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REGIONAL POLICY

AND

ECONOMIC AND MONETARY UNION

Geographical disequilibria in the light of the

implementation of fundamental economic equilibria

Study

PART I

Geographical and monetary disequilibria

Since the creation of the Common Market, significant monetary
adjustments have taken place among different countries of the Community,
as will be seen from Table I below.

TABLE I

VALUE OF A GOLD DOLLAR EXPRESSED IN NATIONAL CURRENCIES

	1 January 1958	1 January 1971	Variation
Germany	4,20 DM	3,66 DM	+ 14,8 %
France	3,50 FF	5,55 FF	- 36,9 %
Italy	625,- Lit.	625,- Lit.	-
Netherlands	3,80 Fl.	3,62 Fl.	+ 4,9 %
Belgium	50,-Fb.	50,- Fb.	-
United Kingdom	0,357143 £	0,416667 £	- 14,3 %

These monetary adjustments occurred at the beginning and the
end of the period 1958-71 and were in the same direction each time:
devaluations for the FF, revaluations for the DM (and the guilder). (1)

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(1) The dates of the monetary adjustments are as follows:

1. Germany
   6 March 1961   1 $ = 4.0 DM (+ 5.0%)
   27 October 1969   1 $ = 3.66 DM (+9.29%)

2. France
   11 August 1957   )
   29 December 1958) 1 $ = 4.93706 FF (-29.11%)
   11 August 1969   1 $ = 5.55419 FF (-11.11%)

3. Netherlands
   7 March 1961   1 $ = 3.62 Fl. (+5.0%)

4. United Kingdom
   18 November 1967 1 $ = 0.41666 £ (-14.29%)

Short-term speculative capital movements which may, in a
system of convertibility at fixed parity, abruptly exhaust the gold
and exchange reserves of one country and accumulate them in another,
constitute the major reason for these monetary adjustments, according
to the generally admitted thesis.

Over and above this explanation, it is a question of examining
here how these monetary adjustments also find their cause in the
economic field and, more especially, in the structural field.

The economic analysis which it will be advisable to make will
quite naturally take as point of departure a comparison of the evolu-
lution of the current macroeconomic indicators and more particularly
the evolution of prices, productivity and the rate of growth in the
Community countries.

A - The inadequacy of current macroeconomic indicators

for the explanation of monetary adjustments

a) Inflation observed

It is possible, a priori, that the evolution of the current
macroeconomic indicators itself provides the explanation for the mo-
netary dislocation. This assumption is not borne out by the facts.

A comparison of the evolution of consumer prices shows that
they increased more rapidly during the period 1960-69 in France than
in the other Community countries, as will be seen from Table II here-
after.

TABLE II

EVOLUTION OF CONSUMER PRICES

Average annual percentage increases

	1960-65	1965-68	1969
Germany	2.8	2.3	2.7
France	3.8	3.3	6.4
Italy	4.9	2.3	2.6
Netherlands	3.5	4.3	7.5
Belgium	2.5	3.2	3.8
Luxembourg	..	..	..
United Kingdom	3.6	3.7	5.5

Source : OECD, Inflation. The present problem, December 1970

Table III below shows furthermore that, from 1960 to 1969, productivity (measured by the Gross Domestic Product per person employed) increased more rapidly than the prices index in all countries (except the Netherlands), and that the highest average annual rates of growth were achieved in Italy, as regards both the evolution of prices and the GDP per person employed. Prices increased more rapidly in France than in Germany, but productivity as well.

Hence, these figures do not in themselves make it possible to explain the monetary gap between France and Germany, which amounted to 11.11 + 9.29 = 20.40% in August/October 1969.

TABLE III

AVERAGE ANNUAL RATES OF GROWTH 1960 - 69

	Price index of the GDP at current prices	GDP per person employed at constant prices	GNP at constant prices
Germany	3.1%	4.5%	4.7%
France	4.2%	5.3%	5.8%
Italy	4.0%	6.2%	5.6%
Netherlands	4.1%	3.9%	5.0%
Belgium	3.2%	4.0%	4.3%
Luxembourg	3.3%	2.8%	3.3%
EEC	..	5.1%	5.3%
United Kingdom	3.7%	-	2.8%

Source : Statistical Office of the European Communities, National Accounts.

A complementary assumption should be added so as to make it possible to realise better the evolution of productivity in the different countries. The evolution of the GDP per person employed must be corrected by the average hours of work performed by the persons employed. It appears that in German industry the average annual hours of work performed by the manual worker have decreased from 2,046 in 1960 to 1,901 in 1969, or an annual fall of about 0.8 %. On the other hand, in France, the average annual hours of work in industry would have decreased little or not at all during that period (1). On this assumption, the growth in German productivity, as measured in Table III, would be underestimated: in fact, it would be located at the same level as for France (+5.3%). In this case, there is a gap in the evolution of prices between the two countries of 1.1% per annum, which could explain about half of the 1969 monetary adjustment.

Hence, the current macroeconomic data can only partly explain the monetary adjustments of 1969. The rate of apparent inflation (increase in prices by comparison with the growth of productivity) was indeed more pronounced in France than in Germany, but the gap observed does not seem to be sufficiently wide to explain altogether this monetary adjustment of over 20%.

The analysis is therefore faced with the twofold problem of explaining the fundamental economic causes of the price inflation observed as well as the gap which still exists between the results reflected by the macroeconomic indicators and the monetary adjustments; the latter point could be put in the form of a question: does there exist a phenomenon of disguised inflation that is not expressed in the indicators at the level of the national accounts?

b) Disguised inflation

It is now the classic method to proceed, in the examination of the economic trend, by means of sectorial analyses. The analysis then deals with the relations between the sectors, the relations within the sectors and the evolution factors together constituting the productivity relationships between the different sectors or within the sectors.

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(1) For the period 1955-68, there was no change in the average annual number of hours worked in the manufacturing industry (cf. OECD, The growth of production, 1970, p. 37).

This analysis generally leads to the identification of factors likely to cause in the long term substantial disequilibria which find expression at the enterprise level and which are not reflected direcly at all times in the national accounts.

At the corporate level, they concern the remuneration of production factors, i.e.,the remuneration of capital, its maintenance and development, the pace and intensity of research, and the remuneration of labour or the aggregate of these factors.

These disequilibria concern the enterprises that are poorly adjusted to competition, which fixes the market requirements for all the enterprises. The adjustment efforts take time and may or may not be successful.

When they are, these disequilibria do not appear in the national accounts, apart perhaps from the induced economic effects which may have occurred at the local and regional level, and in particular when the adjustment period is lengthy.

If they are unsuccessful, then the disequilibria appear in the national accounts, but with a time-lag corresponding to the period in which the enterprise has pursued its activity without adjustment. The analysis of the disequilibria at the level of corporate economy thus makes it possible to evaluate the potential non-adjustments which are reflected at the level of the national accounts and in particular in terms of national capital.

As regards the remuneration of labour, the effects of competition on the labour market, more especially for skilled labour, as well as the relevant legislation and trade union action, tend to diminish the importance of the disequilibria at the enterprise level.

The contractor's margin for manoeuvre, although subject to numerous constraints, is much wider as regards the remuneration of capital, its maintenance and development and, above all, in the pace and intensity of research.

At sometime or another, the corporate balance sheet is bound to record whether the adjustment has succeeded or not. When it has not succeeded, the balance sheet records a loss in the value of the enterprise. When there are sufficiently numerous cases at the national level, this is reflected directly in the national accounts, which thus record a posteriori a situation that, in fact, has existed for a more or less lengthy period. The phenomenon may occur at the level of a branch or of an entire sector. When it is particularly sentisive, and especially on the social side , it may lead to the maintenance of the activity of the branch or sector in conditions which do not correspond to the market requirements. These disequilibria will need to be taken into account when monetary adjustments are carried out.

Thus, expressed in outline form, it emerges that all these phenomena which constitute disguised inflation definitively consist in a consumption of the nation's capital which must indeed be recorded at one time or another.

A monetary adjustment which is aimed at re-establishing the normal bases for the operation of the economy must necessarily take them into consideration.

The monetary adjustment thus participates in the adaptation of the nation's accounts.

This is not the place to proceed, in the Common Market, to such a sectorial analysis essentially based on the productivity differences of sectors and within sectors.

However, it is observed in the Common Market that the differences in overall productivity of the sectors and within the sectors generally prove to be in close correlation to the relative level of economic development of the regions in which they are located.

Thus, the highest product per person active in industry is observed in Germany and the Netherlands, and the lowest product per person active in agriculture in Italy and Germany. Deviations between countries are also observed in the secondary and tertiary sectors. These deviations are however most clearcut in the primary sector (2,199 in Italy, 6,020 in Belgium).

TABLE IV

PRODUCT PER PERSON ACTIVE   (in u.a.)

	Total		Primary sector		Secondary sector		Tertiary sect·r	
	1960	1970	1960	1970	1960	1970	1960	1970
Germany	2694	6771	1121	2549	2979	7224	2931	7163
France	3231	-	1361	-	4068	-	3489	-
Italy	1671	4535	693	2199	1932	4586	2368	5700
Netherlands	2592	6814	2144	5751	2880	7551	2449	6388
Belgium	3025	5895	2826	6020	2586	5472	3528	6256
Luxembourg	3462	5844	1591	2667	4373	6692	3226	5721
EEC	2807	-	1065	-	2959	-	2949	-

At the level of the regions, these deviations are even more marked,
as will be seen from the figures given below (1970; not available for France)

Germany			Italy			Netherlands			Belgium		
Prim.	Second.	Tertiary	Prim.	Second.	Tert.	Prim.	Second.	Tert.	Prim.	Second.	T·
	11255 Hamburg	11473 Hamburg								8091 Namur	
	Ø 7244					8150 Zuid-Holland					
		Ø 7163					7904 Nord-H. Ø 7551				B··
					7094 Lazio		6465 Overijs.	6828 Zuid.-H. Ø 6388		6481 Brabant	Ø··
				5900 Lombard.						Ø 6020	
					Ø 5700		Ø 5751				
		5140 Stade								Ø5472	5·8· Hai···
4700 Schlesw.- Holstein					4925 Trent.				4795 Flan.Occ.		
4632 Aurich										4480 Flan.Occ.	
				Ø 4586		3810 Drenthe	4045 Nord-Br				
			3355 Ligur.	502 Molise							
			Ø 2199								
Ø 2500											
1239 Trier			1124 Basilicata								

This regional analysis therefore shows that the deviations in product per person active are the highest in the primary sector in Germany and Italy, while the ratios between the best and worst regions vary respectively from 1 to 4 and from 1 to 3.

Furthermore, it will be noted that the industrial sector as well as agriculture are most productive in the industrialised regions. Comparable figures do not exist for 1960, but the indication is quite clear.

| | GPD per active person in u.a. (1960 | |
	agriculture	industry
agricultural regions	930	2.563
semi-industrial regions	1.010	2.712
industrial regions	1.516	3.224

For the same year, a Spearman's rank correlation coefficient was computed between the percentage of active population employed in agriculture and the GDP per person active. The results are very significant.

primary sector	secondary sector	tertiary sector
$r_r = 0.73$	$r_r = 0.76$	$r_r = 0.79$

There is therefore a relationship between the economic development level of the region and the productivity level in all the sectors of the economy. All these sectors tend to be less productive in the agricultural regions and vice versa.

Thus, this brief regional analysis based on sectorial structures indicates already the role of regional disequilibrium in the structural disequilibria of the economy. We shall now proceed to analyse this role in a more direct way.

B - The role of geographical disequilibria

in monetary evolution

a) <u>Analysis of the effect of structural geographical factors</u>

It appears that this analysis may validly hinge upon the exami-
nation of the phenomena which develop out of the concentration zones, on
the one hand, and out of the less developed zones, on the other.

It will be demonstrated that the inflationary factors, whether
apparent or in concealed form, tend to develop

- on the one hand, in the concentration zones, mainly in the form of
  cost-push,

- on the other, in the less developed regions, essentially as a result
  of demand-pull.

1) <u>The disequilibria resulting from concentration zones</u>

i) <u>The cost of production factors</u>

The most productive activities are generally located in the
concentration zones. In a period of high demand, they tend and are
able - by the very fact of their productivity - to attract production
factors (labour, capital, raw materials, services, etc.) at high
prices.

This behaviour is not inflationary in itself, insofar as
the pressure of international competition obliges them to remain
within the limits of the growth in productivity achieved. On the
other hand, the fact that the concentration zone encourages a rapid
diffusion either to other activities in the same branch or to those
which have not the same possibilities of increasing productivity,
is a factor of inflation. This inflation either finds expression
directly in prices, or else is incorporated temporarily, in the
form of potential inflation, e.g., in a consumption of the enter-
prise's own capital.

This applies, inter alia, to the remunerations for services
and the public departments, as emerges from the table below. It
so happens that it is mainly in the large concentrations that the
services sector is proportionally the most widely represented.

TABLE V

GDP AT CURRENT PRICES (1) PER PERSON EMPLOYED AND PER SECTOR

Average annual rates of variation (1960-69) (2)

	PRICES					VOLUME				
	Agric.	Indus.	Servi-ces(3)	Publ. Depts.	TOTAL	Agric.	Indus.	Servi-ces(3)	Publ. deps.	TOTAL
Germany	0,68	2,28	3,94	6,23	3,06	5,86	5,17	3,09	0,68	4,46
France	3,48	3,25	4,65	7,49	4,21	5,17	5,69	3,63	1,29	5,25
Italy	3,70	3,44	4,36	7,88	4,40	8,72	5,64	5,54	0,62	6,12
Netherlands	3,45	3,20	(9,29)	10,91	4,93	5,18	5,00	(-0,35)	0,81	3,89
Belgium	3,65	2,37	3,88	3,62	3,23	5,66	4,93	2,90	3,42	3,97
Luxembourg	-0,09	1,93	..	..	2,80	4,48	2,04	..	..	2,38

(Source: SOEC - National Accounts, 1970)

(1) Italy and Luxembourg: at factor cost
(2) Netherlands: 1960-67 for agriculture, industry and services.
    Luxembourg: 1960-68
(3) Netherlands: only "Other services", representing about one quarter of the
    total of the "services" heading.

