
Regional policy in the European Community

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Regional policy in the European Community

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in the European Economic Community

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Introduction

The Rome Treaty clearly defines the general objective of regional policy in the Common Market. The member states declare in the preamble that they desire "to strengthen the unity of their economies and to ensure their harmonious development by reducing present differences between the various regions and by mitigating the backwardness of the less favoured". Article 2 says the aim of the Community is "to promote a harmonious development of economic activities throughout the Community . . ."

In order to achieve these objectives the Rome Treaty first of all allows certain exceptions to the Treaty's general rules for reasons of regional policy. This applies to Article 80 on transport rates and conditions, Article 92 on state aids, and Article 226, which provides for safeguard measures in the case of serious economic difficulties in a region. Furthermore, Articles 39(2), 42 and 49(d) lay down that regional conditions shall be taken into consideration in giving effect to the common agricultural policy and the free movement of workers.

In addition, the European Investment Bank was established to finance projects designed to promote development in backward areas.

Besides these specific provisions, the obligation, contained in Articles 2, 3(a), 6(1) and 145 of the Treaty, to coordinate general economic policies also concerns regional policy, in as much as it is an aspect of general economic policy.

By virtue of Article 155, it is for the Common Market Commission to keep note of the effects of national and common economic policies on the development of economic activities in the various regions, and to take the steps necessary for concerted action by the regional and national authorities, on the one hand, and the Community Institutions, on the other, to ensure the harmonious development of the regions of the Community.

The policy to be implemented both by the member states, in accordance with their respective constitutional procedures, and by the European Community, to achieve the Treaty's objectives in this field will form an important

component of the medium-term economic policy which is being established under the decision of the Council of Ministers on April 15, 1964.

A resolution passed by the European Parliament on January 22, 1964 bore on a number of points of regional policy and urged, in particular, that an overall concept of regional policy should be worked out jointly by the Communities and by the national and regional authorities. This was also recommended by the Economic and Social Committee in its formal opinion of January 19, 1964.

In order to prepare this overall concept of regional policy, the Commission decided to consult leading figures in this field.* The reports of the three working parties it set up present a comprehensive survey of problems of regional policy in the Community and make detailed recommendations (see appendices).

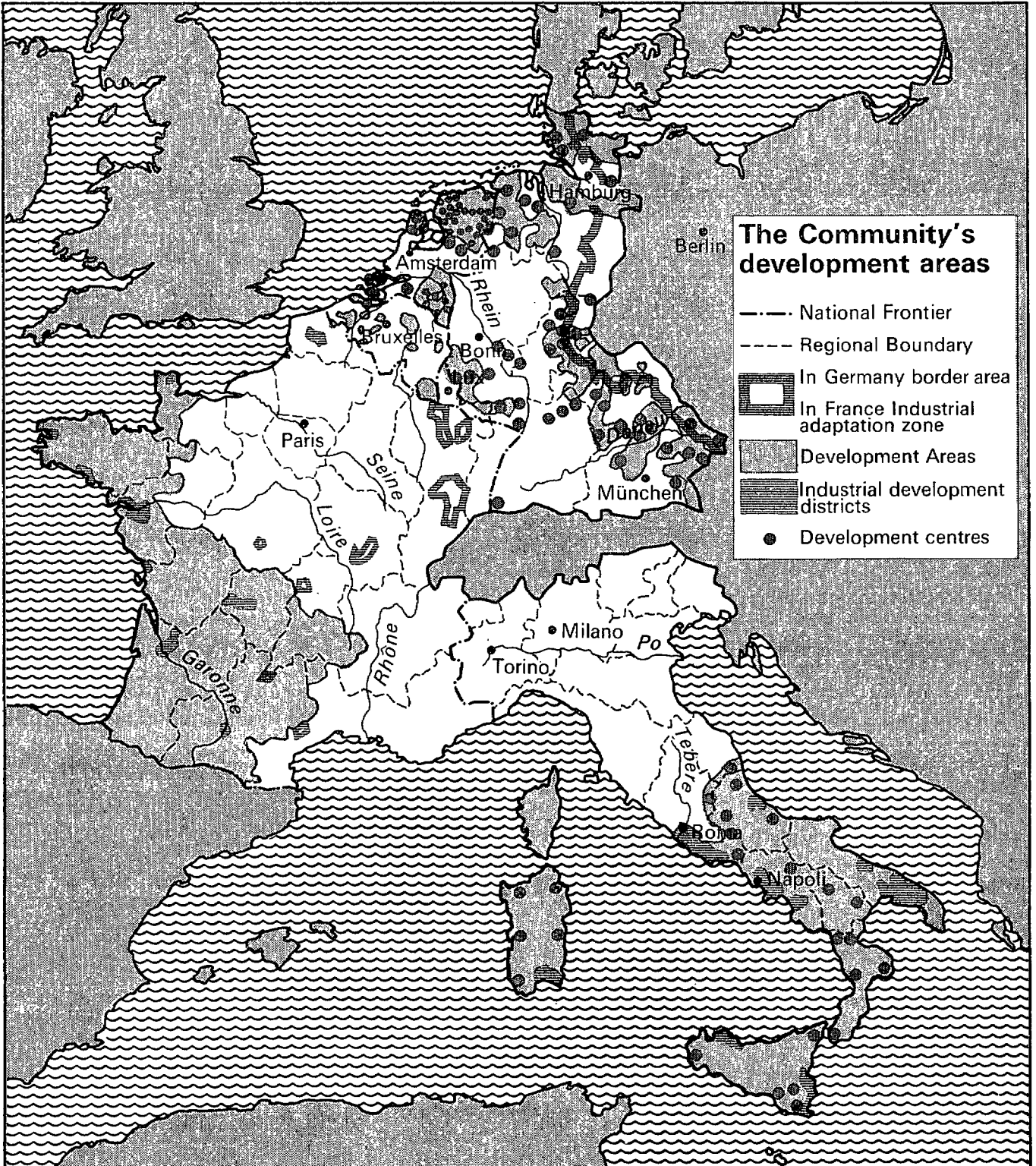
In order to further the aims of the Treaty and in pursuance of the recommendations of the European Parliament and the Economic and Social Committee, the Commission herewith submits to the Council the conclusions it has drawn from the work of the experts and from its other studies.

