.

Yet this advantage is the result of a cruel history throughout which the Irish emigrated rather than stayed home to face famine, the English or civil war. Only 25 years ago it was still argued that the Irish might be a disappearing people. Ireland is the only country in the world whose population actually fell in the first 50 years of this century. At a time when Irishmen waited for marriage on average until they were 35, and when about 40,000 left the island each year, that statement about the disappearing Irish did not seem especially outrageous.

There were few jobs to keep them there. The only industry of note was what the foreign minister, Mr Garret Fitzgerald, called 'a not very prosperous food processing sector', and the troubles of Irish agriculture seemed intractable. Farms were archaic and investment in agriculture was low. Any improvements were still bitterly connected in farmers' minds with the higher rents that attempts to modernise farms had drawn in the past. Unwilling to invest, Irish farmers stuck to cattle-raising instead of growing crops.

The running wound of emigration in the late 1940s forced Ireland to rethink its industrial strategy. Slowly, old hostility to foreign capital was overcome, as politicians were persuaded of the need to industrialise so as to be able to export goods abroad. This decisive change took place ironically, under the hand of a revisionist prime minister, Mr Sean Lemass, for, as minister of industry and commerce in Mr Eamonn de Valera's government in the 1930s, he had worked hard to translate the republican slogan of Sinn Fein ('ourselves alone' as its critics translate it) into an industrial policy by discouraging foreign capital. It is uncertain how much this intensely inward-looking and protectionist policy really harmed republican Ireland. There was so little to damage.

In 1949, the Irish Development Authority (IDA) was established to change all that. Planners at last realised that in the tiny Irish market, protection behind high tariff walls was not enough to call infant industries into being. The policy now was to lure investors by every ruse available: tax holidays for export firms setting up plants in Ireland, cash grants too, and finally, after 1958, a complete end to all restrictions on the foreign ownership of Irish firms.

The fiercest nationalists still complain that Ireland was put up for sale. The results are mixed. But emigration from Ireland has now tapered off and between 1972 and 1974 the country gained more people than it lost. This strengthens the 'push' school in Ireland which blames high emigration on the frustrations of life for the young in an old-fashioned country. The grip of the Catholic church is still strong. The baffling entries in the old list of forbidden books raise laughs (C. S. Forester, Anatole France, Sigmund Freud . . .) but they mirror an unenlightened school system. But the 'pull' theory of why the Irish left is not dead. The Irish quit Ireland, this argument runs, not because the country is old-fashioned and its economy weak, but because of the attractions of a job as a policeman in New York or of the attractions of downtown Liverpool or Boston. The pull of England is plain. On the rare occasions when its economy is doing well, Irish emigration rises sharply.

## Growth

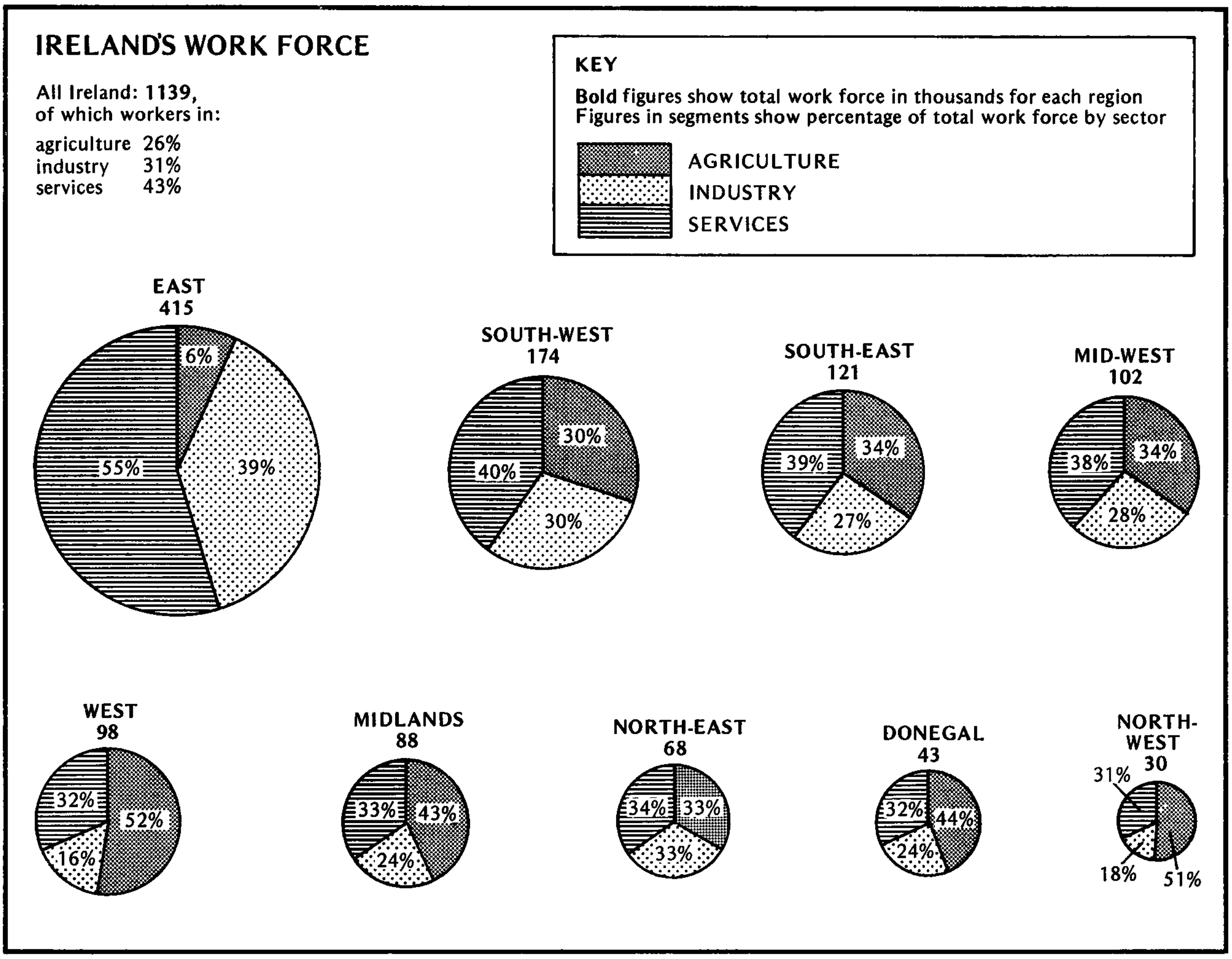
But pushed or pulled, the Irish are now readier to stay in their own country. And they have judged the recent performance of their economy well. For it grew faster, admittedly from a lower base, over the last decade than the British economy. Comparing 1963 with 1972, the Irish real gross national product rose at an annual rate of 4·02 per cent, against an annual rate of growth of 2·5 per cent for Britain. And Ireland now even seems more prosperous. In the early 1960s Irishmen in the depressed south-west could easily be mistaken for Minsk factory workers and Irish women wore what could more accurately be called frocks than dresses. The pubs rivalled the labour exchanges in their seediness and the food offered in restaurants was worse than England's. That has changed. Pubs have become lounge bars and both sexes are now more attractively wrapped. The Irish are proud of this record, and for all the fears of being taken over by foreign companies, the incentives they have offered overseas investors have undoubtedly helped. The lure investors find most irresistible is the tax-free holiday given up to 1990 on profits earned on exports. The value now to a businessman of future tax savings, says the Irish government, corresponds to an initial fixed asset grant of about 70 per cent. That makes incentives elsewhere in the EEC look like chicken-feed.

This policy has had immediate results. Capital investment on grant-aided new industrial projects by foreigners, from January 1960 to December 1973, is put at £257 million, and the number of new jobs created in its wake at over 53,000. Over the same period, Irish sponsored investment – and this is the investment the country relied on under the discarded industrial strategy of the 1930s – totalled £60·6 million and created 16,000 new jobs. Americans led the foreigners by investing £96·5 million, followed by the

British with £48·1 million, the Dutch with £39·2 million and the Germans with £20 million.

The tax holiday for export business is given to firms setting up anywhere in the country, because Ireland does not want to put potential investors off by telling them exactly where they should invest. But even in so underpopulated a country as Ireland – its density of population is the lowest in Europe – regional planners are still worried by overcrowding in the east. This is a big problem for the IDA and it will get bigger, as the economy grows; but the planners have the advantage of a fairly clean slate.