The diffusion effect also exists towards the other regions, even
if it is slower, through the intermediary of intrasectorial relations in
terms of cost and prices as well as through the intermediary of wage
remunerations which tend to become uniformised at the occupational level.
There too, inflation may assume the two forms of declared inflation or
temporarily contained inflation.

In opposition to this description of inflation phenomena in the
concentration zones, it could be argued that these inflationary tenden-
cies are automatically corrected by the immigration of enterprises and
workers. As the latter come from less developed regions, which leads to
an expansion of production capacities and an increase in the supply of
services, they would thus prevent inflation from developing in a runaway
fashion. This argument contains an element of truth.

Indeed, it is probable that the German and Italian economies would not have experienced such a growth in the course of the past ten years, that they would more rapidly have encountered bottlenecks, if they had not had a substantiel immigration of labour:

- from Eastern Germany and then from Italy as regards the Federal Republic of Germany: between 1960 and 1968, Germany's migration balance reached 2.1 million persons; the foreign workers went mainly to the concentration zones ("Ballungsgebiete") where in 1969 they formed some 9% of the total labour force; on 30 June 1970, Germany had 1.8 million foreign workers;

- from Southern Italy as regards Northern Italy: between 1960 and 1969, the migration balance from the Mezzogiorno (mainland southern Italy and the islands) to the rest of Italy attained 1.5 million.

Insofar as these foreign workers are sufficiently qualified to perform the work, and insofar therefore as they contribute to the formation of the product to an extent which is at least proportional to their wage, they check the inflationary trend of wages costs in the concentration centres.

However, at the same time, they add to the problem of the cost of social infrastructures: insofar as the social capital (schools, hospitals, cultural centres, housing) is already utilised to full capacity in these concentration zones, the influx of workers from other regions necessitates new social investments which, in line with the reasoning developed in the following point, run the risk of being carried out by means of inflation.

ii) The cost of infrastructures

In a liberal economy, the industrial and services enterprises develop preferably in the zones which already experience a certain economic development because of the external economies they find there, i.e., the economic advantages they obtain free of charge and which, although they cannot be measured, are nevertheless appreciable: adapted transport infrastructures, skilled and varied labour, financial and research services, inter-industrial relations, the urban climate, etc.

Up to a certain point, this concentration of activities enables the public authorities to achieve economies of scale in the infrastructures for which they are responsible (transport, schools, hospitals, cultural centres, etc.). At the same time, this concentration enables the city-dwellers to benefit from the proximity of their centres of interest (work, supply, leisure activities).

From a certain threshold onwards, however, the marginal social cost of infrastructures exceeds the marginal social yield, especially if account is taken of the cost of congestion imposed on the town-dwellers and the harmful effects on the environment, whereas for the enterprises the external savings remain so high that they continue to develop in the concentration zones.

From the economic point of view, such a development is unhealthy, as the profit of the entrepreneur is possible thanks only to the deficit of the public authorities. In a completely liberal economy, where the entrepreneur would bear the burden of infrastructures, such a development would moreover be impossible.

It is difficult to indicate what is the optimum dimension of the concentration zones. The empirical research carried out in this connection is not conclusive. The optimum dimension depends to a large extent on the organisation of urban life. But it may be thought that in the Community the threshold has been exceeded in the Paris area, the "Randstad Holland" (the conurbation comprising the provinces of Noord and Zuid Holland),the Ruhr area and certain Italian cities. In all these zones, the average density exceeds 1,000 inhabitants par sq.km. For all these regions, positive or negative measures have been taken to bring about a certain deconcentration in industrial activities.

Meanwhile, the concentration zones continue to develop, often more rapidly than the other regions of the country, as can be seen from the table below.

TABLE VI

POPULATION IN THE CONCENTRATION ZONES OF THE COMMUNITY

	Population 1968		Share of national territory	Average annual growth 1958-68	
	1000	in % of country		of the region	of the country
Düsseldorf area	5.639	9,3	2,2%	+ 0,8%	+ 1,0%
Paris region	9.382	18,7	2,2%	+ 1,6%	+ 1,1%
Lombardy	8.232	15,3	11,2%	+ 1,6%	+ 0,9%
Noord + Zuid Holland	5.174	40,5	16,9%	+ 1,0%	+ 1,3%
Brabant (Belgium)	2.157	22,4	11,1%	+ 1,1%	+ 0,6%
Total	30.584	16,4	4,4%	+ 1,3%	+ 1,0%

Source : SOEC; Regional statistics 1971.

So as to enable the concentration zones to maintain their economic life and to accommodate the new industries and tertiary activities wishing to become established there as well as the people who settle there, the public authorities will be led to carry out substantial infrastructural works the social cost of which exceeds the social yield. The financing of these works, which is often a very expensive business owing to the price of plots of land which have become more and more scarce and the complexity of the civil engineering works (tunnels, viaducts), is generally effected by borrowing of capital, on which - in view of the urgency of the works to be executed - the authorities are prepared to pay very high interest rates. It seems clear that the budgetary charges (amortisation and interest) imposed by these works are not paid entirely by those who benefit from these infrastructures, as the taxation system is not regionalised. On the other hand, the public authorities generally cannot proceed to transfers from other regions of the country, because they are generally less well-off regions which can hardly support an increase in fiscal pressure for the benefit of regions that are economically more developed. In these conditions, the financing of these

infrastructures, which are demanded with the greatest insistence by
economic agents who are becoming more and more numerous, presents in
whole or in part an inflationary character. Here again, it may find ex-
pression immediately in prices, or be temporarily contained.

If the concentration continues to develop, it could be imagined
that in the end infrastructure works would be undertaken only in an
attempt to offset the drawbacks resulting, for individual persons, from
the type of life which the city would have imposed on them.

Thus, the concentration zones constitute a source of declared
or potential inflation, both from the point of view of cost of infra-
structures and from that of cost of production factors, with a diffusion
effect towards the less developed regions.

If this analysis is correct, the conclusion to be drawn from it
must be that the countries with most zones of concentration of economic
activity show a greater propensity to develop inflation than those where
economic activity is more evenly distributed over the whole of the terri-
tory.

2) The disequilibria resulting from less developed regions

i) The pressure of demand

Information circulates rapidly in the different regions of a
country. The inhabitants of the less developed regions are rendered
sensitive to the attraction of the variety and level of consumption in
the urbanised regions (car, television, comfort, leisure, holidays,
cultural activities). They wish immediately to participate in this way
of life: hence, the demand is high, and insofar as it is met without
production counterpart, it is financed by inflation.

This desire for consumption and the example of the developed
regions are doubtless the underlying causes of claims for higher remune-
rations in the less developed regions, where the average productivity
of all the sectors (agriculture, industry, services) is lowest.

Most often, these demands actually culminate in rises and tend, inter alia, to eliminate wages zones making provision for different minimum wages according to the category of regions. Insofar as the productivity of the less developed regions does not increase more rapidly than that of the other more developed regions, this evolution constitutes an additional source of inflation.

For the less developed regions, the impact is all the more serious because the share of labour-intensive industries there is generally much more considerable than in the other more developed regions. Hence, the wages volume constitutes a much higher share of the expenditure; a rise in wages immediatly has important repercussions for these enterprises; their profit margins are narrowed and the investments with a view to increasing productivity thus become more difficult, if not impossible to carry out. Thus, the less developed regions are not only, by their very situation, at the origin of inflationary tendencies, but they generally feel the repercussions of the latter with a greater intensity.

It should be noted, however, that for these types of regions, when the population is large and when a substantial rate of underemployment exists there, the inflationary tendencies of the cost of the labour factor may thereby be attenuated.

ii) The cost of infrastructures

In the field of infrastructures as well, the less developed regions are the underlying cause of inflationary trends because the cost of construction and maintenance of roads, schools, hospitals, etc.., there is often not in proportion to their yield. The scattering of economic agents over the territory often renders difficult an efficient production there. Insofar as infrastructures are created there without a sufficient counterpart in the field of production activities, the aids granted for this purpose give rise to inflation. This is why it is indispensable for regional development programmes to be instituted which indicate the development nuclei or axes

and the methods and means of financing. This is the way to obtain a greater economic efficacy and hence a higher productivity.

All in all, it emerges from the foregoing analysis that the structural and more especially geographical disequilibria contribute to create or to amplify the inflation of prices and to create or develop provisionally contained forms of inflation.

Moreover, this situation also forms an obstacle to the cyclical policies which may be embarked upon either against inflation or against depression.

Indeed, in order to combat inflationary movements, the authorities take restrictive measures (increase in discount rate, credit squeeze, budgetary retrenchment, higher taxation), which have a general character. These measures affect all the regions, but above all the backward regions because of their low productivity. As the profit margin of economic activities in these regions is already reduced, the restrictive measures will have the effect of narrowing them still further by increasing costs, thus provoking either unemployment or the bankruptcy of enterprises (deflation), or else a rise in prices of finished products (inflation), unless the authorities decide to subsidise the threatened enterprises, which again contributes to maintaining the inflation.

In case of reflation, it is the opposite phenomenon which tends to occur, but once again at the expense of the less developed regions. Indeed, in case of unblocking of credits, lower interest rates, etc.,it is the developed regions which benefit in the first place, because they are best structured and hence most fitted to translate the monetary facilities into economic activities. At the same time, these reflation measures are limited in their effects, because they contribute to reaching very rapidly the level of full utilisation of the capacities existing in the concentration zones, a threshold which should not be crossed if we are to avoid re-embarking immediately on the inflationary circuit. This leads the authorities to cancel or reduce the reflation measures before the less developed regions have been able to benefit from them.

It is in fact a problem of elasticity of structures in relation to the necessities of demand.

The more substantial are the geographical disequilibria within an economic entity, the greater is the propensity to inflation there, either because the entity creates it or because it amplifies the inflationary movements it receives (e.g. of monetary origin).

And hence, in view of the fact that the characteristics of demand tend to become uniformised in our societies, the importance - in an economic entity - of geographical disequilibria which are the most rigid tends to determine the propensity to inflation in this economic entity.

It is therefore advisable to refer to the economic map of the Community in order to appreciate the importance of the geographical disequilibria it contains.

⁀) Regional structures in the Community and the propensities to inflation

1) Regional structures in the Community

A great inequality is observable, among the Community countries, in the intensity of the regional disparities affecting their economies. This inequality is found in the distribution of the total population and the active population, as well as in the disparities of incomes and productivity.

i) The population

- Total population

Within the Community, the population is distributed very unequally. France has the least high population density of all the Community countries (92 inhabitants/sq.km.), but at the same time the highest concentration and the lowest densities in the agricultural regions.

Thus, the Seine département has a density of over 12,000 inhabitants per sq.km., although more than one third of the 90 French départements fall short of a density of 50 inhabitants/sq.km.

The other Community countries show a better distribution of population over their territory. In the Benelux countries, the average density in which is around 350 inhabitants/sq.km., there are indeed the concentration zones of Randstad Holland and the Antwerp-Brussels axis, whereas in Germany, with an average density of nearly 250 inhabitants/sq.km., there is the Ruhrgebiet, but none of their provinces or Regierungsbezirke has a density below 75 inhabitants/sq.km. (with the exception of the Belgian province of Luxembourg: 50 inhabitants/sq.km.). Italy (with an average density of 180 inhabitants/sq.km.) has some large conurbations of over 1 million inhabitants (Rome, Milan, Naples, Turin), but the other regions of Italy, in particular the agricultural provinces, also have a fairly high density, all of them - with a very few exceptions - exceeding 75 inhabitants/sq.km.

The rate or urbanisation has already greatly increased in the postwar period. At present, 95 million people live in cities of a certain size. By the year 2000, this number could be doubled. There is a danger that this urbanisation may occur mainly on the basis of the existing large cities, which would have the consequence of further reinforcing the concentration, principally in the countries which already record at the present time the highest level of concentration.

Concretely speaking, by the way of example, this would mean that the greater part of the French population of some 60 million inhabitants would be regrouped in the year 2000 in a dozen large conurbations each having between 2 and 15 million inhabitants. A study carried out in the United Kingdom comes to the conclusion that "although, initially, the cost of executing works to enlarge a town is lower than the cost of construction of new towns when the expansion can occur within the framework of the existing systems of roads, services and educational facilities, on the other hand, when development has outstripped the capacities of these installations or when it is necessary to improve or replace them, the cost becomes higher than that of the construction of a new town".(1)

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(1) Ministry of Housing and Local Government, Northampton, Bedford and N.Bucks Study. An assessment of interrelated growth, London, 1965.

- The active population

Urbanisation generally goes hand in hand with industrialisation. The concentration zones in the Community are also the most industrialised regions.

The percentage of the active population employed in industry is situated in the Community countries as a whole between 40% in France and 50% in Germany. However, the deviations are much greater if considered at the level of the regions. The industrial population is geographically most concentrated in France and Italy: the Paris region, the Nord département and Lorraine, which represent 9% of the French territory, employ 36% of its active industrial population; Lombardy and Piedmont, which represent 16% of the territory of Italy, employ 36% of the Italian active industrial population. Thus, in Lombardy, 60% of the active population are employed in industry compared to 30% in the Abruzzi.

France and Italy are also the countries with the most agricultural regions (i.e., regions where more than 20% of the active population are employed in agriculture), as will be seen from the table below.

TABLE VII

BREAKDOWN OF THE ACTIVE POPULATION (1970)

	Sectors			Percentage of agricultural regions in the total for the country(1)		
	primary	secondary	tertiary	territory	agric.pop.	total pop.
Germany	9.1%	49.7%	41.2%	12.4%	16.0%	5.5%
France	14.1%	40.0%	45.8%	64.1%	58.1%	33.0%
Italy	19.7%	42.6%	37.7%	81.0%	76.6%	54.7%
Netherlands	7.2%	40.6%	52.3%	7.3%	6.8%	2.8%
Belgium	5.6%	44.3%	50.1%	14.4%	8.5%	2.3%
Luxembourg	10.6%	46.1%	43.3%			
EEC	12.9%	44.4%	42.7%	54.2%	57.5%	26.6%

(1) In this table, the regions selected are the provinces (in Benelux and Italy), the Regierungsbezirke (in Germany) and the départements (in France) where over 20% of the active population are employed in agriculture.