The Commission considers that for the regions to be developed harmoniously:

1. Agreement must be reached in the Community on the aims and methods of regional policy;
2. The member states, and within their sphere of competence the Community Institutions, must coordinate their means of fulfilling these aims.

*See the following Report of Working Party No. 1 (Chairman: W. Langer, State Secretary at the Ministry of Economic Affairs, Bonn) on aims and methods of regional policy in the European Community; Report of Working Party No. 2 (Chairman: F. Persoons, consultant to the SOCOREC Company, Brussels) on the adaptation of ageing industrial areas; Report of Working Party No. 3 (Chairman: F. Bloch-Lainé, Director-General of the Caisse des Dépôts et Consignations, Paris) on the instruments of regional policy in the member states.

These three reports are available in one volume at 17s. 6d. through HMSO, PO Box 569, London SE1; and at \$2.40 through the Washington and New York offices of the European Communities Information Service (for addresses see inside back cover).



Aims and methods of regional policy in the European Economic Community

Aims of regional policy

In defining the aims of regional policy in the Community the following considerations have been borne in mind:

1. When the Common Market was set up, the *per caput* product of the more advanced regions, according to available statistics, was sometimes as much as three times that of the least-favoured regions of the Community. Although the regional policies applied in the member states have achieved a measure of success, the gap does not seem to have narrowed much in recent years.

Experience shows that these disequilibria are the result partly of historical trends, partly of natural factors and partly of measures by which the concentration of economic activity in certain regions of the Community has been unwittingly encouraged, so that market forces alone can no longer rectify them; this must be done by an active policy pursued both by the member states, according to their respective constitutional procedures, and by the European Communities.

2. The reaction to a unified economic area of the Six and the development of trade with non-member countries will intensify competition and will cause various problems of adjustment – inevitable in any case – earlier than expected in certain regions and branches of industry.

In the coal and steel sectors, which are regulated by the Paris Treaty, far-reaching structural changes are under way as regards power supplies and the conditions governing the location of iron foundries and steelworks. The economic flexibility thus regained, which favours a more balanced development of the regions, is being accompanied by diversification in old industrial centres, another very desirable trend.

The gradual working-out of a common energy policy, which was begun by the Protocol of Agreement of April 21, 1964, will therefore have a very marked effect on action aiming at orderly expansion in the least-favoured regions, and ensuring that changes occur gradually, and, more generally, at achieving an acceptable growth rate in certain large industrial centres. Similarly, the general objectives for steel, laid down in pursuance of Article 46(3) of the Paris Treaty, will provide guidance on likely development trends in this basic Community industry. The Community's agricultural policy, which will encour-

age specialization in line with natural conditions of production and marketing, will also have an impact on the economy of the various regions.