Although all of Ireland counts as a development area, some regions are worse off than others. The west is poorer and more dependent on farming than the east. In 1969, the average personal income per head at current prices in the east (around Dublin) was £517, in the west £324, in the north-west £316 and in Donegal only £305. For a country inside the EEC these are staggeringly low incomes, and it is not surprising that the highest rates of emigration are to be found in the west of Ireland as well. From 1966 to 1971, as a yearly average, the net loss of people from Dublin and the east was less than one in a thousand while ten in a thousand left the north-western region and just over ten in a thousand left the west.




## Keeping Dublin fair

So another thrust of IDA's thinking is to discourage too much investment around Dublin and to encourage it in the rest of the country instead. The city of Joyce is not a big town by modern standards; but, all the same, 650,000 of the Irish in the republic, or over a fifth of the total, are now Dubliners. Fear of congestion in the capital may lead regional planners into mistakenly underselling the attractions of Dublin, and frighten investors away altogether, although so far that has not happened. And holding back Dublin is popular with the Irish people. The dangers are, however, plain. For Ireland outside Dublin is still a land of villages and farms. A quarter of the labour force of just over one million is still to be found in agriculture. Cork, Ireland's second city, is a fifth of the size of Dublin, and the only other towns of consequence are Galway, Limerick and Waterford. The roads inland are better suited to the age of the jaunting car, though for the tourist they are gloriously free of traffic. All these things make investors hesitate before leaving the relatively familiar surroundings of Dublin. Given the twin goals of wanting to build up the countryside at Dublin's expense, without shooing investment away, it is not surprising that Ireland's development programme has followed a zig-zag path.

## Planning problems

The planners dilemma is hard. If the growth of Dublin is to be checked, the natural corollary is to strengthen the secondary towns, in imitation of France's *metropoles d'equilibre*. But when Professor Colin Buchanan was asked by the Irish government in 1968 to apply his town-planner's eye to Ireland's future, the response to his proposals was ferocious. He recommended 11 or so 'growth centres' to act as counterweights to Dublin, with Limerick and Cork as the biggest. But, as in other countries where planners have tried to foist the growth point idea on to unsuspecting authorities, every small village wanted to be made the focus of roaring new industries. Not so much because the villages wanted smoking chimneys to blacken their 'gentle rain', but because no village wanted to be left out. The Irish read the Buchanan report as recommending the principle of moving 'people to the jobs', while what voters really wanted was the principle of 'jobs to the people', the slogan adopted by the IDA.

The Buchanan report fast became a political albatross as a result, although Ireland's regional planners tried to rescue many of its ideas. For if voters hated Buchanan, economists and industrialists liked it. Firms would move out into poorer regions, they thought, if the towns were modernised and the roads and communications improved. It is the business now of the sure-footed chief of the IDA, Mr Michael Killeen, to slip many of Buchanan's ideas through the backdoor while smoothing local jealousies. Some of the targets in the IDA's latest five year plan for 1973-77 look a little battered now by oil prices and recession and will be revised accordingly. But the planners still defend the soundness of the basic theme that to slow the growth of Dublin, industry has to be enticed both to big towns with some industry already (like Cork, Limerick or Waterford) and to remote areas which are still losing people fast.

This looks contradictory, but asking quite blatantly to have it both ways, as the Irish planners do, may just be right. The IDA uses regional targets for the creation of new jobs (as the map shows) as a fine gauge for judging just how well not only whole regions but even single towns are doing. Had Italy monitored the huge investments in the Mezzogiorno like that, the failure to create jobs might have been recognised much earlier. There is supposed to be a snag with crisp new job targets, for they can raise expectations which are almost bound to be disappointed. Yet experience so far has shown that the IDA's targets may have been too low, not too high. By June 1974, the south-eastern region had already attracted enough investment to get well beyond its 1977 job target. Waterford, its capital, is, in addition to Belfast and Dublin, one of the three Irish ports providing a sea corridor to the continent. For many importers selling in Europe, it is the nearest port of entry to the giant and crowded Rotterdam. The soil in the area is good, which promises well for farming, and it already has a few well-entrenched if small industries, the most well-known being Waterford glass.

But other towns less well endowed than Waterford, let alone Dublin, did well too. Donegal hit the three-quarter mark on its job target last June and even regions on the far western edge of Europe all reached between half and two-thirds. The laggard which worries the IDA is the north-east on the border with Northern Ireland. Dundalk, once a prosperous town, has fallen on hard times. The whole area is, of course, a casualty of the disturbances in the north.

## Ignoring the bombs

The IDA has stopped bothering to buy advertising that proclaims the attractions of investing and living in a quiet rural country. With pictures of bomb victims from the north on the television almost each night, there is no point in that sort of selling. The IDA now prefers to get businessmen to come to Ireland and to show them around. And companies have come and shown that they are ready to invest in the remotest places. The two most striking are a Snia Vescosa textile investment in Sligo, which should provide 1,000 new jobs, and a Courtaulds investment in Letterkenny, Donegal, promising 1,800 new jobs.

The attractions of investing even in rural Ireland are not hard to understand for big foreign investors who can use Ireland as a base for exports. Irish wage rates are low by EEC standards, and Ireland offers a tariff-free door to the huge EEC market. The flow is so far small, but it is rising quickly. Irish exports to Britain fell from 70·2 per cent to 54·6 per cent of total exports from 1965 to 1973, while in the same period, its exports to the other EEC countries rose from 12·7 per cent to 21·3 per cent.

Irish planners are not worried about what happens when the tax holidays run out in 1990. They are not frightened that foreign investors will suddenly get up and leave, for tax holidays can always be extended. They are concerned, however, that many of Ireland's new industries, like southern Italy's, are not creating secondary industries around them. An antique county system, bequeathed by the British, with its 87 separate local planning authorities is no help in providing a rational economic plan for a small country with a population less than half the size of Paris's. And giving Ireland over to foreigners, as many see the present policy to be, creates problems. The oil spill in Bantry Bay last year led to calls on the government to be less passive towards foreign companies. Yet for all the complaints, the prevailing attitude for the time being is that Ireland has little choice but to rely on foreigners, to help them industrialise and to absorb – on Irish soil – the 10,000 people that leave jobs on the land each year.

# Italy

*The division of Italy into north and south is still the sharpest in Europe, but changes in the south are beginning very slowly to blur the differences. A few short years with money in their pockets have helped the southerners in cities to erase that look of backwardness that once marked them out from northerners, rich and poor alike. Consumer spending in the south has almost trebled in real terms over the last 25 years, and this is now audibly apparent on the streets of southern towns, with the noise of platform-heels and midday traffic jams. For the south is no longer a land of peasants. The number tilling the land tumbled by just under a half between 1951 and 1971. More and more southerners crowd the cities, and not just those in northern Italy or in Germany but in the south as well. The Mezzogiorno during those two decades lost four million inhabitants in emigration. Since 1971 that flow has slowed down. Just as dramatically, the south's share of the nation's investment, always low, rose over the period 1951-1971 from just under a quarter to a third of the total.*

## Cassa per il Mezzogiorno – Fund for the South

Until 1951, the Mezzogiorno had a name, but no proper legal status. It got that with the establishment of a development fund for the south – the Cassa per il Mezzogiorno – whose northern spending limit marks Italy's modern Mason-Dixon line. Even then the south was not uniformly poor. Puglia, which forms the heel of Italy, and Campania, surrounding Naples boasted some industry, and incomes in these old provinces were higher than in Calabria, Basilicata or Sardinia. But for all these differences the south as a whole lagged well behind the north. About 37 per cent of the Italian population lived there (1951) but the south produced a mere 22 per cent of the nation's wealth. The resources of the Mezzogiorno were so badly harnessed that the people living there could not support themselves. They lived off what workers who had gone north sent back home, on subsidies and on the public payroll. The south had no capital funds, little industry and small, inefficient farms.

Despite some signs of progress, the south today has not really changed. It is still a subsidised economy. It does not produce enough. Its share of population and of production is almost exactly what it was in 1951, and despite thousands of billions of lire spent in the south on heavy industry by the state, the number of jobs has fallen. The apparent jump in 'industrial investment' cannot hide the fact that much of this capital has gone into speculative building. Industrial jobs, loosely defined, have risen by 43 per cent, but a good many of these jobs are in construction. Nearly half the south's workers are in service trades and public administration.