Thus, fourfifths of the Italian territory and nearly two thirds of the French territory are to be considered as agricultural regions; they represent over half and one third of the national population respec- tively.

Germany and the Benelux countries have concentrations of the same type but, unlike the situation in France and Italy, the greater part of the other regions of these countries may be classified in the industrial or semi-industrial regions.

ii) Income and productivity

The unequal distribution of the different types of regions in the different countries of the Community is also reflected in terms of income and productivity.

Thus, in particular, the essentially agricultural regions are generally not very developed for different reasons:

- The rate of activity is generally lower there than in the industrial or semi-industrial regions, and the rates of unemployment are relatively high there (e.g.:the unemployment rate is 5% in the Mezzogiorno compared to 3% for the whole of Italy).

- The productivity of the agricultural sectors is much less high in these regions than the productivity of this same sector in the other types of regions where agriculture is better structured and where the em- ployment opportunities appreciably decrease the unapparent unemployment in the non-productive occupations.

- The services sector which depends on agriculture is all the greater according as the share of the active agricultural population is greater and consequently its productivity is less than that of the services linked to industry.

TABLE VIII

INCOME – PRODUCTIVITY AND DEVIATIONS ACCORDING TO THE TYPES OF REGION (1) IN THE COMMUNITY (U.A. Current Prices) Value 1970

Type of region		Fed.Rep. of Germany	France	Italy	Netherlands	Belgium	Luxembourg
AGRICULTURAL	Income = GDP/inhab.1969	1.888	2.111	1.175	-	1.730	-
	Productivity = GDP/active person 1969	4.249	5.249	3.433	-	5.192	-
	% territory	12,4	62,5	55,3	-	14,4	-
	% population	5,5	39,4	38,9	-	2,3	-
SEMI-INDUS	Income	2.433	2.670	1.524	1.917	-	2.650
	Productivity	5.413	6.759	4.259	5.811	-	6.407
	% territory	54,5	28,7	35,0	32,4	-	100
	% population	34,6	29,6	42,3	13,2	-	100
INDUST.	Income	2.931	3.164	2.171	2.247	2.369	-
	Productivity	6.773	7.441	5.536	6.437	6.121	-
	% territory	33,1	8,8	9,7	67,6	85,6	-
	% population	59,9	31,0	18,8	86,8	97,7	-
TOTAL	Income	2.701	2.603	1.510	2.203	2.355	2.650
	Productivity	6.151	6.392	4.214	6.359	6.103	6.407
DEVIATIONS Income	Agric.-Indust.	1.043 (35,6%)	1.053 (33,3%)	996 (45,9%)	-	639 (26,9%)	-
	Semi-indust. Industrial	498 (16,9%)	494 (15,6%)	647 (29,8%)	330 (14,7%)	-	-
Product.	Agric.-Indust.	2.524 (37,3%)	2.192 (29,4%)	2.103 (38,0%)	-	929 (15,2%)	-
	Semi-indust. Industrial	1.360 (20,1%)	682 (9,2%)	1.277 (23,1%)	626 (9,7%)	-	-

(1) In this table, as well as in the following tables, the regions selected are, for statistical reasons: the provinces in Benelux, the Regierungsbezirke in Germany, the regional programmes in France and the regions in Italy.

- The productivity of the industrial sectors is itself generally less high in the essentially agricultural regions, inter alia as the result of the effect of external economies The table below shows the discrepancies of income and productivity according to the three types of regions in the different Community countries.

INCOME PER INHABITANT IN THE THREE TYPES OF REGIONS

INCOME/INHABITANT IN U.A.

% TOTAL POPULATION

U.A.
3000
2000
1000
0

GERMANY
FRANCE
ITALY
NETHERLANDS
BELGIUM
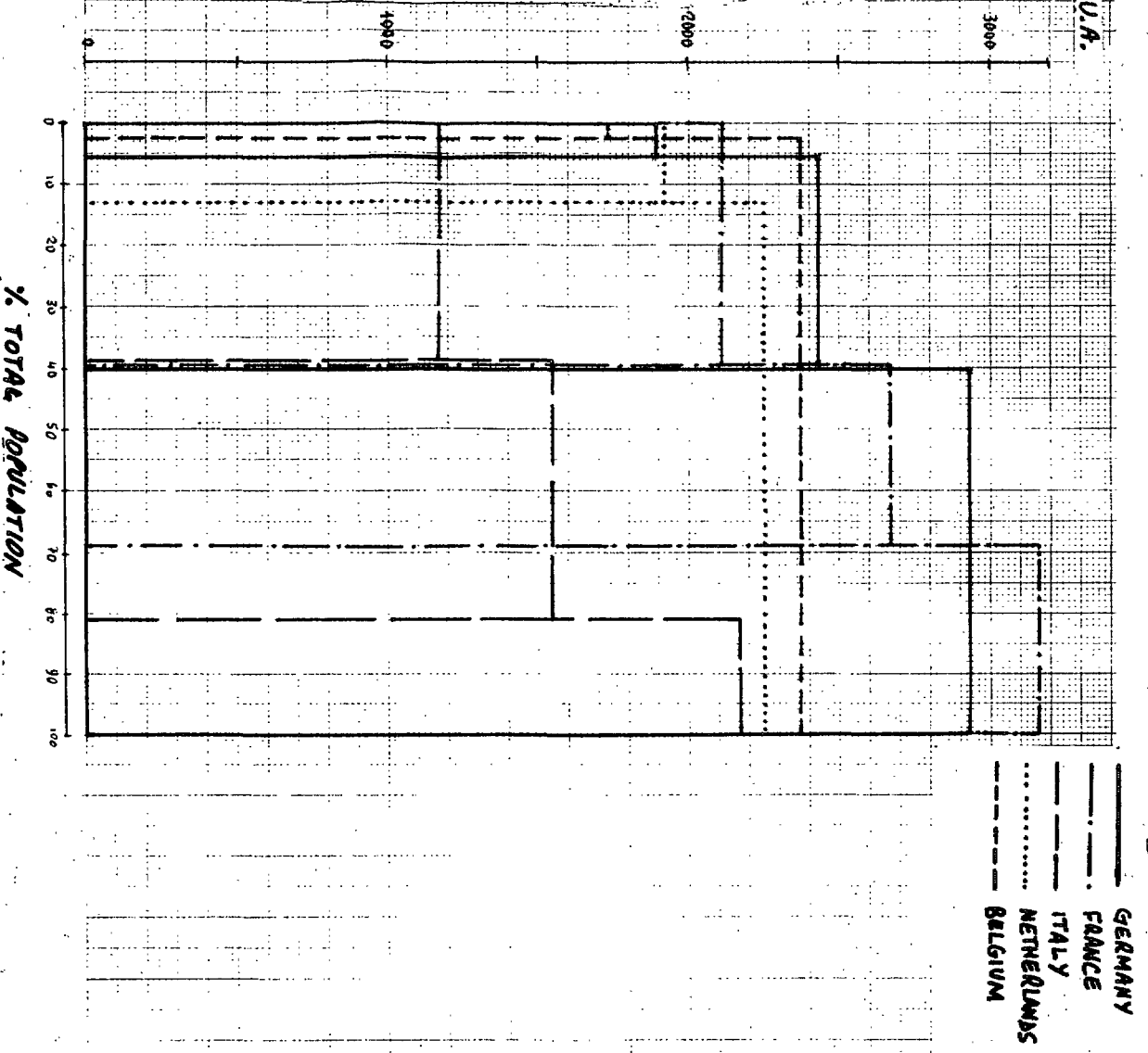
CONTRIBUTION OF THE THREE TYPES OF REGIONS
TO THE AVERAGE INCOME

AGRICULTURAL REGIONS
SEMI-INDUSTRIAL REGIONS
INDUSTRIAL REGIONS

GERMANY   104   842   1759
FRANCE   832   790   981
ITALY   457   645   408
NETHERLANDS   253   1956
BELGIUM   2315   1405

INCOME PER INHABITANT IN THE THREE TYPES OF REGIONS
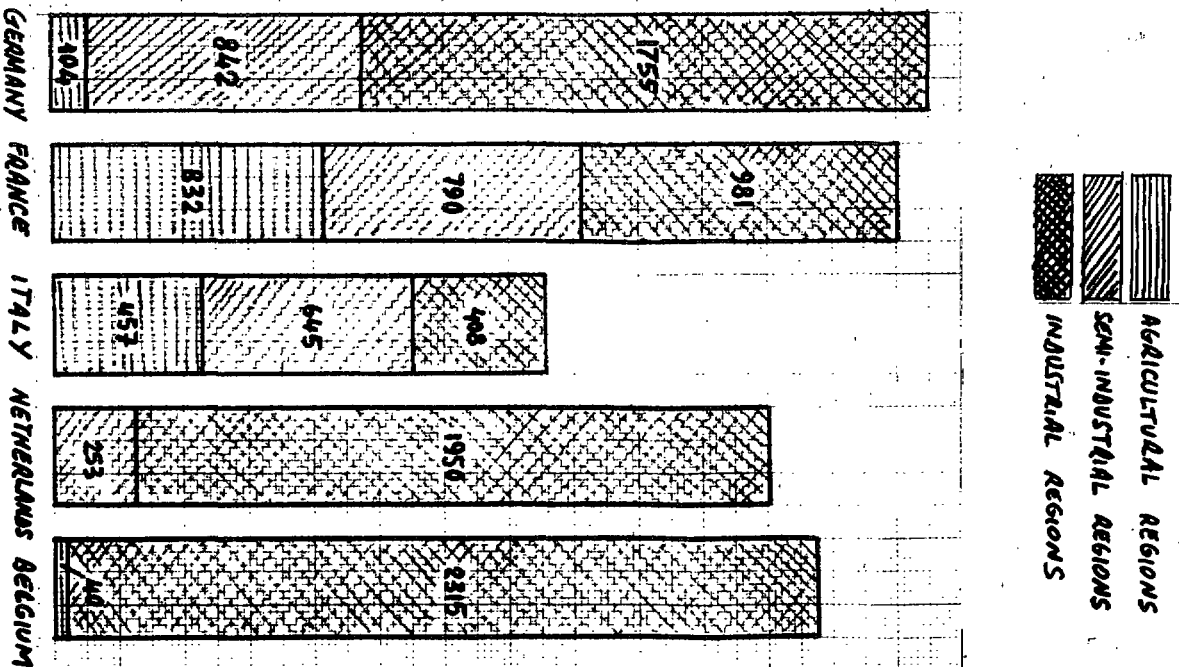
INCOME/INHABITANT IN U.A.

GERMANY — % TOTAL POPULATION

FRANCE — % TOTAL POPULATION

NETHERLANDS — % TOTAL POPULATION

BELGIUM — % TOTAL POPULATION

ITALY

E.E.C. — % TOTAL POPULATION

AGRICULTURAL REGIONS
SEMI-INDUSTRIAL REGIONS
INDUSTRIAL REGIONS

PRODUCTIVITY IN THE THREE TYPES OF REGIONS

G.D.P./PERSON ACTIVE IN U.A.

U.A.