The structural weaknesses of certain predominantly agricultural regions are likely to become greater in a Community market, for the areas adversely affected by the common policy on agricultural prices and marketing will be even less competitive in Community terms than on the present national plane. Such regions should be prevented from seeking a solution to their economic and social problems by demanding excessively high agricultural prices. Since the expected increase in agricultural income should normally be accompanied by a reduction of employment in agriculture, it is necessary to create sufficient jobs in other sectors of activity to absorb the surplus agricultural manpower. The policy of improving agricultural efficiency must therefore be supplemented by an active regional policy.

3. Mobility of manpower between economic sectors and regions is a prerequisite for dynamic activity; but, beyond certain limits, interregional migration produces not only social and human problems, but also economic drawbacks. The less-favoured peripheral regions lose the younger and more vigorous elements of the population, impairing their chances of future expansion, while expanding areas have to bear the rising costs of excessive industrial concentration.

Better geographical distribution of industry can make a substantial contribution to general economic growth, by permitting, in certain regions, the integration into the production process of unemployed manpower and of manpower unsuitably employed for lack of training facilities and the right kind of jobs, and also by helping to reduce the social costs of swollen urban areas.

4. Regional policy must develop the present and potential resources of the various regions, having regard to their natural advantages, and encourage specialization in industries able to face up to competition. In this way the inhabitants of the various regions may play an active part in economic growth and enjoy better conditions of employment and a higher living standard.
5. Without systematically aiming at bringing regional incomes all to the same level, or artificially curbing the

growth of the more developed areas, regional policy must help to correct excessive disparities between the incomes of the various regions.

While a development policy must be applied in every region, Community action must give priority to those where the living standard is lowest or where particular adaptation difficulties are encountered.

6. In certain exceptional cases, optimum distribution of the factors of production may be incompatible with certain other objectives. Priority must be given to regional measures that best contribute to the expansion of the national and Community economy; but purely social measures must also be taken to remedy difficulties which cannot be resolved by action justified solely on economic grounds.

The role of regional programs

In each region constituting a coherent social and economic entity, a suitable policy must be pursued to provide a high level of employment for the available labour force and to promote diversified economic development. To these ends the national and regional authorities must take concerted action, employing methods appropriate to the political and constitutional systems of each country. The impact of the Common Market also places a similar responsibility on the Community's Institutions.

Decisions on investment and the siting of industrial undertakings are taken freely by individual companies, though such decisions are in large measure influenced by the action of the public authorities, in particular by the quality of the infrastructures they provide and the regional effects of any policy measures they take.

It is becoming increasingly evident that regional development programs are essential if effective regional policies are to be carried out. It is not, of course, a question of drawing up programs to be imposed on companies, or of compiling lists of regional demands, but of stating, on the basis of a thorough analysis of the economic structure of each region, the broad lines of the policy that the national and regional authorities intend to apply in order to develop each region's resources. In this way, coordinated action can be taken by the regional authorities, and the necessary coherence between measures taken at national and regional level best ensured. The existence of regional programs does not necessarily bring about an increase in available resources, but at least it makes possible a more rational and efficient

use of those resources, by permitting the coordination of schemes undertaken in different parts of the area.

Such programs are of special interest for the Community, for it is the duty of the common Institutions to see that the regional objectives of the Rome Treaty are reached. To do this they possess extensive means of action: financial instruments (Social Fund, European Investment Bank, Agricultural Guidance and Guarantee Fund, the financial resources of the ECSC High Authority), discretionary powers (compatibility of regional aids with the Treaty, safeguard clauses), and the common policies, established or contemplated (agriculture, occupational training, transport, energy, trade, etc.) in so far as they affect the regions.

The rational and effective employment of these various powers presupposes a thorough study of regional structure so that decisions are not taken without consideration of all their probable effects. If measures taken by national authorities and Community bodies do not dovetail into coherent regional programs based on such studies, they are likely to be inadequate and sporadic. Regional programs, therefore, make it possible to place the means employed by the authorities, at different levels, in a coherent context and to plan them in accordance with the objectives of the Community's economic policy, in particular the common agricultural policy.