## History

The origins of the south's backwardness are deep and tangled. Causes for it have been sought, not altogether convincingly, in the Mezzogiorno's position and climate. It was, it was said, too dry to farm efficiently and too far from the north for fledgling industries to profit from its rich markets. Again, it was said, the south has produced no entrepreneurs, and Mediterranean workers are, it is added with a deprecatory shrug, lazy. But before unification in 1861, the Bourbon kingdom of the Two Sicilies boasted a stake in shipbuilding, textiles and railway engines. The Mediterranean's first steamboat was launched from Naples in 1818. Indeed only 300 years earlier than that, Naples was by far Europe's largest and richest city, many times larger than London or Paris. But once yoked to energetic Piedmont the south rapidly lost ground to the north. Its industries were stunted. Locked behind a high tariff wall, its exports were ruined. Unable to manipulate its own terms of trade, it had to accept a flood of high cost imports from northern Italy.

The gap between the industrial north and agricultural south widened under Mussolini, who reserved for the Mezzogiorno a leading role in his 'battle of grain'. Southerners, who might have flocked north for jobs, were obliged to stay on the land in order to make Italy self-sufficient in wheat. In itself, the aim was right: if the south could not be industrialised for lack of markets and capital, at least its farms should be brought up to date. The fascists did drain the Pontine marshes south of Rome. But at the end of the second world war, the Mezzogiorno's farms were still appallingly backward, a patchwork of huge unirrigated holdings, or tiny unworkable plots. Real incomes in the poorest areas of the Mezzogiorno, Calabria and Basilicata, were a third of those in Lombardy, Piedmont and Liguria. The south lacked basic amenities that the north had long enjoyed, like modern roads and telephones. An enclosed and inward-looking social fabric mirrored this economic neglect.

The setting up, in 1950, of a state fund for the south, the Cassa per il Mezzogiorno, was the government's first serious attempt ever to close the gap. Despite the callow state of development economics, it had three things operating in its favour: money; freedom to spend it; and the tacit assurance there would be more money in the future. The first 10-year credit of £60 million a year was a huge amount for the times; the Cassa was independent of the ministries; and more money was guaranteed for the time when the initial funding ran out. The Cassa was refunded in 1960 and then again in 1965 for 15 years.

The Cassa's priorities were upgrading farms and giving the south a basic infrastructure. Northern industry at that time had not yet started its export boom. So, tugging to get the south's scattered manufacturing sector off the ground then seemed a waste of money. The Cassa is criticised for concentrating, like Mussolini, on 'propaganda works' in the south. That may be true, but in the next two decades it did, through the state holding company, IRI, and other agencies, build 18,000 miles of road, 'sewing up the boot' with autostradas, as Cavour had wrongly predicted the railways would do a century earlier. It also added to the dry southern landscape 1,500 miles of dykes, 8,400 miles of canals and 7,500 miles of aqueducts.

Roads appeared in, and water flowed, to towns with political pull in the capital. There was little or no planning behind the spending. One village would get a dam, but no canal; another a canal, and no dam. No hint of scandal has touched the office of the Cassa itself in its years under the sure hand of Sr Gabriele Pescatore, a tough Avellino lawyer, 'with friends through 360 degrees'. But Cassa money has been a rich source in the south for the game of sottogoverno, 'one shoe before the vote, another one afterwards'. Both Christian Democrats and Socialists (who in 1964, like the Communists now, returned to dealing with the system, instead of overturning it) have made lavish use of this patronage, swapping aqueducts for votes.

Another serious criticism of the Cassa is that the huge quantities of money spent in the south failed to produce what was needed most – jobs. In the first decade less than a quarter of the Cassa's money went to industry. Dams were built with earthmovers brought down from the north. The new autostrada simply speeded trucks bringing Milan's or Turin's goods south. The exodus from the land continued, crowding the cities, and the 'miracle' of the export boom in the north only caused the south to lag even further behind. In the late 1950s the Cassa stopped to rethink, and came to the conclusion the south had to undergo a shock industrialisation if the gap was ever to be closed. The Cassa then devised a twin strategy to achieve this.

## New start

New incentives were created to lure industrial investment to the south. The most attractive of these were tax holidays and subsidised loan rates. At the same time, the map of the south was spotted with over 40 growth areas (shown on the accompanying map), where new industries would act, hopefully, as 'poles of attraction' to new firms, new investment and new jobs. It was a bold scheme. The northern boom had already faltered, and businessmen there, so it was argued, facing bottlenecks and higher wages caused by rapid expansion in cramped zones around Milan and Turin, were looking for new outlets.

But private industry refused to be enticed. Instead, the huge state enterprises, Italsider in steel and ENI in oil and petrochemicals, were persuaded by the government to invest in new plants in the south. These giants came. It made little difference to Italsider whether its new plant was located north or south, apart from the heavy cost of bringing down skilled labour from the north, but the tax concessions and other incentives compensated for that. The site chosen for its fourth steel works was in Puglia at Taranto, whose only industry up till then had been the shipyards making motor torpedo boats for the Italian navy. Construction began in 1960. The site was good, Taranto being a port, close to north African sources of ore. Finished in 1965, the plant was producing 5·4 million tons of steel a year (over half Italsider's total) in 1973 and employing over 17,000 men. The same pattern was repeated when ENI built a refinery at Gela on the southern coast of Sicily, and a chemical plant near Sassari in northern Sardinia. It did not much matter that many of these vast plants would collapse under their own weight without government support and subsidies. What mattered was that they did almost nothing to help the Mezzogiorno. For the hoped-for 'herbaceous border' of secondary and ancillary industries never sprouted after the giant plants came into production. The motor manufacturers paid the extra transport cost of Taranto steel rather than moving some of their plants south, and the downstream plastics industries that were meant to flow from the construction of the refineries never materialised. Not surprisingly, these barren investments of the 1960s quickly won the name of 'cathedrals in the desert'.

## Industrial Gothic

The latest desert cathedral is a vast synthetic-textile plant near Ottana in central Sardinia. Its master builders are the publicly-owned ANIC and the private company, Montedison. Planned in 1970, it is hoped eventually to provide jobs for over 7,000 ex-shepherds from the surrounding countryside. It is a bold plan. The plant uses the latest technology bought from Japan. It is one of five *agglomerati* planned for Sardinia, to balance the chemical plants near Sassari in the north and Cagliari in the south. It amply illustrates the disadvantages as well as the advantages of parachuting heavy industry into a peasant landscape.

Sheep graze by the perimeter fence, safely so far. If the growth strategy works, other industries will displace these flocks. But first, roads must be built. The route to the port of Oristano which supplied the building of the plant with raw materials and where eventually its products will flow is still gravel for several miles at a stretch. Labour disputes delayed the plant's completion. It is still not working to full capacity, because supplies of water to run a plant that size are not available. The skeleton workforce in the plant resists nightshift and Sunday working; but overtime is needed to run the plant efficiently. Workers are recruited from a pool of 20,000 families unused to industrial disciplines. They live in 51 villages which will be one hour's driving time from the plant, once roads are built. ANIC and Montedison do not disguise what is anaesthetically termed 'the lack of social infrastructure'. The nearest big hospitals are at Sassari and Cagliari, over 90 minutes drive away. Planned housing has not been built. Public transport is poor. Despite these drawbacks, work in the plant is a privilege for those who get it. Wages, which average 3·6 million lire a year within the plant, are higher than anything local peasants have ever known. This bitterly divides local families who are allowed to offer no more than one worker to the plant. Older workers helped build the plant, but cannot now work in it. The management talks airily of cultural adjustment in the area taking five years.

At the planning stage, before 1970, both ENI, which owns ANIC, and Montecatini, which became Montedison, were against the Ottana site. Committed as ENI was by public law to invest 80 per cent of its capital spending in the south, the project strained even its tolerant decision-takers. The capital invested would, it was then estimated, take 20 years to pay off. The spin-off into smaller industries would take ten years at least, and few believed that this optimistic target would be hit. The plant was finally built only after the Cassa and the Sardinian regional government agreed to provide 40 per cent of the initial investment funds.