% TOTAL POPULATION
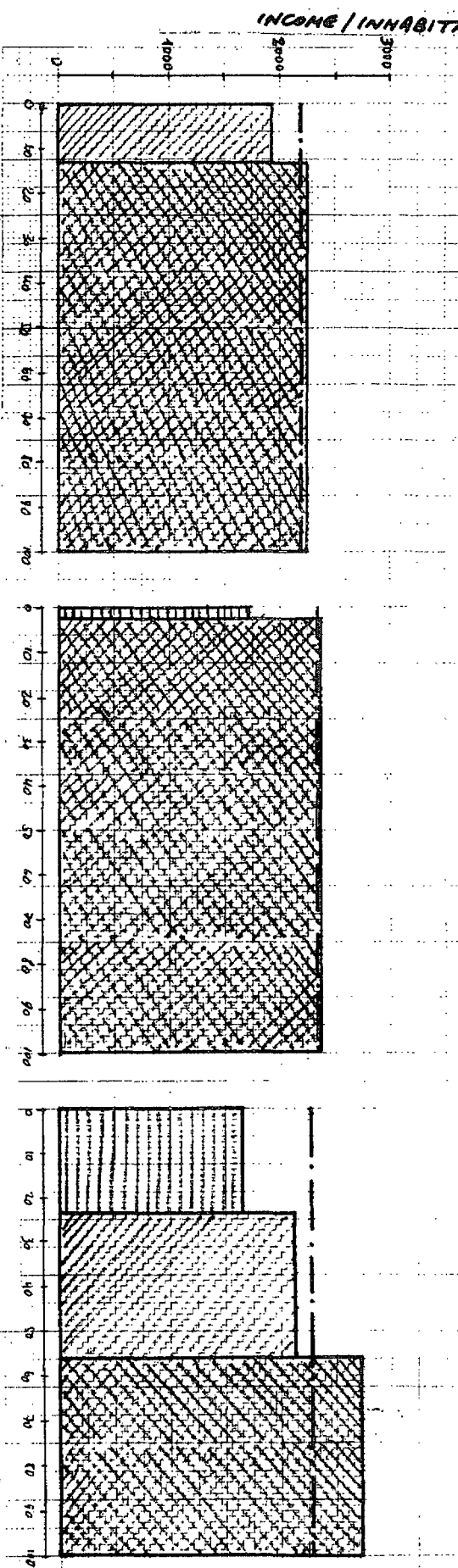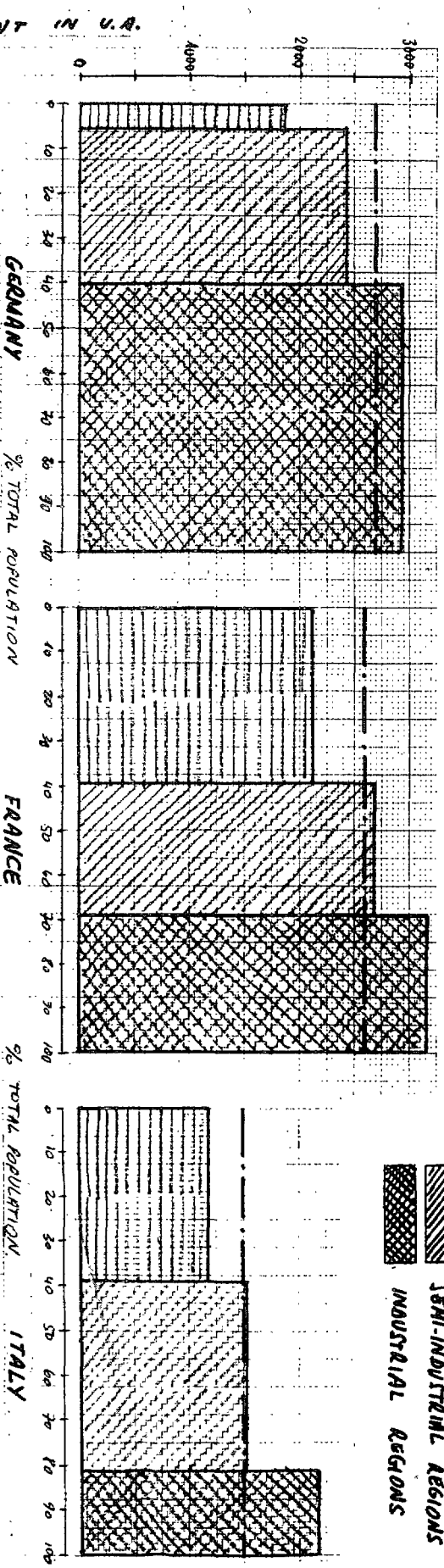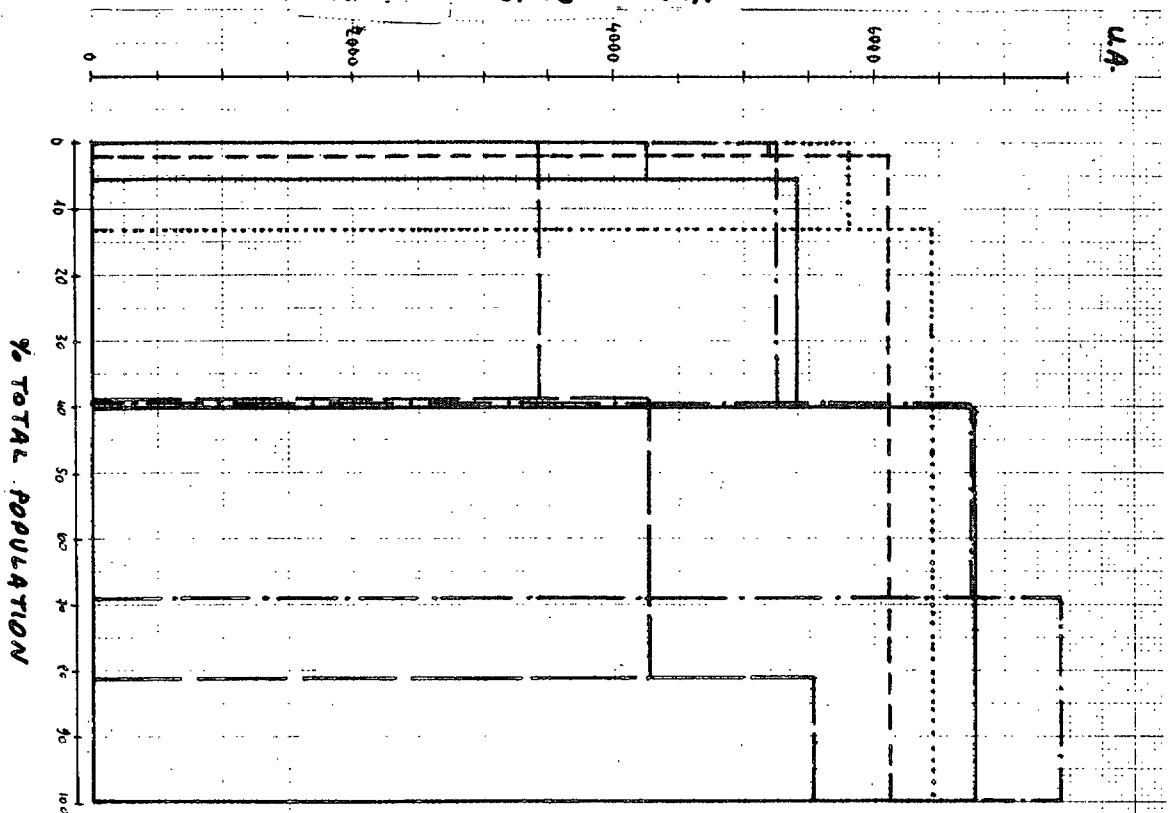
GERMANY —————
FRANCE —·—·—·—
ITALY —— ——
NETHERLANDS ·········
BELGIUM — — —

CONTRIBUTION OF THE THREE TYPES OF REGIONS TO THE
AVERAGE PRODUCTIVITY PER ACTIVE PERSON
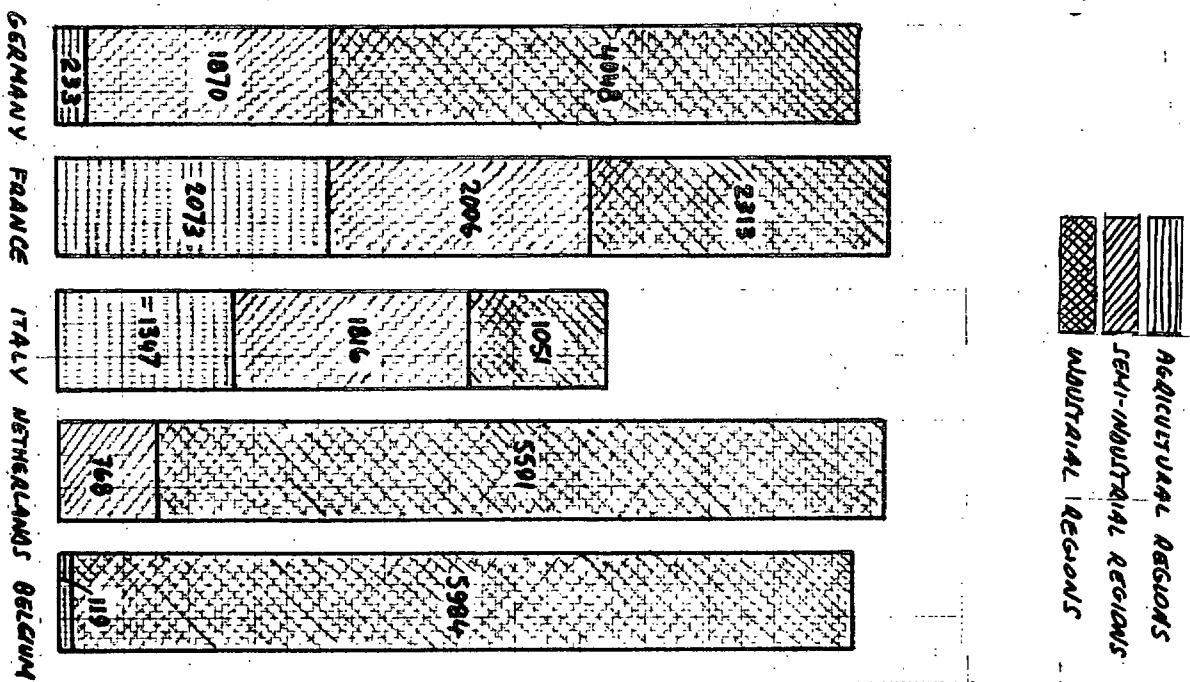
AGRICULTURAL REGIONS
SEMI-INDUSTRIAL REGIONS
INDUSTRIAL REGIONS

GERMANY   293   1870   4040

FRANCE   2073   2006   2313

ITALY   1347   1846   1051

NETHERLANDS   768   5591

BELGIUM   119   5984

PRODUCTIVITY IN THE THREE TYPES OF REGIONS

GDP / PERSON ACTIVE IN U.A.