Consequently the Commission considers that by the drawing up of overall required programs, integrated in the general policy of the member states and, as soon as it has been defined, in the Community's medium-term economic policy, will make a useful contribution to the fulfilment of the Rome Treaty's aims.

Development programs, or their basic requirements, already exist for several regions in the Community. The Commission must therefore accept the regions defined in each country as the framework for regional policy, despite their heterogeneous nature.

Such programs are at present drawn up on different lines. Agreement must be reached at Community level on the general lines of the methods to be followed in preparing them in future. The initial suggestions made here* are very general in character and may be applied to any region, whatever its economic characteristics. At a later stage, of course, agreement must be reached at Community level on standard programs adapted to the various types of problems to be solved.

*See report of Working Party No. 1.

1. Population and employment forecasts will disclose how a region would develop socially and economically in the absence of an active regional policy. Various alternatives based on different hypotheses can be studied so that policy-making bodies may choose between these hypotheses and decide on the policy to be implemented in each region.

Such forecasts are necessary not only in the regions to be developed, but also in regions already industrialized, which are sometimes too dependent on certain industries; employment forecasts, based on the study of employment prospects sector by sector, provide a valuable instrument for forestalling adjustment difficulties.

Such studies require that the member states make further efforts to improve their regional statistics; moreover, the European Communities Statistical Office needs to be endowed with the necessary means to collect and standardize statistical data.

2. These forecasts make it possible to formulate for each region, in accordance with the constitutional procedures applicable in each member state, a policy which, while corresponding to the specific needs of the region, may be integrated in the economic policy adopted at national level and coordinated with the policies followed in other regions. These policies, of course, must be continually adjusted to the development of the economy.

3. In the field of public investment, which is of particular importance to economic and social development, medium-term programs for the major regions provide a very effective instrument. Investment decisions on infrastructure are taken at very different levels: some by local authorities, some by regional authorities, others by the state; in certain cases the Community Institutions can also play a part. This dispersal of powers is necessary in order to adapt achievements to needs, but the establishment of investment programs by regions is essential for the rational coordination of public investment and its application to projects capable of making a greater contribution to regional development. Such regional programs presuppose that, in the national budget, investment financed by the state is allotted by region. For some very large regions, it may be useful to break down the regional budget into sub-regions.

4. All concerned, including the various local bodies, must

play an active part in the planning and execution of policy in each region. Development can result only from efforts of adaptation and creation made within the region. Costly infrastructures will not help unless the local population realizes the effort that is necessary on their part.

Adaptation of programs to the different problems

Regional programs should be prepared in stages for as many regions as possible along lines appropriate to each country. Such programs are necessary not only for the coordination of official measures at national level; they are also indispensable at Community level in order to examine the regional consequences of economic integration and to permit the necessary coordination.

For regions or areas where particularly urgent problems arise, more detailed regional programs must be drawn up. In such cases it will no longer be simply a question of guidance with a view to the necessary coordination of official measures but of action programs involving specific measures to deal with the most serious difficulties. Sometimes they will cover the whole of a region, sometimes only a part of it, concentrating on the areas where the problems are most urgent.

For action necessary within the Community framework a choice must be made of the regions or parts of regions requiring special measures.

For this purpose it is useful to distinguish (as the working parties have done*) between regions remote from the main industrial centres of the Community and those whose economies benefit from proximity to such centres. This means not that the latter type of region does not have its difficulties, but that different methods must be applied to each type.

For action at Community level, a distinction must therefore be made between the following:

- Large peripheral regions of the Community with no large industrial centres and which are predominantly agricultural; the major examples are southern Italy and western and south-western France;
- Other regions which already include industrial centres, but which may be experiencing certain difficulties:
 - in less-favoured rural areas;

*See report of Working Party No. 1.

- in old industrial areas faced with adaptation and conversion problems;
 - in congested industrial areas.
- Frontier regions within the Community which have special problems, and other frontier regions, affected by the interruption of traditional flows of trade as a result of political events, which require special measures (e.g. the zonal-border areas of Germany).

Regional action programs must deal with these various problems. The working parties reached a number of conclusions which are broadly accepted by the Commission.* While the Commission is aware that the development of a region calls for overall action, dealing not only with economic aspects but also with cultural and social aspects in the broad sense, it lays particular stress on the following points, which particularly concern industrialization methods. In this connection it is becoming more and more apparent that coordinated and concentrated use of public powers is particularly effective in some areas.