Defenders of the project say the pay-offs that balance these obvious faults are in the future. But the record of earlier cathedrals in the desert is not good. There are now signs, however, that the failure of the strategy that has dominated Rome's thinking about the Mezzogiorno since the early 1960s is at last being recognised. Despite \$2·2 billion into heavy engineering, and another \$2·2 billion into other industries and despite loans from the European Investment Bank and large foreign investments, only about 130,000 additional jobs have been added to the Mezzogiorno's industrial payroll. And nearly 400,000 jobs have disappeared in farming. So the number of jobs available in the south has actually fallen. No wonder people ask bitterly whether the Cassa should be given new billions of lire to destroy more jobs.

## Change is hard

Reform is slow in coming. In the last attempt to turn the government's southern strategy around, the left-wing Christian Democrats, led by Sr Carlo Donat-Cattin, who was briefly minister for the Mezzogiorno a year ago, failed to break the hold of the Cassa and the interests that are now entrenched around it. And the difficulties of his predecessor, Sr Giacomo Mancini, a left-wing socialist and native of Calabria, show how hard it is for a government to replace a bad system of state subsidy with a better one, once people are used to the old. When neglected Calabrians rioted in 1971, the government showered them with promises of jobs and investment plans, including a new steel works at Gioia Taura, 30 miles north of Reggio, which, it was reckoned, would create at least 10,000 new jobs. A deep water port would be needed. IRI, it was said, would supply it. Then somebody did the sums. Each job would cost about 100 million lire. The pacifier was too expensive for Sr Mancini, who offered the Calabrians 13,000 jobs in smaller industries if they would give up that particular 'cathedral'. The regional government and the trade unions both rejected his offer, and plans for the plant are still alive, if not exactly kicking.

**DISTRIBUTION OF INCOME IN THE SOUTH**

| | 1951 | 1973 |
|---|---|---|
| Agriculture | 37·0 | 20·9 |
| Industry | 23·5 | 35·9 |
| Other | 39·5 | 43·2 |
| Total | 100·0 | 100·0 |

(Constant prices)

**EMPLOYMENT IN THE SOUTH**

| | 1951 | 1973 |
|---|---|---|
| Agriculture | 56·7 | 30·8 |
| Industry | 20·1 | 32·7 |
| Other | 23·2 | 36·5 |
| Total | 100·0 | 100·0 |

Source: Cassa per il Mezzogiorno

The shake-up hoped for by Sr Donat-Cattin involved three basic reforms. The first was to make payment of incentives automatic so as to get them out of politics. Everyone has at least one story about businessmen not receiving their grants until they had tipped the right amount into party coffers. The red tape is tangled, and corruption widespread.

The second idea was to follow Britain into subsidising labour costs directly, with something like a regional employment premium. The major criticism of all earlier incentives was that they discriminated in favour of capital intensive industries, even though the grants and tax holidays were scaled in favour of smaller firms and even though the heavy social security costs borne by Italian employers were cut for southern investors. Now that contract wage levels between the north and the south are more or less equal, this subsidy makes a small difference to the potential investor's wage bill, but this is apparently not enough because so far it has attracted few potential employers. Manufacturing investment in the Mezzogiorno is still 40 per cent of that in the north. So Sr Donat-Cattin proposed a falling 10 year employment premium, worth $1,000 a worker in a new job for five years and then $700 for the next five.

The third and most provocative reform he suggested was that the Cassa should be split up and its best men sent to work with the new regional governments, so as to remedy the past lack of planning. 'All the Cassa ever does is pay the bills', said one of his aides, and by putting the spenders on the spot, the hope was to give both the regions and central government better value for money. These suggested reforms are still being debated and whether the new Italian government will follow them up is not clear. But if they or something like them were to be implemented, the Cassa would be released to do the kind of heavy jobs it should have been doing all along: bringing water to southern farms, reafforestation and so on.

## Farming failure

The collapse of southern farming is as bad as the failure of industry. The real cost in lost opportunities and in having the most backward farms among the Nine is a huge burden on the whole of Italy, which ran up a trade deficit of over $2 billion on food alone last year. About a million and a half people still work on the land in the Mezzogiorno, but barely more than one per cent of its plots, in early 1971, reached the minimum turnover of 12·5 million lire fixed by the EEC common farm policy as the guideline for a workable farm.

The state of farming now seems all the worse because Italy's future in farming inside the EEC once seemed so bright. The plan was for southern Italy to supply northern Europe with its Mediterranean produce, for seasonal differences made Italy's goods competitive despite higher costs. But the south lacked the capital and the businessmen to make the right investment in freezing, packing and transport. And Italy steadily lost ground to its neighbours outside the EEC, such as Spain and Greece.

**A problem of Water**

In northern Italy 31 per cent of the land or 2·3 million hectares are irrigated. In the south as little as 7·4 per cent or 718,000 hectares are irrigated. It is reckoned that irrigation gives an average annual added value of some L500,000 per hectare. Even in spite of this neglect and the continuing exodus from the countryside, agriculture in the south still accounts for something like 40 per cent of national production.

Ironically, the land reform carried out at huge expense from Cassa money in the early 1950s is partly to blame. After the liberation, occupation of the land by peasants swept the south and quickly got communist support. An uneasy truce held until 1948, and with the communists and socialists out of government, the Christian Democrats pushed through their own land reform. By the time it was completed in 1962, 85,000 families had bought small plots of up to 10 acres at low mortgage rates. But by the early 1960s, many farms had been abandoned. It is no good a peasant owning his own land if there is no water to irrigate it. Nobody knows precisely how many of the south's farms have had to be abandoned for lack of water, but in the wild countryside in Basilicata around Potenza the loss of farming land to erosion goes on day by day.

Southern farming needs rescuing before it is too late. A Cassa shorn of huge industrial ambitions should spend money on dams and afforestation. From five rivers in rainy Basilicata alone it is reckoned that two and a half million cubic meters of water run to waste into the sea each year. That should be harnessed. But such an effort needs time and continued attention. Equally urgent is reform of the ramshackle and often corrupt marketing of food in the south. Prices in the food shops in Naples are often 10 per cent higher than in Milan, chiefly because of bad transport and racketeering.

## Sunlit squalor

The traditional safety valve for pressures in the south was emigration in search of work elsewhere. For the moment, that is blocked because unemployment is rising all over Europe. The current fear is that some of the four million southerners who left will return from Germany and the north. That could be the signal for the overcrowded cities of the south, like Naples or Palermo, to burst out in protest against their condition as Reggio Calabria did four years ago. 'Naples will explode', is the fatalistic judgment of many Neapolitans. The statistics make optimism look foolish. Crowded against the bay, one and a quarter million Neapolitans live in the city itself; and another two and three-quarter million live in the suburbs that sprawl out through the hills into Campania. Employment figures are imprecise, but of these four million people, only half are described as 'active'. And of those two million, one-third have jobs, one-third work part-time, and one-third are registered as unemployed. In Naples itself, this means that a workforce of between 200,000 and 400,000 people supports a population three to six times as large. Many part-time workers are women, doing 'take-out' work (which allows their employers to get round minimum wage regulations). Absenteeism in industry is high. Next door to Mobil's refinery in the north-east of the city are long rows of broken greenhouses, where workers will take two days off to tend their vegetables. Central Naples is the most densely crowded city in Europe. Housing is scarce. Infant mortality is the highest in Italy, yet the birth rate is among the highest too. In this environment, talk of attracting industry with investment incentives sounds unreal, but Naples cannot just be ignored. In and around the city lives one-fifth of the population of the Mezzogiorno, which needs to be supported somehow. Naples does have industry: the Italsider steel works, the Mobil refinery, as well as shipyards, electrical and chemical plants. There are cars now too. But those industries are moving out, under pressure from environmental lobbies. Instead of adding to its steel plant inside Naples, Italsider will build a new one in the Volturno valley, 20 miles to the north, and four of the city's other industrial plants will follow. Naples has few industrial jobs, and this will uproot three-quarters of the city's industrial work-force. The unions, at first, were against this move, rightly frightened about losing the few jobs there are. But Italsider says the move out of the city will eventually create more jobs, because Naples is already too congested for the existing plants to survive. It is better to make a planned move now, the argument goes, than to wait for Naples's industries to be choked slowly to death. The snag is that no one yet has suggested how to replace the missing pay-packets caused by the exodus of industry.