GERMANY — % TOTAL POPULATION

FRANCE — % TOTAL POPULATION

ITALY — % TOTAL POPULATION

NETHERLANDS — % TOTAL POPULATION

BELGIUM — % TOTAL POPULATION

E.E.C. — % TOTAL POPULATION

AGRICULTURAL REGIONS
SEMI-INDUSTRIAL REGIONS
INDUSTRIAL REGIONS
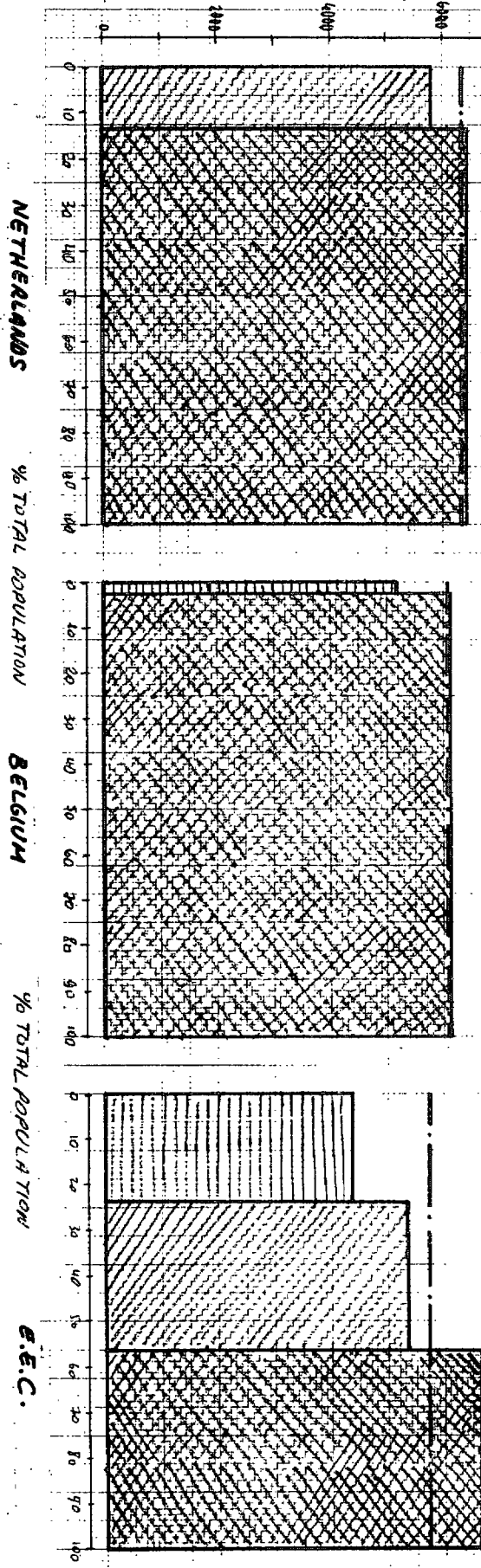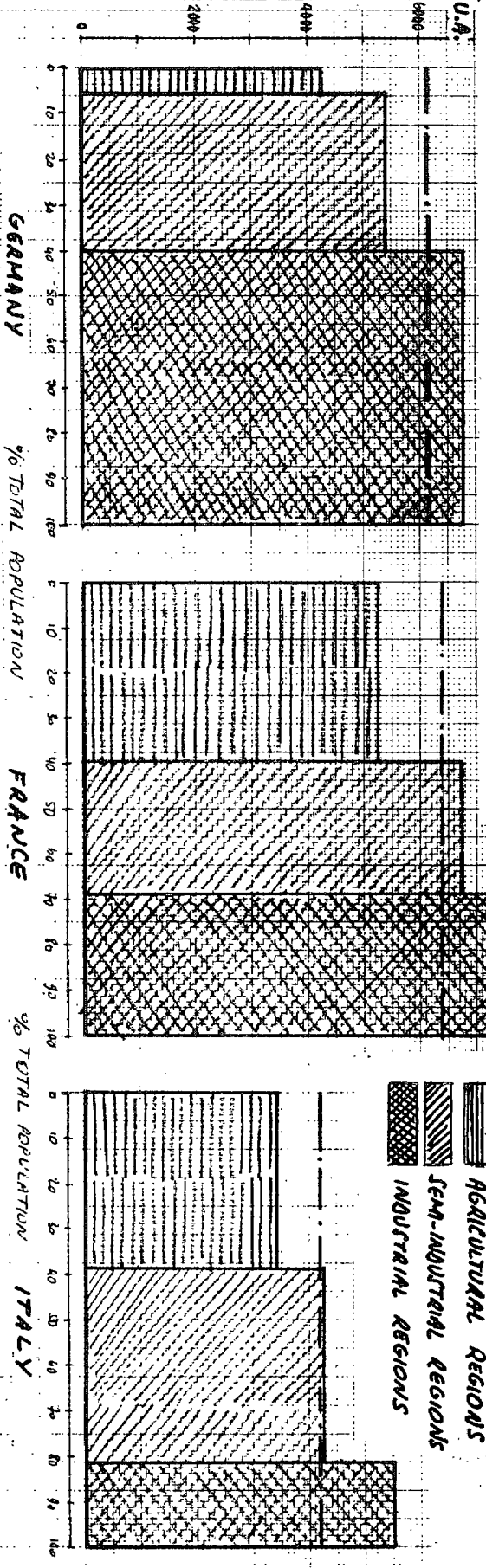
VALUE ADDED (GROSS) AT CURRENT PRICES PER PERSON EMPLOYED PER TYPE OF ACTIVITY (IN U.A.)
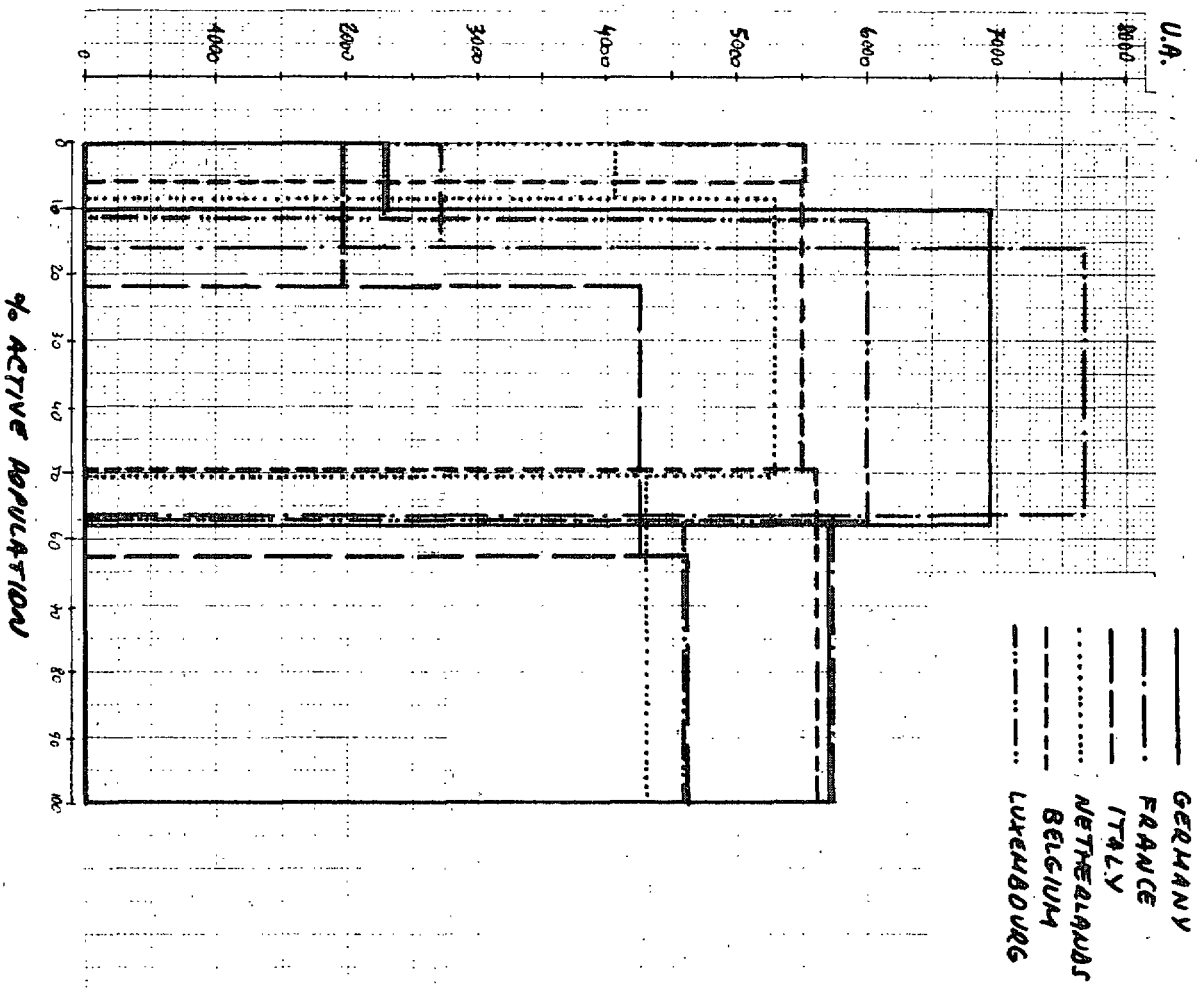
CONTRIBUTION OF THE THREE SECTORS OF ACTIVITY TO THE AVERAGE PRODUCTIVITY PER PERSON ACTIVE
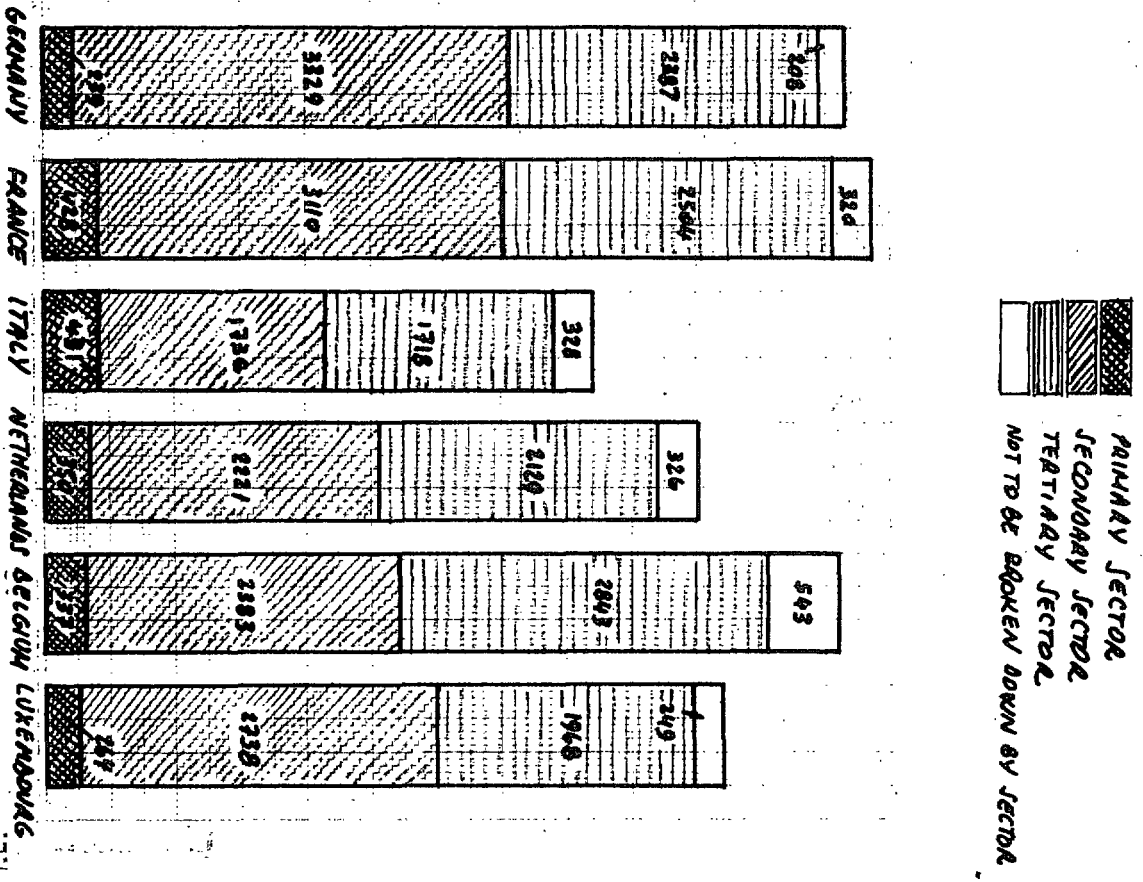
VALUE ADDED (GROSS) AT CURRENT PRICES PER PERSON
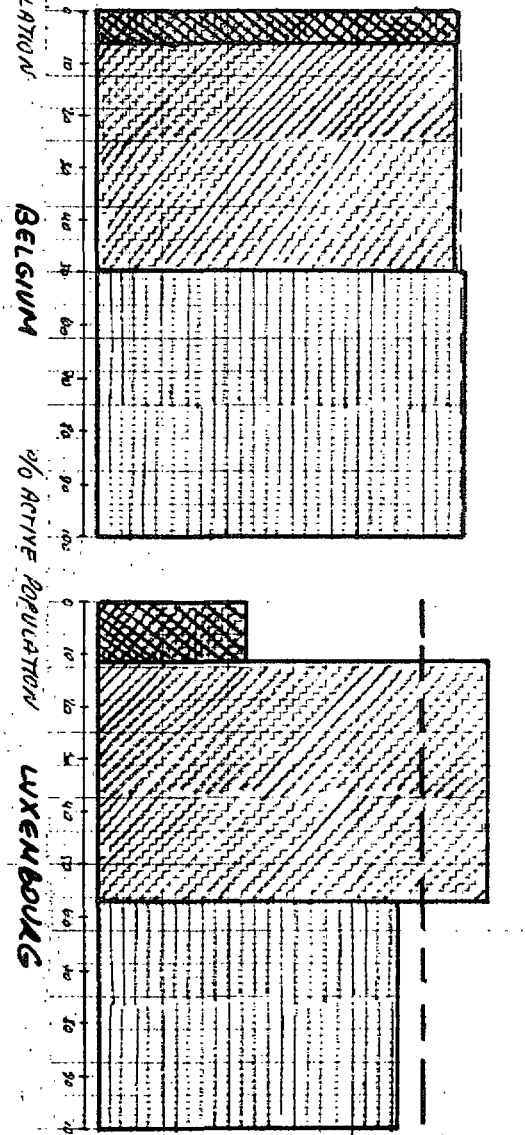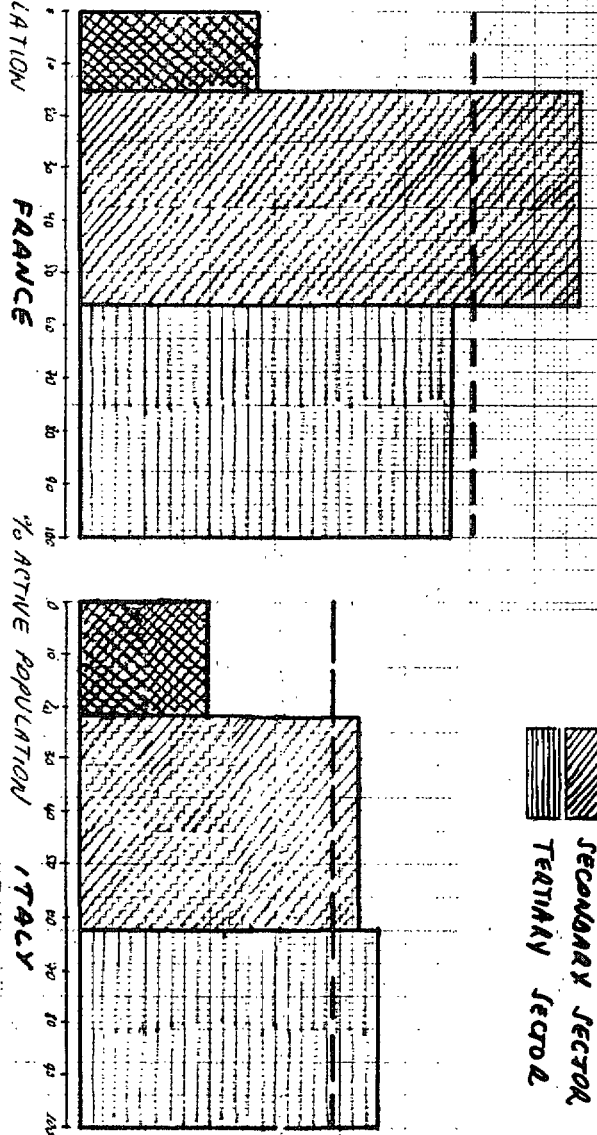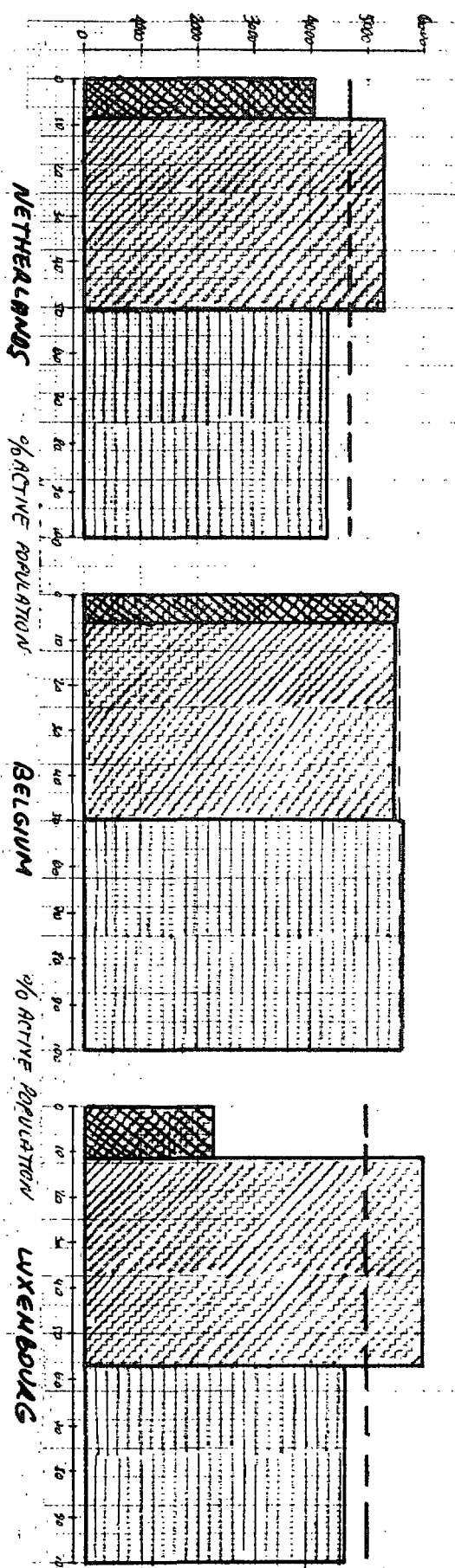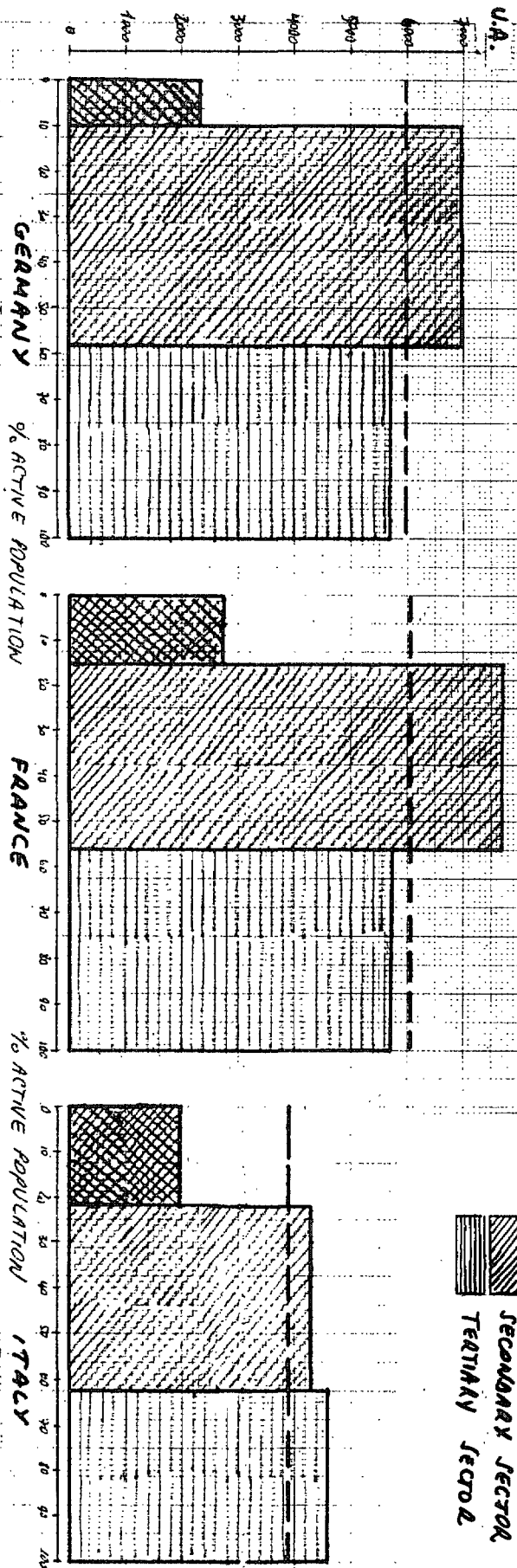EMPLOYED PER TYPE OF ACTIVITY (IN U.A.)
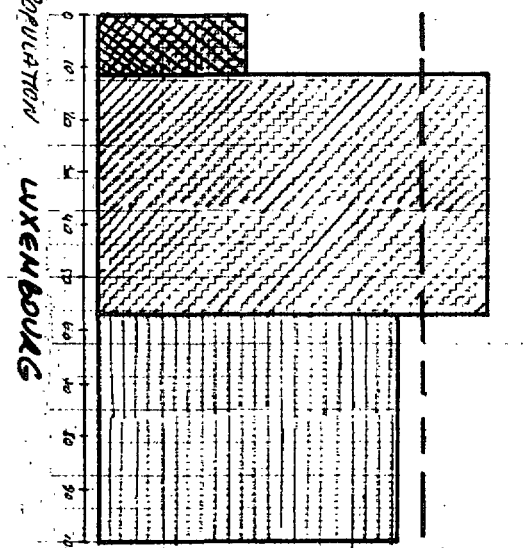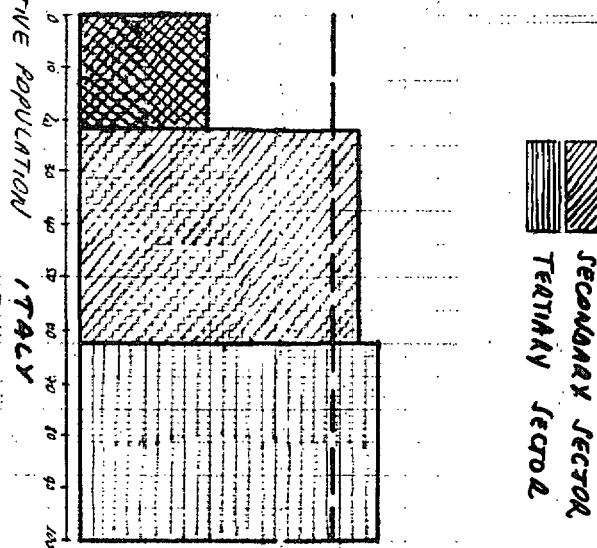
It emerges that the relationship of incomes among the three types of regions in the different countries is above all significant for the Federal Republic of Germany, France and Italy. For the Benelux countries, in fact, the deviations are either very slight or concern a small percentage of the population of these countries.