1. Peripheral regions remote from large industrial centres possess, where there is sufficient density of population, manpower reserves; but workers may be underemployed in agriculture or obliged to emigrate to seek work.

Nowadays the technical conditions governing the supply of power and raw materials are no longer an obstacle but an advantage to the development of such regions.

The establishment of competitive enterprises in the peripheral regions is therefore possible, provided that they can benefit from general conditions promoting the self-sustaining development of industrial centres (whether already in existence or not). These conditions may consist either of the indispensable links between complementary economic activities or of general infrastructure facilities provided by the public authorities

Regional action programs should therefore aim at the creation in such regions of "development poles", forming a complex of industries and services, possessing all the necessary infrastructure and capable of further development through normal economic forces, once the initial steps have been taken.

The concept of a development pole must not be confused

with that of an urban concentration. The former can be an area which may embrace several urban centres (as in the case of the Taranto-Bari pole). Nor is it enough to create, by more or less artificial means, large basic industrial units which remain isolated technically and psychologically from the rest of the local economy. Action by the public authorities must therefore encourage activities which "generate" or "induce" other activities, among which services play a large part.

In order to create such poles, it is first of all necessary to make a systematic study of the economic orientation of the areas in the light of natural and demographic factors. This will guide the public authorities in their decisions on provision of public utilities and services, and will aid companies' investments by the means at the disposal of the member states and the Community.

In order to discourage emigration of young people from the development poles to large, congested centres, the necessary amenities must be provided (housing, hospitals, roads and communications, occupational training, higher education, transport infrastructure, research, etc.). Because of the scale and diversity of the public investments to be made, concentration of effort is necessary in order that the principal amenities can be provided simultaneously.

Once the growth points are sufficiently advanced and dynamic, secondary centres can develop. When, as in western France and certain regions of southern Italy, industrialization is already under way in towns of various sizes, the formation of large industrial centres is all the more urgent, in order to maintain and extend the prosperity and development of industries already set up, often in isolation, in secondary centres.

Similarly, the reorganization of farming is needed in these regions to allow the rural population to share in the general economic growth. Besides specialization of food production for inter-regional trade, production for the rising needs of the people of the development poles and secondary centres will also raise farm incomes. But the farmers of the region will be able to reap the benefits of wider markets only if they are ready to make a sustained effort to rationalize their operations.

Where population density is too low to permit the creation of large centres embracing a diversified group of

*See conclusions of Working Party No. 1.

secondary and tertiary activities the improvement of agricultural structure, the encouragement of other activities (such as the tourist trade), and the setting up of enterprises less dependent on proximity to other industries may provide the key to development. In order to prevent the drift from the land from exceeding the economically-justified and socially-acceptable limit, and to prevent the rural population from being left with too high a proportion of elderly people, it is advisable to group communal amenities in certain "village centres".

2. In smaller rural areas with development problems, but which are not too remote from industrial centres, a better geographical distribution of industry must be encouraged by developing secondary centres, mainly in order to absorb workers who have left the land. One good method is to set up in medium-sized localities which already play an administrative and cultural role in the region, the infrastructure necessary for the development of secondary centres; the "central points" (*Zentrale Orte*; now *Bundesausbauorte*) in the Federal Republic of Germany and "development centres" (*Ontwikkelingskernen*) in the Netherlands provide useful lessons in this respect. The regional programs can there designate central points and set out the utilities and services required.

3. In old industrial areas in need of adaptation and conversion, regional policy must aim at diversifying the economy by setting up new industries, so that the income of these areas may continue to rise. Regional programs must provide not only for the establishment of new enterprises but also for industrial retraining, town planning, public utilities, etc. It may also be advisable to select certain points offering favourable conditions for the growth of diversified economic activities – not necessarily exactly where conversion problems have arisen, but nearby – and make efforts at their renovation.*

At the request of the member states, and in accordance with the ECSC Treaty, the High Authority shares in the planning, financing and launching of new industrial activities. In this way it contributes to the adaptation of the basic sectors (coal, iron and steel) for which it is responsible and on which the earnings of areas with these occupations are mainly dependent.

4. Various studies have shown that in areas where there is excessive urban concentration, public expenditure per inhabitant increases with the size of the built-up area. The Commission proposes to put in hand a study of local government expenditure in the large towns of the Community and ways of financing expenditure necessitated by over-concentration.

5. For regions adjacent to frontiers between member states, the gradual removal of the economic frontier increases the need for cooperation, particularly on infrastructures.