## The South's share

There is every sign that private industry in the north is readier now than it used to be to consider investing in the south – once, that is, it is again ready to invest at all. Four-fifths of state enterprise investment must now go south by law, but for years private investors fought shy of imitating the boss of Olivetti Sr Adriano Olivetti, who moved south and who managed, it is said, to make life so pleasant for his workers at the Olivetti office equipment plant at Bagnoli, near Naples, that there were a hundredfold more applications than there were jobs and tourists stopped frequently at the plant to ask for rooms. For, despite the investment incentives, investors are worried about poor transport, the lack of telephones and the shortage of skilled labour.

Under strong pressure from the unions and the government, Fiat will in future add to its handful of plants in the south instead of expanding near Turin. Wages are now equalised in the north and south, but businessmen still hope that strikes and absenteeism will be lower in the south.

## The future

The Mezzogiorno's problems will not be over even if more medium and small manufacturing plants are established there. It grew rapidly in the decade 1961-71, and though most manufacturing in the south is still in declining industries the fastest growth is in newer industries. But these are bunched either around Bari, in the province of Puglia, which has always been a little richer than the rest of the south, or in the valleys between Rome and Naples. Firms are ready to invest there because they are near two large cities. But will Calabria, Sicily or Sardinia ever get the investment they need?

When mulling over the future of the Mezzogiorno, Italians like, in rare moments of optimism, to say that southern Italy is now no longer on the edge of things: thrust into the Mediterranean, the south, they argue, is poised to become a supplier for swelling markets in the Middle East. At the moment that is not much more than sales talk to soften the resistance of investors to the Mezzogiorno. But Mediterranean trade is moving out of the jet fighter and dried fruit stage, and geographically, if not economically, southern Italy is in the right place to take its share.

# France

*The word provincial is nowhere so insulting as on the lips of a Parisian. France's capital outshone the provinces long before Napoleon split them into 90 odd departments and today no other capital in Europe holds quite such sway over its country. Money, business, government, politics, art, newspapers – wherever one looks, Paris is the master. Yet the capital has taken labour and resources from the provinces for too long. Its former strengths are now weaknesses. Overcrowded Paris is France's major problem region. One Frenchman in five lives in the Paris area, in spite of the fact that France is a rich country with a vast, dangerously underpopulated south-west. French regional thinking has always focused on how to redress this lack of balance.*

## Away from Paris

The dangers of the Paris magnet were foreseen clearly as long ago as 1947 by a young French geographer M. Jean-Francois Gravier. The title of his book, 'Paris et le desert français', was a warning of what would happen to France if the rush to Paris from the land and from the old coal and textile towns of the north-east was not checked: the west's resources would be wasted and congestion in Paris would lead to ever higher costs and inefficiency. At that time, the farms were losing 100,000 to 150,000 workers every year and France west of the line linking Le Havre with Marseilles had 37 per cent of the population living in 56 per cent of the country. Few missed the book's underlying political message: if the right in France holds the country-side and the left holds the towns, what happens when everybody lives in Paris? It is no accident that the greatest enthusiasts for *aménagement du territoire* – an untranslatable term for regional planning in the broadest sense – were the Gaullists, who quickly saw the need for special economic support for their vast constituency outside the big cities. Decentralisation became a corner stone of economic policy in the early 1960s as the government set about trying to inject new investment into stagnant regions and to ease the pressure on Paris. Characteristically, these efforts were directed firmly from the centre, by a small but crack staff of civil servants in an inter-ministerial department set up in 1963 called *Délégation à l'aménagement du territoire et à l'action régionale* (Datar). Its present head, M. Jerome Monod, is out of favour with M. Giscard d'Estaing, who blames Datar for letting Les Halles be knocked down and for the now halted motorway on the left bank. But Datar's power is still enormous. Supervised at one time by the late President Pompidou and M. Oliver Guichard and now by M. Poniatowski, the minister of the interior, Datar is normally the responsibility of the strong-man in any French administration.

## Datar's power

Datar's power comes not from having lots of money to spend but from its ability to say no, both to companies and to local officials, and the authority to back what it says. The vaunted regional reform of 1972 which was meant to give more power to local authorities was really window-dressing. They have to wait, as they have always done, on the word from Paris. In 'The Red and Black', Stendahl pokes fun at the poor mayor of Verrières who needed three trips to Paris for approval to build a wall in his town. Local authorities have advanced a little farther since 1830, but the regions still have to come to Paris for money and their budgets are drawn up in Paris under the eye of Datar officials.

French incentives for attracting investment into the regions are among the least generous in Europe and the conditions for firms getting grants are tough. A mixture of these incentives and Datar's vigorous interference with business planning decisions has helped slow the growth of Paris down in recent years and push new industries into the provinces. The highest cash grants for setting up in one of the development areas (as shown on the map) go only to industrial firms which put in new plants or expand old ones. Investors have three years to complete projects and the grants are far from automatic. On investments of less than Fr. 5m, the nod may be given by regional prefects (probably a Parisian anyway) but if the sum is over Fr. 5m the decision goes to the ministry of finance. The grant used to be tied to the condition that the project should create at least 30 jobs, but last year this was relaxed, to make the incentives a little more enticing.

Paris, like Rome, has not hesitated to push state-owned companies into areas where jobs are needed, but unlike the money poured south in Italy, some attempt has been made to build up centres of specialisation, by grouping telecommunications in Brittany, by adding to the aeronautic industry Toulouse (now something of a disaster area as a result), or to electronics in Grenoble. A tradition of central planning in France, of course, makes trying to get industry more evenly distributed much easier. And geography helps. Unlike Britain or Italy, which are awkwardly long, France offers its regional planners a five sided chequerboard on which to plot an orderly future. In the 1960s, when regional planning in France took on the pretensions of a science, a grand scheme was adopted to build up seven 'metropoles d'équilibre' as counterweights to Paris. At the same time, the rapid economic growth of Paris was to be channelled in a great arc west towards Brittany. French planners from Baron Haussmann onwards have always been attracted to grandiose visions of this kind. In fact planning had little to do with the growth of these seven urban areas spread evenly through France. They all grew so fast under their own steam during the 1960s, when all France was getting rich, that there was a fear that some of them, like Paris, would get out of control. In 1971, Datar began to concentrate instead on building up France's 200 odd middle-size towns with less than 200,000 people apiece.

The taste for sweeping plans is evident in the vast and, some say, struggling industrial complex at Fos, which formed, with Marseilles, one of the original 'metropoles d'équilibre'. The marsh and scrubland site for France's second coastal steelworks (the first is at Dunkirk), with new refineries and a deep water tanker terminal, Fos is meant to be the base of a huge new industrial axis, running north up to Lyons, and out towards Spain along the coast. If the hopes for growth in Mediterranean markets are well-founded, then the south of France should grow rich.

## Avoiding Alphaville

France's regional thinkers are now looking beyond the location of manufacturing industry towards a better distribution of service trades and facilities throughout the country. Counteracting the pull of Paris on the service sector of the French economy will become increasingly important in future. That sector already accounts for over ten million jobs in France, or about half the labour force. And it is expected to grow at nearly three times the pace of manufacturing industry. Over 850,000 Parisians work in offices (another one and a quarter million work in cafés, shops and other service trades). The attractions of city life make their employers reluctant to move, despite government pleas. In the two years up to 1970 only 19 requests were filed for grants by Paris offices taking a plunge into the provinces, while the government got a hundred times as many requests from industrial firms for relocation grants to move out of the capital.

Paris cannot be allowed, it is sensibly argued, to look any more like Godard's Alphaville than it does already. Millions of cubic metres of office building have been added to the Paris skyline in the last two decades. It was realised a little late in the day that the complex incentives designed to persuade large offices to quit Paris did little or nothing to stop these developments. In 1971 stern controls were imposed, and now one in every three building applications is being turned down.

This tougher policy of decentralisation would be seen to be working, it is said, if a large bank could be persuaded to move the administrative tail of its head office out of the capital. Paris's monopoly of finance is frequently cited as one of the main reasons that companies like to keep of their head offices near the city limits (the family firms of Michelin at Clermont-Ferrand and the Berliet truck-makers in Lyons being among the exceptions to this rule).