Taking into account the importance of the population concerned by the disparities of the three types of region, it emerges furthermore that for the Federal Republic of Germany the significant deviation is that existing between the industrial and semi-industrial regions; indeed, more than 90 % of the population of this country live in these regions.

Hence, the deviation to be taken into consideration for the Federal Republic of Germany is 16,9 % for income and 20,1% for productivity

For France, the agricultural and industrial regions represent 70 % of the population of the country. The gap between these two types of regions is particularly significant. However, it is impossible not to take account of the semi-industrial regions in order to appreciate the effect of geographical disparities.

The deviation between the agricultural and industrial regions is 33,3 % for income and 29,4 % for productivity; and the deviation between the industrial and semi-industrial regions is 15,6 % for income and 9,3 % for productivity.

The same considerations apply to Italy, where 58 % of the total population reside in industrial and agricultural regions.

Just as for France, it is also necessary to take account of the semi-industrial regions. The deviations between the agricultural and industrial regions are thus, for Italy, in terms of income 45,9% and in terms of

productivity 38,0 %. The deviation between the industrial and semi-industrial regions in terms of per capital income is 29,8 % and in terms of productivity 23,1 %.

It is a well-known fact that, on the one hand, the average productivity of agriculture in the Community is about equal to half the average productivity of all the sectors and that, on the other, the productivity of agriculture is itself perceptibly lower in the agricultural regions than it is in the industrial regions. This situation explains part of the deviation between the agricultural regions and the industrial regions.

For the other sectors, it is difficult to express statistically the comparative productivities in the different types of region. Figures are not available.

However, it has already been noted, in the form of a table which it may well be useful to refer to again here, that the industrial sector also records productivity differences according to the three types of region (see Table, page 10).

That is the structure, described in outline form, of each of the different countries of the Community, a structure which seems likely to lead to inflation propensities that are somewhat different from one country to another.

2) <u>The propensities to inflation in the different countries of the Community</u>

The nature of the statistics available as well as the limits of
the classification into three types of region relativise to some extent
the conclusions that can be drawn therefrom as regards the inflation
propensities in the different countries. It would be necessary to pursue
this analysis on the basis of more detailed, coherent and elaborate data.

With this reservation, it seems however that the <u>following con-
clusions</u> can be drawn:

i) - the <u>concentration zones</u> are significant <u>in all the countries</u> and
constitute a <u>source of inflation and amplification</u> of the external
inflationary factors according to the mechanism described in
point a) 1) above.

ii)- The <u>diffusion effect of the inflationary factors</u> originating in the
<u>concentration zones is very different from one country to another,</u>
owing to their geographical structur.

In the <u>Benelux</u> countries, the vast majority of the regions are
industrialised. For this reason, the diffusion of the inflationary
phenomena on the basis of the concentration zones generally occurs in
the industrial regions where the possibility of response by improvements
in productivity is not very different from that of the concentration
zones. They may even sometimes be better, thus constituting an element
attenuating the inflation factors.

In the <u>Federal Republic of Germany</u>, the industrial and semi-
industrial regions occupy the greater part of the territory. Hence,
diffusion on the basis of the concentration zones occurs essentially
on regions which are semi-industrial. The productivity gap of these
regions is 20%, but a substantial share of this gap is due to the agri-
cultural sector in these regions, as they include a considerable part
of agriculture in the Federal Republic of Germany. The productivity gap
of the other sectors in these regions is therefore appreciably less
than 20%. Owing to this fact, the inflationary effect of diffusion,
although real, will be relatively attenuated.

In <u>France</u>, the three types of region are almost equally repre-
sented, with a predominance, however, of less developed agricultural
regions.

The productivity gap between industrial and semi-industrial
regions is small. The diffusion on the basis of concentration zones in
these regions does not aggravate inflation. It may, on the contrary,
constitute an attenuation element.

On the other hand, this diffusion in the essentially agricultural
regions is likely to amplify inflation. In fact, the productivity gap
of these regions is of the order of 29% and industrial activity there
is less developed as well as, generally, less productive. Furthermore,
one is faced either with a less competitive industry or with a serious
inadequacy of active availabilities in a population of very low density.
The inflation process therefore finds in these regions a particularly
favourable ground for developing in accordance with the mechanism
described in the foregoing. We should recall that this relates to more
than 60% of the French territory, forming adjacent regions.

In <u>Italy</u>, the distribution of the types of region as well as
the productivity gaps between them determine a highly inflationary
structure. The receptivity of the Italian economy to the inflation pro-
pagated by the industrial regions is in principle very high, which
should lead to the appearance or amplification of inflationary movements.
However, this propensity to inflation is considerably attenuated by
numerous factors relating,on the one hand, to the substantial availabi-
lities of labour either in underemployment or in unemployment, and on
the other, to habits of life that are still traditional at the present
time; altogether, they constitute an important factor of inertia which
checks the movement of diffusion of inflation on the basis of the con-
centration zones.

iii) - As regards the <u>inflationary tensions which have their origin in the</u>
<u>less developed regions</u>, this concerns mainly <u>France</u> and <u>Italy</u>.

They are particularly reinforced in <u>France</u> both by the habit
of a rather high standard of living in the majority of the regions
maintaining a pressure on the factors which facilitate the satis-
faction of demand, and by the maintenance and development of infra-
structures that are costly, having regard to the density and pro-
ductivity of the activities they serve.

In <u>Italy</u>, as has been noted, the habits of life in the less
developed regions do not lead to as strong a pressure of demand as
in France. Furthermore, the available resources of manpower join
with these habits of life to temper the effect of the inflationary
sources of these regions. As regards the cost of infrastructures,
the problem arises, ceteris paribus, in the same terms as in France.

iv) - <u>In all</u>, it appears that the geographical <u>structure</u> of the economic
apparatus is most inflationary <u>in Italy</u>; the development of the
existing potential inflation depends more particularly on the
behaviours of the populations of the less developed regions of this
country. Up to the present, this behaviour has absorbed, to a large
extent, the inflationary potentialities of the structures and has
checked their effect.

It is in <u>France</u> that the effective play of the geographical
structures of the economic apparatus and of behaviours has been,
in fact, the most inflationary.

These being the structural characteristics of each of the
Member States of the Community, how does the problem of regional
structures fit into the process of establishment of the Economic and
Monetary Union?

This question will form the object of the second part of this
report.

PART II

The implications of Economic and Monetary Union

for the adaptation of regional structures

In the present chapter, we shall examine the connections between the implementation of the different objectives of the Economic and Monetary Union and the elimination of the principal geographical disequilibria; we shall then try to quantify the extent of the means to be utilised by the regional policy to be carried out in the Community in order to permit this elimination.

A - Regional disequilibria and the objectives of the Economic and Monetary Union

The objectives of the Economic and Monetary Union may be analysed as :
- a monetary objective : complete convertibility and fixed and irreversible exchange rate;
- economic objectives : satisfactory growth, full employment, internal stability, external equilibrium.

a) Regional disequilibria and the monetary objective

As is known, the objective of the Economic and Monetary Union is that it should constitute an individualised monetary whole within the international system, characterised by the complete and irreversible convertibility of currencies, the elimination of margins of fluctuation in exchange rates, the irrevocable fixing of parity ratios, indispensable conditions for the creation of a single currency and involving a Community organisation of the central banks.

1) The national structures and the Community monetary objective

The analysis made in Chapter 1 above has shown the extent to which the different intensity of the geographical disequilibria according to the member countries influences the inflationary tendencies in a different way in each of them and contributes to causing the respective values of their currencies to develop in divergent directions. One sees immediately the antinomy between the existing situation and the monetary objective pursued by the Union. There is no necessity, therefore, to revert to it here.

However, it could be wondered whether it would not be advisable to proceed to the same geographical analysis by placing oneself directly at the Community level. The freedom of circulation created by the Common Market and the gradual implementation of common policies reinforce the economic interdependence of the Member States and would seem to be bound to lead to this analysis at the Community level.

The typology of the regions and the analytical balance sheet of the regional situation in the Community (1) show, on the one hand, a concentration of activities in the Northern part of the Community, extending further along the axis of the Rhone valley and Northern Italy, and on the other, the relative weakness of the major so-called peripheral regions.

The analysis carried out in point B above could therefore easily be transposed to the Community level.

It must be clearly seen, however, that it is the analysis in terms of national comparison, as it has been presented above, which remains significant. Indeed, the economic action implied by the Economic and Monetary Union remains essentially based on national budgetary responsibilities, so that economic and monetary equilibrium within the Union depends in the first place on the way in which each Member State deals, in the framework of a Community policy, with the problems raised by the national structures.

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(1) - A regional policy for the Community, 1969.

- Regional evolution in the Community (Analytical balance sheet 1971).

From the monetary point of view, the effect of certain economic or social factors, the role of which has been evoked in Chapter I, remains to be stressed, as they can contribute to thwarting the tendencies to monetary depreciation : it emerges immediately that they are in reality of such a nature that they thwart at the same time the implementation of the economic and social objectives of the Union.

2) The deflationary factors are only dilatory

This is the case for a rate of unemployment sufficiently high to lead, in the whole of the country, to a pressure on wages of a nature to maintain the latter's level in the developed regions below what would be justified there by the productivity. By this means, the average level of wages could be kept in line with the average productivity, so that the value of the currency would not be affected. However, the pressure for the upward equalisation of the income from labour in the Common Market, on the one hand, the emigration possibilities resulting from the free circulation of workers in the same Common Market, on the other, are of a nature to neutralise increasingly the effect of this factor. As well as being contrary to the social goal of the Union, this factor is therefore precarious.

The same applies to the maintenance of longer weekly, annual and professional hours of work. Except in the border regions, this corrective factor is more stable than the preceding one; the attachment of individuals to their region and their country (language, family, education) may indeed offset the drawback of longer working hours. Its economic influence is however less, for the extent of the deviations in the hours of work could in no case be very great.

This also holds true for emigration of individuals from the underdeveloped regions to the developed regions, where the productivity of their work increases. If it is a question of an emigration from densely populated regions to thinly populated regions, the effect may be beneficial for the

development of the latter and for the relief of the former. Most often,
however, emigration occurs towards the concentration zones. The risk then
exists that the concentrations of populations and activities in the reception
regions, and the increasingly marked underdevelopment of the exile regions
may lead to accentuate and connect up the two inflationary processes studied
in Chapter I. At best, one would succeed, if the displacements of labour
occurred from one Community country to another, in balancing in a negative
way the inflation resulting from underdevelopment by that resulting from
overconcentration. But it would then be vis-à-vis the outside world that
the problem of inflation and the value of the Community currencies would
be raised.