6. In regions of Germany bordering on the Soviet zone, various coordinated measures must be taken to ease the economic consequences of the break in traditional trade flows.

The planning of programs to resolve the difficulties of these regions would be facilitated by the use of models appropriate to the various situations. The Commission will propose arrangements for working out such models.

Community aspects of regional programs

In order to avoid regions "outbidding" each other and to correct new imbalances, regional programs must be coordinated and integrated into each country's general economic policy.

Similar problems tend to arise at Community level, and the programs will have to be closely scrutinized in the six-nation context:

- to ensure that the assumptions on which they are based are consistent (for example, as regards migration);
- to appraise the effects of the integration of Community markets on the economy of the various regions;
- to forecast and weigh the consequences of the common policies (agriculture, transport, occupational training, energy, trade, etc.) on the economy of the regions and to ensure that regional programs are in harmony with the general aims of the medium-term economic policy now in preparation;
- to see in what measure exceptions to the general principles of the Rome Treaty are justified for reasons of regional policy (aids, transport rates and conditions involving support or protection within the meaning of Article 20 of the Treaty, safeguard clauses), and to

*See conclusions of Working Party No. 2.

prevent public authorities from encouraging the starting up of business concerns which would not in the long run be competitive in the Common Market or able to meet external competition, and for which financial assistance might impair the free play of the market in the sectors concerned;

- to see how far the Community's financial institutions (European Investment Bank, Agricultural Fund, High Authority Fund, Social Fund) can contribute to the execution of these programs.

In order to attain these objectives it is not enough for the Community authorities to be informed of regional programs which have been adopted. If the new problems arising from the establishment of the Common Market are to be taken fully into account, regional programs must be discussed at Community level before they are finally adopted.

The Commission intends, in coordinating medium-term policies, to organize exchanges of views on the programs of certain regions between the senior officials responsible for regional policy in the member states*; representatives of the regions concerned will also take part in these discussions. In this way it will be possible to form a clearer idea of the impact of the Common Market on the economy of these regions, to direct programs along common lines, to eliminate

inconsistencies and, lastly, to call the attention of the Community's financial institutions to the most urgent problems. As is already the case of the Agricultural Guidance and Guarantee Fund, and as is planned in the proposed reform of the Social Fund, the Community will be able to give priority to projects integrated into a general scheme to promote harmonious economic development in the region concerned.

In these discussions priority will of course have to be given to the programs of some regions, certainly the peripheral regions, which will be the object of the Community Institutions' special attention. It will be necessary to ascertain whether the measures taken in favour of these regions are sufficient to attain the Treaty's aim of "mitigating the backwardness" of less-favoured regions.

Some coordination is also required for the programs of regions adjacent to member countries' common frontiers, where the prospects for development must be studied jointly. A close study will also be made of difficulties in regions bordering the Soviet zone of Germany in order to see what help can be given by the Community. Lastly, the programs of old industrial areas will be discussed, especially in order that the common Institutions may be in a position to appreciate the regional effects of measures taken in sensitive sectors such as coal, iron-mining, shipbuilding, etc.

*See Section 3: Organization

Instruments of regional policy in the European Economic Community

The principal instruments of regional policy in the European Community are in the hands of the public authorities in the member states, whether central, regional or local – the division between them varying according to the constitution of the country. But in employing these means the provisions of the Treaty must be respected. In addition, the Community Institutions have powers of their own.

An effective regional policy in the Community presupposes, as has been stressed by the European Parliament, that the means at the disposal of the member states, at national and regional levels, and of the European Community are directed towards common objectives.

One cannot over-emphasize the need to plan regional action (of whatever nature – agricultural structure, transport infrastructure, occupational training, etc.) in a general perspective of the economic situation and prospects of the region.

In the light of the experts' findings the Commission has set out below its proposals and suggestions on certain instruments of the regional policy of the member states, and particularly those of the European Communities.

Member states' instruments

One aspect of regional policy in the member states is the effort to guide and stimulate industry by offering financial incentives and providing the necessary power, water and other infrastructure services.

Experience has shown that the efficacy of financial inducements should not be overrated; it is becoming increasingly clear that such aids, even on a large scale, by themselves cannot ensure adequate regional development. Financial aids will not, for example, compensate for the difficulties caused to firms by inadequate infrastructure. For rapid durable development, a wide range of coherent operations is required from both public and private enterprise.