French banks have so far proved unbudgeable, but the government can now claim some modest successes. Under pressure Credit Lyonnais transferred its computer division to Aix-en-Provence and Société Générale moved its bond servicing department to Nantes. Banque Nationale de Paris has switched its portfolio division to Toulouse and the pension department of the Caisse des Depots is now in Bordeaux. These are laudable moves, but they represent only tiny steps towards the government's goal of making France's second largest town, Lyons, a banking centre in its own right.

## Fields of force

For all the emphasis on 'equilibrium', the attention of the French Government and of investors has tended to focus less on poor regions than on those that are already well-developed. Brittany and the south-west are still relatively neglected. That perhaps is not surprising since these contain some of the poorest farming areas. If concentration on the problems of Paris tends to make people forget them, the long summer of farm riots last year was a sharp reminder that even in 1975 France still has an agrarian problem, despite a loss from the land, over the past 20 years, of 140 people a day. Between 1955 and 1970 over 50,000 farm-holdings were given up, leaving an ageing workforce on the land.

France's farms make a healthy contribution to the country's exports. But much of it is grain and sugar from the rich Paris basin. Farms in Brittany and the south-west – apart from the winegrowers around Bordeaux – are chiefly poor livestock producers, with too few beasts to make money even in good years. In 1967, Paris launched a plan to help the dying farm regions of Brittany/Manche, Limousin/Lot, the Auvergne, Aveyron and Lozère. The aim is to end their isolation by putting in schools, better roads and by helping farmers to modernise their farms. The snag is the clash of goals between supporting peasants on the land and improving agriculture. At a high cost to consumers France has, in practice, eased the lot of its poor farmers by keeping prices up, with much of the support cost being borne by Brussels. That may not make much economic sense, but it has made the decline of the small farmer in France slower and far less disruptive than it would otherwise have been.

France's regional policies can claim modest success at slowing Paris's growth down but they have not helped the poorer regions that much. Between 1950 and 1971, the Beaujeu-Garnier report on Paris estimates that about 500,000 new jobs were created in the regions as a result of decentralisation policies. But about two-thirds of these jobs and three-quarters of the firms which created them were *within* 175 miles of Paris, and Brittany and the south-west remained underdeveloped. The failure of industry and the service trades to spread through the provinces is due, in part, to the field of force created by the huge Paris market and, in part to the reluctance of investors to set up in regions where the roads are poor and the telephone service worse than in Paris. (Over 600,000 subscribers are on the waiting list for telephones in France, it was reckoned recently, and another two and a half million would apply for a telephone if they thought there was even a small chance of getting one.) France's railways are good, but its motorways have not kept pace with the rest of Europe's.

## Conclusion

Firms setting up plants away from Paris prefer to invest in the east, where the infrastructure is better, and where the rich markets of Europe's growth circle can be tapped. France's regional planners are not wholly unhappy about this. Like their counterparts elsewhere in Europe, they sense the contradiction in policies which try to push investors where they do not wish to go. Faced with the choice of investing more in Alsace-Lorraine, or even in the Paris region, and not getting that investment at all, it is wiser to take the investment. A strictly balanced system of incentives in France would favour the south-west. But a glance at the map shows how the north-east and rich Alsace-Lorraine are favoured as well, and between 1968 and 1971 these two regions alone took over 50 per cent of new jobs created by state-aided investment. And many of the new medium-sized cities that the planners want to expand are scattered in north-east France, along the border – Lille/Rouboix/Tourcoing, Nancy/Metz, Strasbourg. Regional planning in France has not resisted the pull of Europe's economic heartland.

# Germany

*Germany has as elaborate a system of regional aid as any country in the EEC, but like its smaller neighbours in the Deutsche mark zone, the Benelux countries and Denmark, one cannot help asking, what is it all for? It is hard to believe on the streets of Hamburg or Cologne that Germany has any poor areas. Far from lacking work for its people, Germany employs over two and a half million foreigners on its assembly lines, sweeping the streets or serving food in hotels. Until it began to shoot up in the past few months, Germany's unemployment rate remained enviably below one per cent between 1970 and 1973. And in 1973 the average earnings before tax throughout the country were £3,300.*

## Keeping its balance

For all the hollow laughter it may provoke in Donegal or Calabria, the West German government grants sizeable aids to 21 'promotion areas' covering over a third of the population. Germany now spends about one billion D-marks a year on regional aid, over half of which goes to Bavaria, with its over-large farm labour force, and to Lower Saxony, a 'poor' Land in the north-east, surrounding the super-rich pocket of Bremen. The other regions that benefit from special help are the long border zone with East Germany and the depressed coal mining region around Trier on the border with Luxembourg.

The border zone (and West Berlin) were singled out for special help as much for strategic as economic reasons soon after the second world war. The border was fixed by the meeting of four armies, and cities like Kassel suddenly found themselves with a frontier behind them and their markets cut in half. But it was not until 1967, towards the end of a recession which showed up patches of previously unnoticed industrial decay, that the rich Länder were hauled in to help the poorer regions. Regional aid is now given under a joint scheme run by the 11 Länder governments and the federal economic and finance ministries. Twice a year, the economics ministers of the Länder meet with their two federal counterparts for economics and for finance. Each side has 11 votes, and it takes 17 votes from the total of 22 to get a decision. That means that it takes two federal ministers and six state ministers to override the rest, so the neediest regions, in a minority, need to make allies. The Länder and federal governments split the regional aid bill 50-50, but once the sums have been agreed and spending guidelines set, the federal government fades into the background. What goes where is then up to the individual economics ministers of the separate Länder to decide.

Not that the Länder are more spendthrift than Bonn. Between 1969 and 1972, 14,721 aid applications were granted and 14,351 rejected. But Bonn worries that despite the neat looking figures for jobs created, no one really has much idea how the money gets spent or what good it does. And up until last year, the standards for getting aid were drawn up more or less by political haggling. Now stricter criteria have been established, so that Bonn and the richer Länder can get a better idea of what is going on. The areas that will benefit in future are called 'Kelmer areas' after the professor who defined them. They are areas which are likely to have job deficits by 1977 (that is, too many people for too few jobs); low incomes per head compared with other regions; and poor transport facilities, energy supplies and schools. The new tests are meant to cut down the number of areas receiving aid and to shift more money into direct grants to local authorities so as to build up the infrastructure. But as regional officials in the economics ministry in Bonn admit, the new map does not look much different from the old. Even Germany does not escape the law that aid once given is hard to take away.

## Forward planning

This year, too, there are eight new public work programmes, amounting to 900 million D-marks, which are designed to help areas with declining industries and especially high unemployment. Instead of rushing in with aid after the damage has been done, the Germans hope to start switching workers out of declining industries before it is too late. That is why aid goes to regions not just where unemployment rates are now high but where unemployment is expected to be high in the future. Regional planners claim that they have been successful so far, and they talk of giving special first-aid to cities like Wolfsburg in south-east Lower Saxony, where the vast VW plant is in trouble.

It is not surprising that the country with the least severe regional problems should have one of the most successful systems of regional aid, for Germany is rich and past success makes its economic managers confident. Germany also starts out with huge advantages that make the task of its regional planners that much easier, for what is striking about Germany is the lack of serious regional imbalances. It is true that too many Germans still work on farms, but their number fell in the ten years up to 1970 from three and a half million to just over two million, and Germany's parties on the right have never made a point of supporting the peasants on the land at all cost – as the French Gaullists have done. Moreover, unlike France and Britain, Germany is not dominated by a single large city. The capital is a provincial town one can drive through without noticing it, chosen by Herr Konrad Adenauer after the second world war because it was on his home territory. Germany has no pressing need to create *metropoles d'équilibre* because it has them already: 'Munich', in the words of regional planner in Bonn, 'would never settle for being another Edinburgh'. West Germany, above all, owes history a debt in having 11 competitive Länder.