In all, the deflationary factors which intervene in certain cases are
therefore only dilatory. More fundamentally, they are in general socially
regressive and always contrary to the economic objectives of the planned
union.

b) Regional disequilibria and economic objectives

Any economic policy always pursues four objectives : satisfactory growth,
full employment, stability of prices, external equilibrium. These objectives
are listed in the resolution on the Economic and Monetary Union. We shall
examine under this point what is the relationship between the geographical
disequilibria and each of these four objectives.

1) The regional disequilibria which are obstacles to growth

Regional disequilibria affect the growth in v olume as well as in
foundation and quality.

a) In volume

The fact that a large part of the territory of the Community has not
yet reached the stage of development permitted by the modern economy
and which is actually attained in particular in the regions which, in
the north-west of the Community, participated, in the 19th century

already, in the industrial revolution, leaves unutilised the great
growth potentialities both in terms of production and in terms of con-
sumption. These potentialities are all the more significant since the
new technical and economic techniques open up broad development prospects
for these regions which until now had not been favoured by the conditions
of localisation of industry which prevailed until the early 20th century.

For its part, the excessive concentration of activities and population
in certain zones entails costly investments and provokes waste of energy
and harmful effects, all factors which limit the growth possibilities.

The utilisation of the growth possibilities of the regions at present
backward is therefore necessary, in order to increase the volume of
growth to the level of real possibilities as well as to avoid the losses
resulting from overconcentrations.

b) In foundation

Such a policy will at the same time have the effect of reducing the
technical and political vulnerability of the Community economy which,
until now, has tended to be based too exclusively on two zones of
concentration of activities : the Rhine axis, the mining basins and
the Paris region in the north; more recently, the Rhone axis and the
valley of the Po, in the south.

This concentration renders economic growth in the Community more
fragile in a world where the acceleration of technical progress often
tends to change rapidly the optimum localisation for certain activities.
It is therefore important to ensure that all the regions participate
in the development of production, so that the economic growth of the
Community rests on a basis that is as extensive and diversified as
its geography itself permits; for instance, by exploiting all the
possibilities offered by the wealth of the Community in respect of
coastline in a trading economy in which the sea occupies a capital
position.

c) <u>In quality</u>

An economic growth which would result in a twofold movement of overcon-
centration of people and activities in one place and the creation of
a desert in another, with all the harmful physical or social effects
which would result in both cases, would obviously not attain its goal,
for it would remain very unsatisfactory economically and socially. At
the extreme limit, it could even take the form of growth of activities
which would have no other purpose than that of trying to offset the
drawbacks resulting, for the territories, from the type of life which
it would have imposed on them.

It is therefore essential from the human point of view as well as
from the point of view of the net productivity of the populations and
territories, to balance the activities geographically to the fullest
extent that the new economic data permit, and to maintain, as much
as is economically possible, the populations in the milieu in which
they are, which can moreover enable substantial savings to be made at
the level of infrastructures.

By its volume, foundation and quality, a satisfactory growth implies
that the geographical disparities should be at least reduced to a level
which would be that of the development of the economic potentialities
of each region. This links up with the objective of full employment
and, more particularly, of full employment of manpower.

2) Regional disequilibria which are obstacles to full employment
- -

From the quantitative point of view, a regional disequilibrium
in employment is observed in all the Community countries : a substantial
supply of labour in the backward and declining regions, which does
not find productive employment in the region, and a shortage of
labour in the industrial regions, which tends to be met by manpower
from outside the region. The fact that the new activities tend by
attraction to become established in the developed regions owing

to the external economies they achieve there leads to an inadequacy of economically healthy activities in regions the population of which may be numerous, but which do not benefit from infrastructures and the developed economic fabric enabling the same external economies. One thus arrives at structural underemployment, either overt or disguised, of a part of the available labour which is all the more considerable, in view of the inhabitants' desire for stability, according as the uprooting which has to be accepted in order to emigrate to the regions with a high demand for labour is itself more considerable.

Emigration merely aggravates the problem, for it is frequently the most enterprising and highly qualified workers who are the first to leave the region; the enterprises wishing to become established there hence no longer find locally the skilled labour they need. Furthermore, if this emigration attains substantial proportions, expenditure in the region suffers and the economy shrinks. The persons employed are reduced to unemployment. They in turn emigrate, thus continuing the process of self-destruction of the region, which will end up by being emptied of its active population.

Hence, the objective of full employment, pursued by the Economic and Monetary Union, seems very difficult to attain with the geographical disequilibria existing in the Community. The backward and declining regions check the full utilisation of the available labour, and yet their depopulation is altogether contrary to the achievement of maximum growth in all the cases - which are the most numerous - where a development potential exists in the region itself.

From the qualitative point of view, the lack of economic dynamism in certain regions does not enable them to operate the necessary conversions of activities to maintain the employment of their population in the most productive activities. The acceleration of technological mutation as a growth factor in the economy thus has unfavourable repercussions on the less developed regions.

3) Regional disequilibria which are obstacles to stability

The text of the resolution on Economic and Monetary Union speaks of "stability within the Community", without specifying whether it is a question of economic stability, political and social stability or any other form of stability.

The foregoing analyses have shown how the geographical disequilibria compromise, by their overconcentration aspect as well as by their under-development aspect, the achievement of stability of prices and monetary parities.

Furthermore, a structure of regional economies which is different among the countries influences differently their domestic socio-political climate. These differences of climate aggravating the consequences of economic disparities may lead the governments to take special measures which render more difficult or even run counter to the coordination of the economic policies necessary for the Economic and Monetary Union.

The different aspects of stability are therefore linked, and a determined effort to resorb regional disequilibria is essential to ensure the future of the economic union among the countries of the Community.

4) Regional disequilibria which are obstacles to external equilibrium

The aggregate of the effects of regional disequilibria on growth, full employment and stability of the economy join together to diminish the inter-national competitiveness of the Community.

The fact of developing fully the production possibilities on only certain of its regions and of increasing the productivity of only a part of its labour, as well as the fact of having its economy burdened by the excessive cost of overgreat concentrations, undermines the position of the Community as a whole. In fact, international competitiveness is essential for the economy of the Community, a very large share of which is linked with external trade, and this will be even truer in the case of its expansion.

To this overall effect on the aggregate competitiveness of the Community vis-à-vis the outside world is added the fact, studied in Chapter I, that the unequal intensity of the geographical disequilibria according to the countries entails different evolutions in the growth of their productivity and the increase of their general level of prices, and hence in the competitive position of each of the countries vis-à-vis the rest of the world, including the other member countries. The countries with unbalanced regional structure are thus led to take measures of economic policy to adjust their balance of payments, or even to make monetary adjustments which, by definition, thwart the formation of the Economic and Monetary Union.

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The twofold analysis in the foregoing shows how the different intensity of the geographical disequilibria according to the member countries compromises the implementation of the monetary objective as well as of the economic objectives of the Economic and Monetary Union. At the same time, it shows that the factors which are contrary to or which offset inflationary trends are not of a nature to permit the achievemen t of these objectives.

The implementation of Community actions in the structural and regional field, provided for in the projected economic and monetary union, is therefore an essential component for the achievement of the aggregate of its objectives. This implementation requires the use of means the importance of which should be quantified.

B - The importance of the means to be utilised for the adjustment

of regional structures

In all the member countries of the Community, the development of the less developed or declining regions passes, at the present time, via industrialisation. Apart from exceptional conditions, which are seldom met with in the Community regions in question, the activities of the services generally have too weak an impetus to initiate and maintain a movement of economic development. The power of attraction of industry is generally much stronger, especially if the industrialisation is sufficiently grouped geographically and sufficiently diversified by type of activity, to establish inter-industrial relations and thus to create the external economies necessary for the process of self-development of a given geographical area.

Industrialisation may be analysed into two types of action : on the one hand, the creation of industrial activities and hence of jobs, and on the other, the implementation of adequate infrastructures both for supporting these industrial activities as well as the induced activities, in particular in the tertiary sector, and for equipping the population of the region where these activities are established.

It is interesting to proceed to an approximate evaluation of the order of magnitude of the investment expenditure necessary per member country in order to achieve a certain geographical equilibrium in the Community at the end of a period of some ten years. We shall endeavour below to evaluate first of all the number of jobs to be created in less developed and declining regions and, subsequently, the private investments which the creation of these jobs would necessitate, as well as the public incentives required for this purpose. Secondly, we shall attempt to appreciate the public expenditure necessary for the creation of infrastructures in the regions which are the poorest off and which have been assimilated to the agricultural regions of Table VIII on page 24.

a) Private investments necessary for creations of activities

1) The jobs to be created
   - - - - - - - - - - -

    The table below gives an order of magnitude of the needs for creation of jobs until 1980.

TABLE IX
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ESTIMATE OF JOBS TO BE CREATED FOR THE PURPOSE OF DEVELOPING

THE LESS DEVELOPED AND DECLINING REGIONS UNTIL 1980

	Less developed regions (backward agricultural regions)	Declining industrial regions	Total
Federal Republic of Germany			464.300
France	550.000	150.000	700.000
Italy	2.000.000	100.000	2.100.000
Netherlands	60.000	80.000	140.000
Belgium	10.000	120.000	130.000
Luxembourg			6.000
			3.540.300

    For the Federal Republic of Germany, we have listed the figure indicated in the "21 Regionalaktionsprogramme" for the period 1972-75, excluding 250.000 so-called "consolidation" jobs. In view of the period of these programmes and the possibility of elaboration of new programmes in this country, it is probable that this figure of jobs to be created in the Federal Republic of Germany is an estimate by default. We have however quoted it, but it should be noted that it applies, for certain regions, to objectives which do not correspond to those which govern the elaboration of our estimates (less developed agricultural regions and declining regions).

    In France, the estimate was made for the less developed agricultural regions, assuming a rapid mutation of the agricultural sector and a vigorous development of the secondary sector permitting, at the very least, a zero net migration.

For the declining industrial regions, account has been taken of the possible consequences of the rationalisation of the extractive industries (coal, iron ore mines) and of the mutation which is still considerable in certain basic industries (steel and textiles).

In Italy, for the less developed regions, an overall figure of 3,4 million jobs to be created has been taken as basis, located on an average between the level of 2,2 million and the maximum of 4,6 million jobs quoted in the report "La Politica dell 'Impiego nella Comunità," p.31. Indeed, the margin is very wide between the minimum and maximum, owing to the fact that the intensity of the migratory flow originating from the South during the next decade is unknown. However, the quoted figure of 3,4 million seems plausible if it is the aim to reduce or even eliminate unemployment and migration. Among these 3,4 million jobs to be created, the new jobs which would need to be created in industry have been estimated at 2 million, the others being created by induction in the tertiary sector. For the declining sectors, and more particularly textiles, affecting certain Italian regions, it has been estimated that 100.000 industrial jobs would also need to be created.

For the Benelux countries, the estimate which has been made seems to correspond to the projections which have been established by the competent departments in those countries.

2) Private investments to be effected
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So as to estimate the volume if investments to be effected in a 10-year period in order to attain the objectives of a better equilibrium of regional structures by industrialisation, the average cost of creating one job in industry must be appreciated. This cost varies very considerably from one industrial branch to another and within each branch, inter alia as the result of the rate of mechanisation and automation of the industrial activity. According to a recent confidential private survey, the cost of creating a job in industry could vary from 10.000 to 300.000 u.a. This survey extends to the creation of 450 industrial enterprises or establishments located in various countries.

We have adopted for our estimates the figure of 25.000 u.a. per job
created; this figure may appear to be on the low side, taking account of
the bracket referred to above. However, it should be noted that the creations
of industrial jobs in the less developed regions, and more particularly
agricultural regions, will generally call upon highly labourintensive
industrial activities which, consequently, have a less high cost per job.
We should note, however, that in certain less developed agricultural regions
with a low population density, the tendency might be the reverse and the
average cost per job would be higher. The table below gives the result of
this estimate for the different Community countries.

TABLE X

ESTIMATE OF PRIVATE INVESTMENTS TO BE MADE FOR THE PURPOSE OF DEVELOPING
LESS DEVELOPED AND DECLINING REGIONS UNTIL 1980, COMPARED
TO THE INVESTMENTS REALISED

(in million u.a., 1969 prices)

	Private investments necessary		Private investments realised in 1969 (1)	(b) in % of (c)
	1971-1980	annual average		
	(a)	(b)	(c)	(d)
Germany (Fed.Rep.)	11.608	1.161	15.836	7,3 %
France	17.500	1.750	16.224	10,8 %
Italy	52.500	5.250	8.490	61,8 %
Netherlands	3.500	350	3.570	9,8 %
Belgium	3.250	325	2.024	16,1 %
Luxembourg	150	15	300 (est.)	5,0 %
EEC	88.508	8.851	46.444	19,1 %

(1) New investments, i.e., gross fixed capital formation minus their
    depreciations.

Thus, the private investments necessary for developing the less
developed and declining regions in the Community may be estimated at nearly
9 thousand million u.a., or nearly 20 % of the new private investments
effected in 1969. It should be stressed, however, that for Italy this
percentage attains 62 %.

3) Aid by the public authorities

The incentives necessary for encouraging the creation of jobs in the less developed and declining regions must, in principle, be adapted to the difficulties encountered for the establishment of industrial activities in these regions. Thus, in our estimates, we have been led to modulate the rate of intervention per job created according to the development situation in the different countries of the Community.

In the Federal Republic of Germany and Benelux, we have taken for the estimates an identical incentive equal to 2.500 u.a. per job created.

As regards France and Italy, where the creation of jobs is located in the peripheral regions where the difficulties in creating activities are very considerable, we have taken as basis the figure of 4.000 u.a. for the French regions and 5.000 u.a. for the Italian regions. On these bases, the estimates are as follows (in u.a.) :

Federal Republic of Germany	2.500	X	464.300	=	1.160.750.000
France	4.000	X	700.000	=	2.800.000.000
Italy	5.000	X	2.100.000	=	10.500.000.000
Netherlands	2.500	X	140.000	=	350.000.000
Belgium	2.500	X	130.000	=	325.000.000
Luxembourg	2.500	X	6.000	=	15.000.000
Community					15.150.750.000

b) Public investments

1) Present expenditure

We do not have available specific statistics concerning public expenditure for collective infrastructure equipments. As the intention is to situate the orders of magnitude of the expenditure in question, a possible pointer for this public investment expenditure may be found in the gross fixed capital formation of public departments listed in the national accounting statistics.