# Further reading

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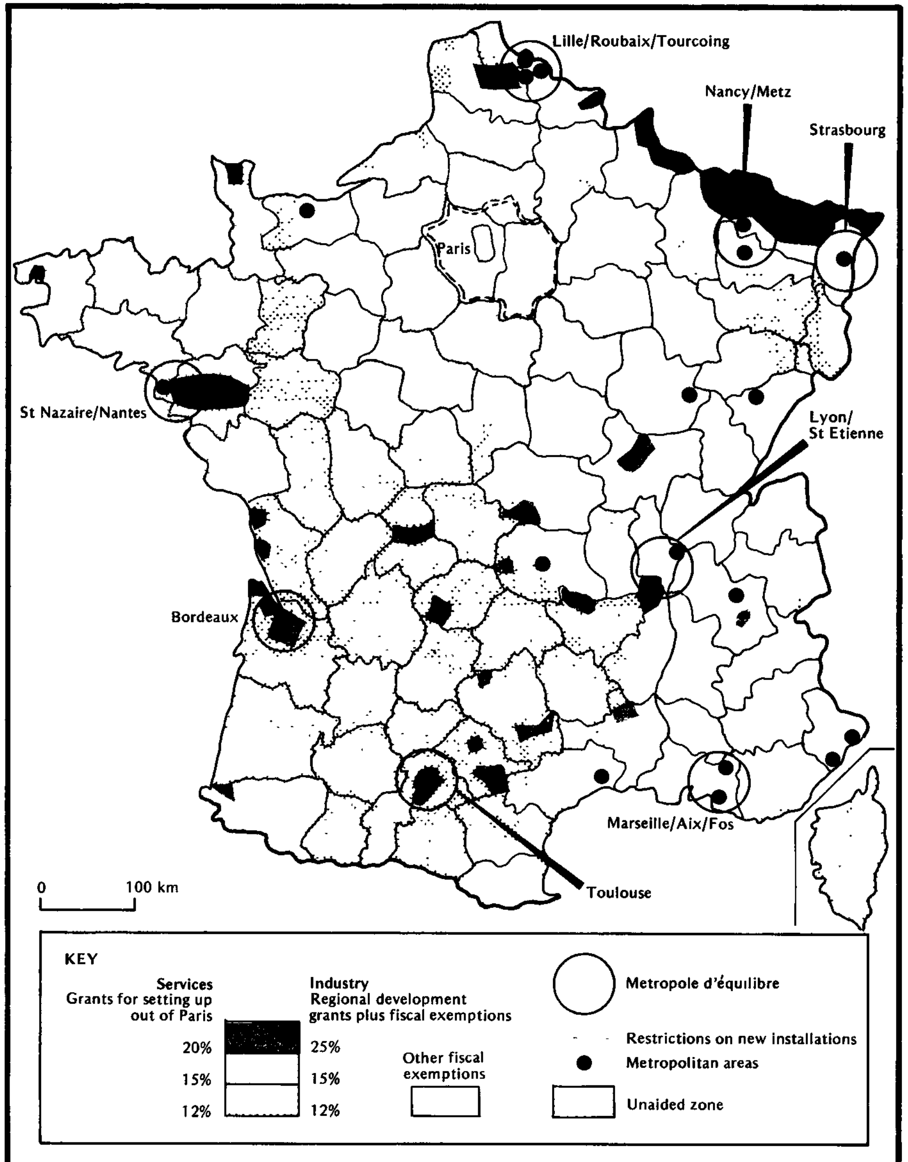
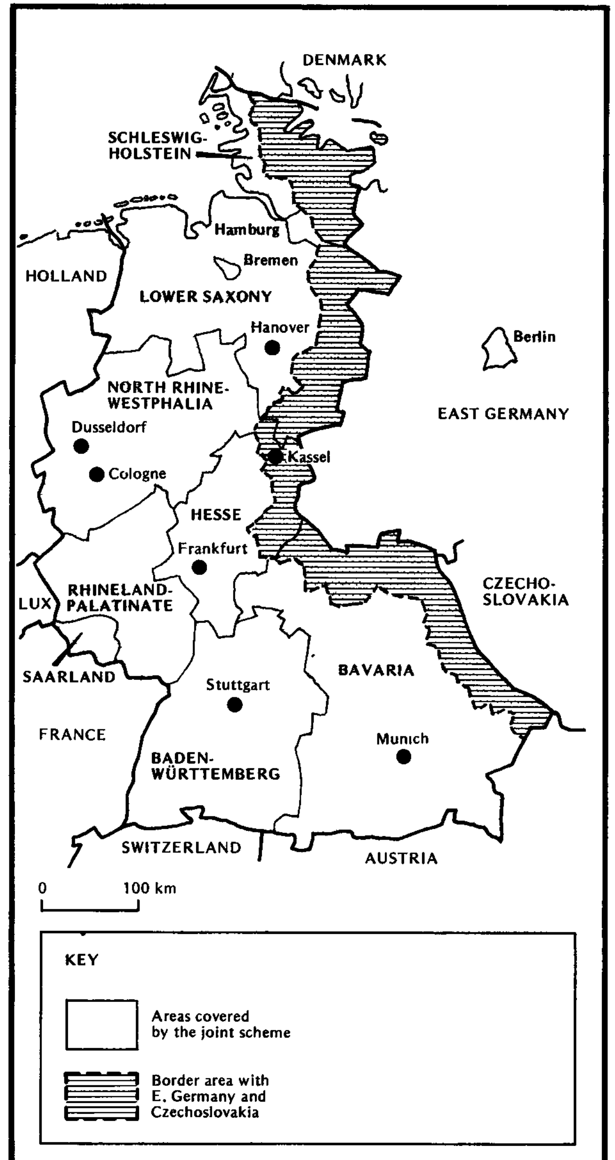
# France