In the course of the 1960-69 decade, the trend of these expenditure items was as follows in the Community countries :

TABLE XI

Gross fixed capital formation by public departments (in thousand million u.a.)

(current prices)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Germany	2,259	2,783	3,505	4,005	4,878	5,048	5,255	4,613	5,198	5,880
France	1,410	1,672	2,062	2,441	2,902	3,118	3,566	4,045	4,343	4,555
Italy	1,091	1,135	1,211	1,341	1,565	1,502	1,622	1,579	1,933	1,792
Netherlands	0,460	0,5333	0,598	0,686	0,827	0,894	0,985	1,117	1,303	1,417
Belgium	0,218	0,250	0,294	0,350	0,462	0,424	0,510	0,602	0,708	0,750
Luxembourg	0,025	0,023	0,029	0,025	0,028	0,025	0,029	0,028	0,036	0,037
Community	5,5	6,4	7,7	8,9	10,7	11,1	12,0	12,0	13,5	14,4

TABLE XII

Gross fixed capital formation by public departments in % of the GNP

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Germany	3,13	3,38	3,89	4,23	4,64	4,39	4,28	3,72	3,86	3,85
France	2,31	2,51	2,77	2,93	3,21	3,14	3,30	3,48	3,41	3,25
Italy	3,13	2,92	2,77	2,68	2,86	2,55	2,55	2,25	2,56	2,17
Netherlands	4,11	4,29	4,46	4,69	4,81	4,66	4,74	4,88	5,13	5,01
Belgium	1,91	2,07	2,26	2,52	2,96	2,49	2,79	3,07	3,42	3,28
Luxembourg	4,92	4,94	5,84	5,08	4,93	3,74	4,13	4,26	4,52	-
Community	2,87	3,00	3,28	3,44	3,74	3,88	3,89	3,39	3,51	3,37

TABLE XIII

Gross fixed capital formation by public departments in % of the total gross fixed capital formation

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Germany	13,06	13,36	14,95	16,41	17,19	16,51	15,64	16,12	15,66	15,84
France	11,41	11,67	12,73	13,15	13,19	13,33	13,30	13,88	13,64	12,81
Italy	14,19	12,87	11,95	11,38	13,21	13,60	13,92	11,85	13,18	10,62
Netherlands	17,37	17,84	18,63	20,05	19,33	19,05	18,43	18,97	19,52	19,67
Belgium	10,11	10,27	10,92	12,33	13,54	11,44	12,48	13,80	15,22	15,42
Luxembourg	22,51	18,33	20,47	14,40	13,11	13,31	14,73	16,76	20,20	-
Community	13,00	12,92	13,79	14,47	15,26	14,91	15,05	14,72	15,18	14,14

In order to appreciate the effort made by the public authorities in favour of collective equipments, these figures should be compared with the gross national product, on the one hand, and with the total gross fixed capital formation, on the other.

As to the relationship with the GNP, it is observed that it is in the Netherlands, followed by Luxembourg and Germany, that the gross fixed capital formation of the public departments is the most substantial. France and Belgium are more or less at the level of the Community average and Italy is definitely below it (see Table XII above).

As regards the share of public departments in the total gross fixed capital formation, it is highest in the Netherlands and Luxembourg. Germany and Belgium are slightly above the Community average, while France and Italy are a little below it (see Table XIII above).

The public infrastructure investments meet a twofold need for equipment of populations and equipment of the territory. These two needs are obviously joint, but it is important to relate the expenditure both to the number of inhabitants and to the surfaces they concern. Indeed, although the equipment necessary per sq.km. obviously depends on the population density, a minimum must however be attained if it is desired to ensure that the inhabitants of low density regions have a productivity and hence an income sufficient to remain there.

Related to their populations and their surfaces, the gross fixed capital formation of public departments in the member countries attains the following levels :

TABLE XIV

Gross fixed capital formation of public departments in 1969 (in u.a.)

	per inhab.	per sq.km.	pop. density inhab./sq.km.
Fed. Rep. of Germany	96	23.700	245
France	90	8.300	91
Italy	33	6.000	180
Netherlands	109	42.300	383
Belgium	78	24.500	315
Luxembourg	118	15.400	131
Community	75	12.400	161

As regards the ratio to the population, only Italy is below the Community average, with a very considerable deviation.

As to the relationship with the area, the deviations by comparison with the average are obviously much more considerable since the necessary investments are influenced by the density. This phenomenon explains the very high investment rates per sq.km. in the Netherlands, Belgium and Germany, while on the other hand, the rate of investments by public departments in Italy remains very low despite a density above the Community average. In France, the rate of investments per sq.km. attains 2/3 of the Community average for a population density representing 56 % of the average density in the Community; an effort is therefore being made, but it does not seem, bearing in mind the relatively much more considerable investments necessitated by the equipment of regions with low density, that this effort can result in providing the populations in question with the same level of equipment as in the other regions.

2) The necessary expenditure

The less developed regions of the Community represent the following proportions of the population and area of each country :

TABLE XV

POPULATION AND AREA OF THE LESS DEVELOPED REGIONS IN THE COMMUNITY

Less developed regions of the Member States	million inhab.	population in % of country	sq.km.	sq.km. area in % of country
Fed. Rep. of Germany	3,4	5,0 %	31.000	12,4 %
France	20,1	39,8 %	344.000	62,4 %
Italy	21,1	38,9 %	166.000	55,3 %
Netherlands	0,4	2,8 %	3.000	7,5 %
Belgium	0,2	2,3 %	4.000	14,4 %
Luxembourg				

In order to appreciate the order of·magnitude of the public investments necessary in these regions, we may refer to the national average (see Table XIV), with two exceptions, however, for France and Italy where the proportion of the less developed regions is such that it considerably affects the national average and even, moreover, the Community average.

Thus, it seems that, in order to give an initial image of the extent of what would need to be done in the less developed regions of France and Italy, it would be necessary to select, bearing in mind their respective population densities and the achievements of the other countries, at least 75 u.a. per inhabitant in Italy and 15.000 u.a. per·sq.km. in France and Italy. In Italy, the higher average density than in France could justify a high rate of investments per sq.km., but this effect may be offset by the fact that the surfaces where a significant economic development can occur are limited by the topographical relief. If we refer to Table XIV, the keys thus selected represent very moderate estimates which involve a regrouping of the most important activities and services in central points, even if, thanks to daily travelling, the places of residence may concurrently remain more dispersed.

By applying the rates of Table XIV, corrected in this way, to the populations, on the one hand, and to the areas of Table XV, on the other, we should obtain the following guides for the order of magnitude of the annual expenditure in gross fixed capital formation by public departments in the less developed regions.

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TABLE XVI

ANNUAL PUBLIC INVESTMENT EXPENDITURE NECESSARY FOR THE DEVELOPMENT OF THE

LESS DEVELOPED REGIONS

(in million u.a., 1969 prices)

Regions in	by reference to the population	by reference to the area
Germany (Fed.Rep.)	3,4 x 96 = 326	31 x 23,7 = 735
France	20,1 x 75 = 1.508	344 x 15,0 = 5.160
Italy	21,1 x 75 = 1.583	166 x 15,0 = 2.490
Netherlands	0,4 x 109 = 44	3 x 42,3 = 128
Belgium	0,2 x 78 = 16	4 x 24,6 = 98
EEC	3.467	8.611

By comparing the figures of Tables XI and XVI, we see that in order
to make the investments in question in the less developed regions of Italy,
almost the whole - or even more, if we refer to the area - of the gross
fixed capital formation, at present financed by the Italian public depart-
ments, would have to be allotted thereto. In France, where the density of
the less developed regions is particularly low compared to the average den-
sity of the Community, it is the cost of equipment of space which, for these
regions representing 62 % of the territory, would exceed the aggregate of
the expenditure by public departments in gross fixed capital formation. In
fact, there can be no question of the countries in question sacrificing the
equipment of their developed regions, as the latter have to maintain their
competitiveness vis-à-vis the other developed regions of the Common Market,
and have to provide part of the resources necessary for the equipment of the
less developed regions. There is therefore a twofold development imperative
at one and the same time for the two categories of region.

Furthermore, there is added to the burden of public finance the
aid to be granted to enterprises for the creation of jobs, which, as we
have seen above, was very considerable in Italy, in view of the large number
of jobs which need to be created there.

...

In all, Italy - with an area comparable to that of Germany and with
a population which is only 10 % less, - should be able to come close to the
volume of public investments effected in Germany, whereas in fact it does not
even reach one third of this volume. Likewise, France, with an area more than
double that of a Germany and a population which is only 20 % smaller, should
be in a position to exceed appreciably the volume of public investments in
Germany, whereas it attains only three quarters of this volume.

The increase of the volumes of public investments in such propor-
tions quite obviously raises considerable budgetary problems with far-rea-
ching repercussions on taxation, and consequently on prices and incomes.

It is however by taking into consideration the aggregate of the
investments in question that one can best appreciate their possibilities of
implementation and the effect which would result therefrom on the economic
equilibrium of the member countries and, hence, on the economic equilibrium
within the Community.

c) The conditions of implementation of investments

It is advisable, on the one hand, to situate the total increase in
the expenditure necessary, and on the other, to appreciate the possibilities
of achieving such an increase in the framework of open competition which is
that of the Common Market and with the disciplines imposed by an Economic and
Monetary Union, in particular that of fixed parities.

If the private investments necessary in respect of creation of jobs
(including public incentives) are spread over a period of ten years, we obtain,
in order of magnitude, the annual amounts appearing in the first column of
Table XVII. It would doubtless be possible to provide for a progressive arran-
gement which would decrease the amounts of the first few years and increase
the amounts of the last few years; but we must also consider the fact that

...

the values selected are the present values, which will tend to be increased
by technical evolution in the course of the years. In any case, it is in no
case a question here of proceeding to precise evaluations, but simply of
indicating orders of magnitude.

As regards public investments, it is for the sake of simplicity that
the average of the evaluations made (cf. Table XVI), on the one hand in rela-
tion to the population, and on the other in relation to the area, will be
taken as sole order of magnitude.

TABLE XVII

ANNUAL INVESTMENTS NECESSARY FOR THE PURPOSE OF DEVELOPING LESS DEVELOPED
AND DECLINING REGIONS

(in thousand million u.a.)

Regions in	Private invest-ments	Public invest-ments	Total
Fed. Rep. of Germany	1,16	0,53	1,69
France	1,75	3,33	5,08
Italy	5,25	2,04	7,29
Netherlands	0,35	0,09	0,44
Belgium	0,33	0,06	0,39
Luxembourg	0,02		
Community	8,86	6,05	14,89

Mainly for France and Italy, it is a question of investments which,
for the greater part, have to be added to the investments already made annual-
ly in these regions, for it is their equipment handicap by comparison with
the other regions that has to be offset to a large extent in the course of the
decade by a special effort supplementing what would be necessary simply to
ensure that this handicap is not aggravated.

Table XVII then shows the considerable disproportion, according to
countries, of these supplementary investments to be made for the development
of less developed regions, disproportion which is obviously the reflection,
in terms of investments, of the different intensity of the regional disequi-
libria according to country.

...

The implementation of such disproportionate supplementary invest-
ments is likely to create among the economies of the Member States distortions
incompatible with the Common Market and the functioning of an Economic and
Monetary Union. Indeed, it is the very countries where the substantial share
of the less developed regions most affects the real productivity which have
the greatest effort to make and hence the most resources to muster.

These resources cannot be mustered by increase of prices if their
economies have to remain competitive and their monetary parities fixed by
comparison with those of their partners.

Mustering these resources by means of pressure on incomes, such as
increased taxation, checking the growth of remunerations, maintance of longer
weekly, annual and professional working hours for an equal remuneration, very
rapidly comes up against obvious political and social limits. Indeed, the
Common Market aims to disseminate information on standards and conditions of
living, thus facilitating a harmonisation accompanied by progress. Further-
more, the free circulation of workers already, and the freedom of establishment
gradually, show that perceptible differences in the income conditions are not
accepted in the long run. The phenomenon, which is already very sensitive to
frontiers, could be extended if the disparities were to be accentuated; this
would be the case if each Member State were to make independently, while
maintaining its prices and currency, the necessary investment effort for the
re-balancing of its economy, a re-balancing which is itself indispensable,
as we have seen in Part I of this document, for the internal equilibrium of
its economy as well as for the economic equilibrium of the Community as a
whole.

...

The conclusions of this study, although in outline form and based on estimates that are sketched in a rather overall way, are that the Member States, by affirming their determination to establish among themselves an Economic and Monetary Union, have implicitly chosen to apply jointly structural policies rendering adaptation, at the level of the Community, compatible with the harmonisation of demand, i.e., the needs of the populations, necessarily provoked by the Common Market, in the technical and sociological conditions of the modern world. The Member States should orientate accordingly the public equipment investments on their territory, the public interventions to facilitate the necessary deconcentrations, the creations of new activities and the modernisation moves, the information that has to enable private activities better to appreciate the investment opportunities in the light of the needs of regional planning, the channelling of capital towards the necessary investments, as well as the training of people.

It is not enough to wait for each Member State to make, each for its own account, the necessary efforts for this structural adjustment; in certain States, an effort of this kind, even should it be technically conceivable, would create, if exerted without the support of the Community, such tensions in the economic, social and political field that the implementation, in the foreseen or even foreseeable future, of the Economic and Monetary Union could be fundamentally compromised.

A fortiori, if the necessary effort to adapt the structures is not commensurate with what needs to be done, the inflationary effect of the structures, as it has been analysed here, as well as the checks to growth provoked in an unequal way in the different countries by the existing structures, will render largely illusory the pursuit of the goal which the Member States set themselves by establishing the Common Market and planning the implementation of an Economic and Monetary Union.