REGIONAL AIDS



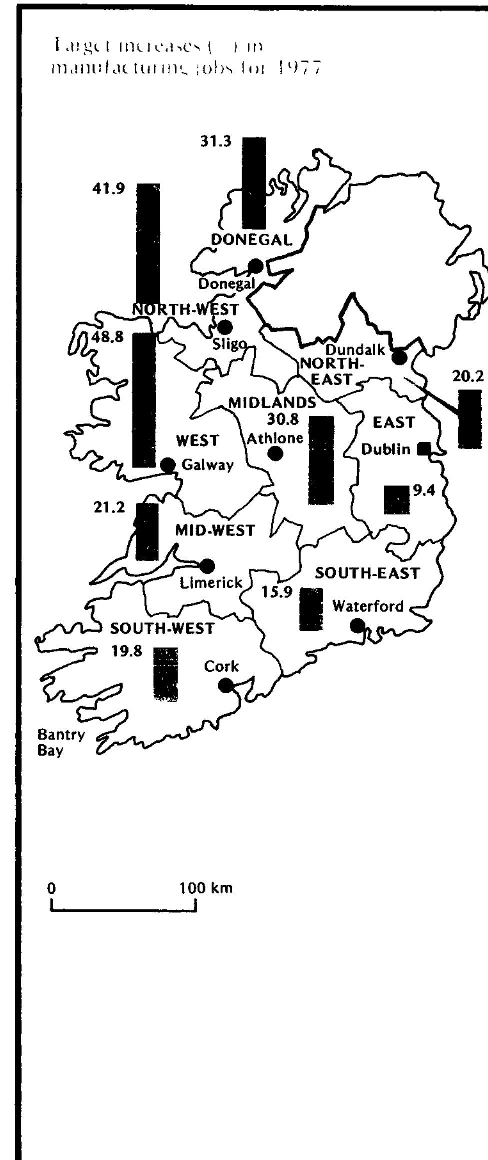

# Germany

IMPROVEMENT AREAS 1.1.1974

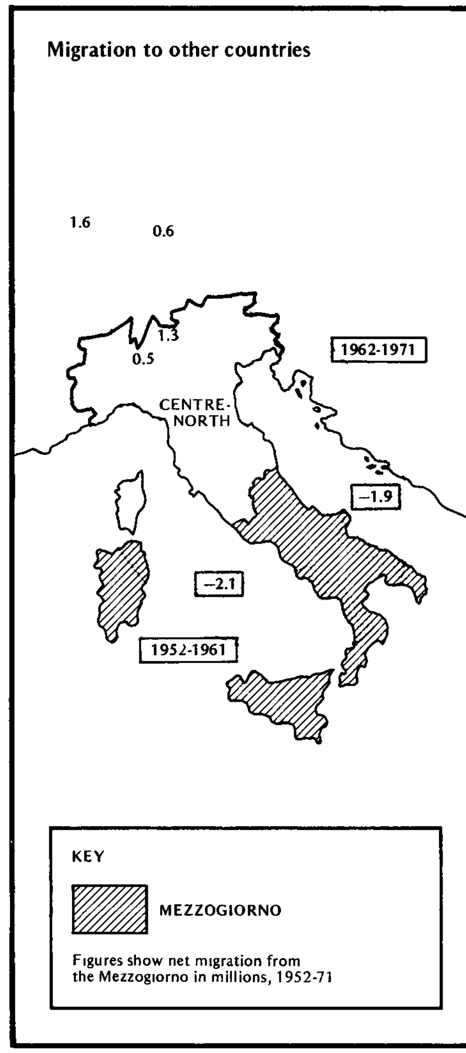


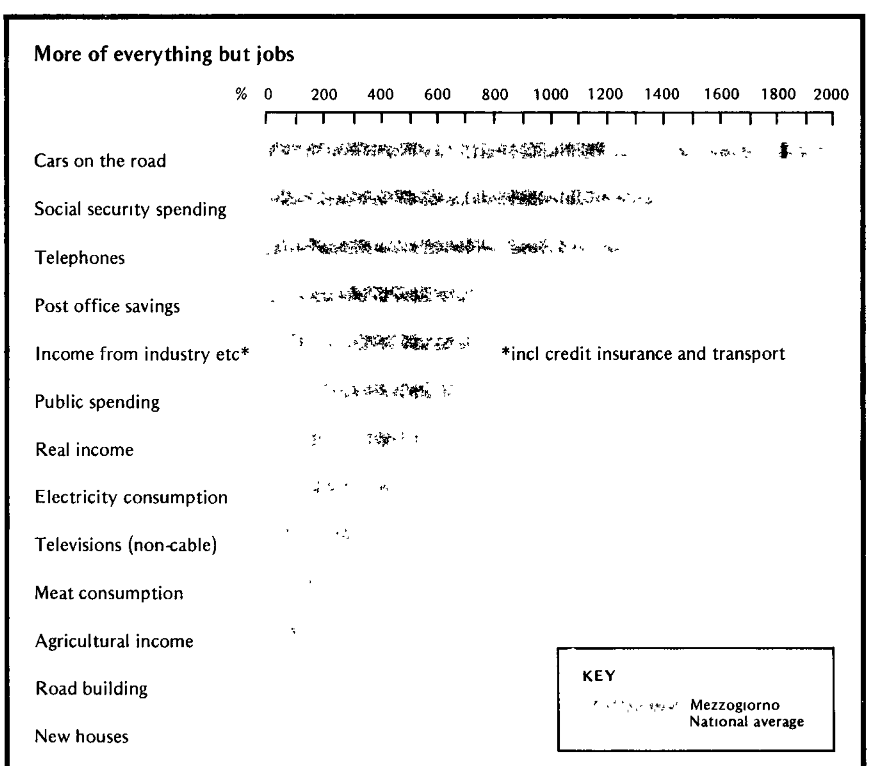

# Ireland

JOBS TO THE PEOPLE

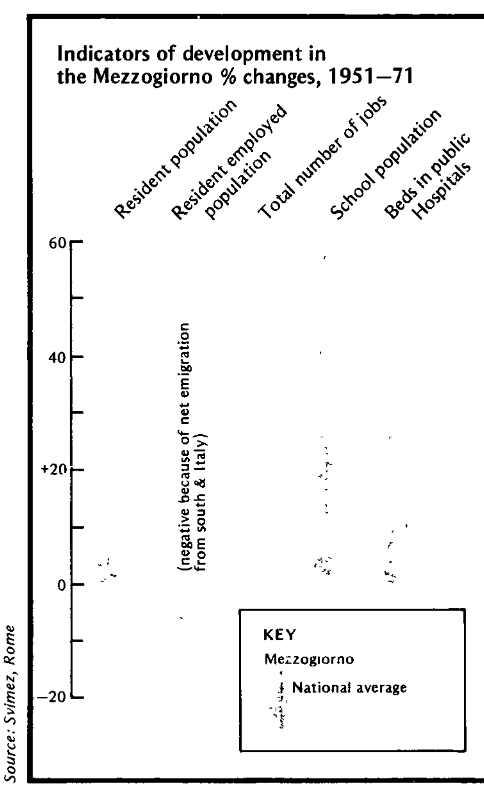



Source: *Economist*

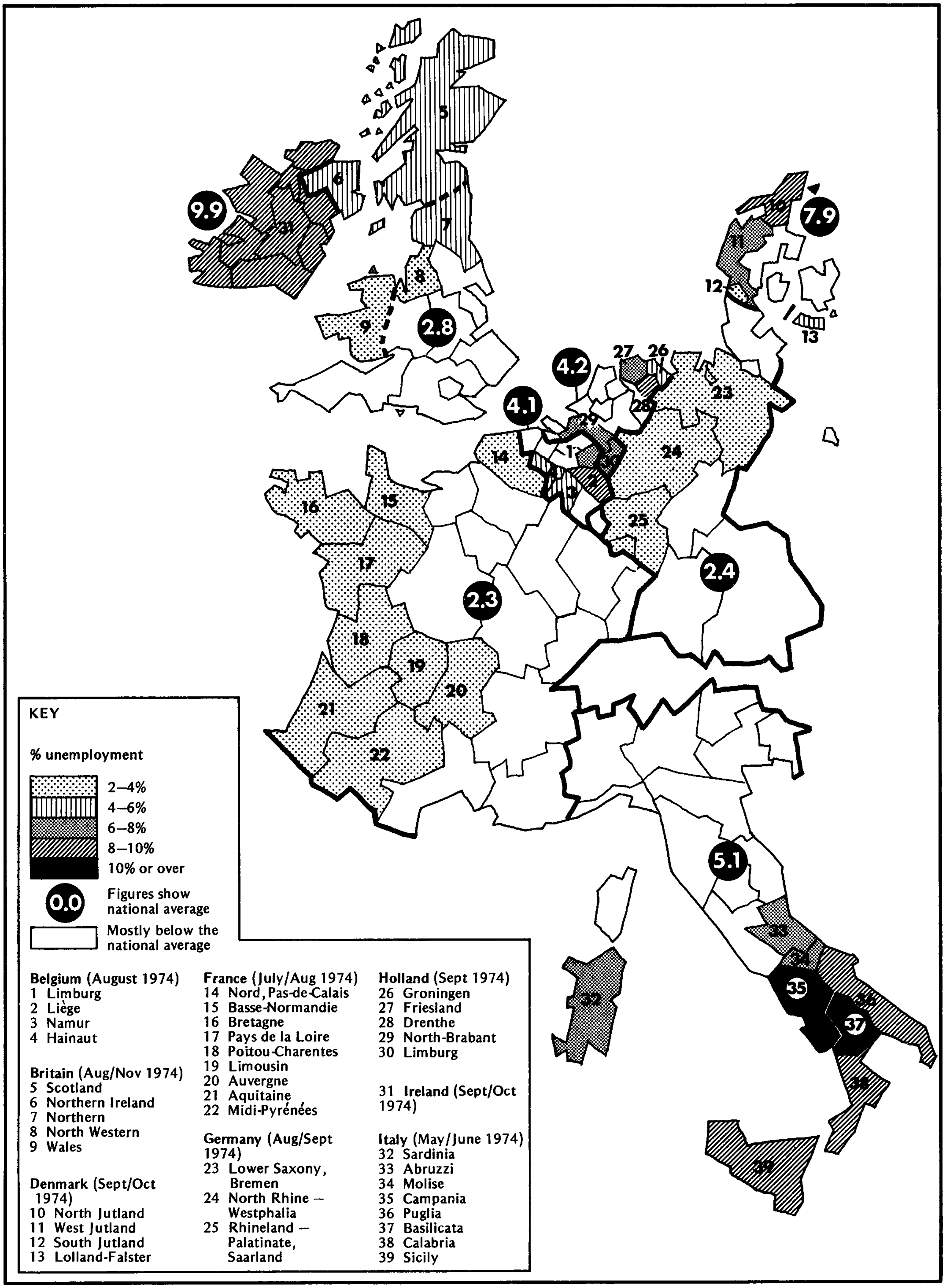

Source: Svimez, Rome



# The EEC

## INSIDERS AND OUTSIDERS

**Unemployment (1974) was worst on the fringe**




*Source: Economist*