The various instruments of regional policy were closely studied by the experts*; the Commission's first conclusions deal mainly with financial aids, in respect of which it has special responsibilities under the Treaty.

Financial aids†

Article 92 of the Treaty says that the following aids may be compatible with the Common Market: "Aids intended to promote the economic development of regions where the standard of living is abnormally low or where there exists

serious under-employment" and "aids intended to facilitate the development of certain activities or of certain economic regions, provided that such aids do not change trading conditions to such a degree as would be contrary to the common interest".

To apply this article the Commission needs detailed information on the situation in the regions and on the programs proposed. At present, the criteria applied by the member states in defining areas where industry may receive financial aid vary considerably, and they will have to be more closely defined.

The Commission intends:

1. to make recommendations on projects which would most merit the financial support of the member states and which would be least likely to distort competition. Here, the reorganization of infrastructures, in the broad sense of the term, must have priority;
2. to make recommendations on the sectors in which aid to industry would be likely to affect the conditions of trade to a degree adverse to the common interest. These are the sensitive sectors, in which there is surplus productive capacity or very keen competition, so that the Treaty's safeguard clauses are likely to be invoked. It would not be a question of restricting the free play of the market but of preventing public aid from creating surplus capacity;
3. to observe, by means of a procedure which the Commission has already proposed to the governments, the ways in which general aid systems operate. This will make it possible gradually to establish a body of rules for regional economic policies consistent with Community interests, particularly in connection with the creation of development poles and secondary centres; these rules will guide the member states in applying their current aid systems.

The Commission considers that aids could be more effective if the following principles were observed:

- Development aids should facilitate the establishment of industry in centres or other localities of the less-favoured regions where there are the best chances of development. Financial aid systems should be designed to favour the growth of the development poles and centres discussed above, as is already done in certain countries;

*See conclusions of Working Party No. 3.

†Subsidies, interest rebates, tax concessions, etc.

- For financial aid to be effective, the necessary infrastructure should be provided at the same time.
- Aid must be granted to financially sound concerns capable in the longer term of standing up to competition in the Common Market.
- Financial incentives and concessions must facilitate the adaptation of structures to new economic and technical requirements and encourage regional specialization. Adaptation implies that these advantages should give the initial impetus. Permanent aid is likely to hinder the adjustment process and support non-competitive activities; this would entail not only a loss of production for the whole economy, but could also create, sooner or later, fresh regional problems.
- This does not, however, exclude in certain cases – in agriculture, for example – assistance departing from these principles on grounds of social policy.

The achievement of the Common Market means that there must be a gradual harmonization of aid systems. Regional action and competition policy require a certain relationship between the aids granted and the gravity of regional problems, not only in individual countries but for the Community as a whole. The less the degree of backwardness, the greater the risk of injudicious aid. Problems of competition take on quite different aspects when they are posed in large peripheral regions of the Community, rather than in smaller areas where particular development and adaptation problems arise. In both cases priority must be given to the necessary infrastructure; but in the case of the outlying regions the granting of extensive financial advantages may be justified to persuade businessmen to take risks and incur the additional costs inherent in any new undertaking in underdeveloped regions. In areas situated near industrial centres, on the other hand, there are several competing manufacturers of each product, and this explains the importance of financial advantages, even slight, in competitive circumstances.

A harmonized system of aids would include measures to start up development poles in the large peripheral regions. In other Community regions with development and adaptation problems, loans at low interest or with interest rebates, granted for limited periods on the basis of common criteria, would help the development of secondary centres.

Infrastructure

Infrastructure covers not only communal facilities (such as roads, sewers, etc.), but all the public utilities and services without which industry cannot flourish. It is a very broad term, embracing all the factors important for economic development: economic infrastructure proper (sites, communications, etc.), general education and occupational training, housing, sanitation, social and cultural amenities.

As the provision of this very costly communal capital is necessary for the development of private industry some concentration of effort in specific development poles or central points is inevitable. The Commission endorses the recommendations of Working Party No. 3 on this subject, though there are certain points regarding each type of infrastructure with which it does not entirely agree.

Certain main European transport routes are of particular importance because they are necessary to link future growth points in the peripheral regions with the leading Community markets. In the less-favoured areas of the Community, investment in transport infrastructure must take into account not only present traffic conditions (which almost always favour the developed regions) but also the long-term outlook wherever there are prospects of successful development.

Administrative and financial organization

As regional development is bound up with the decisions taken by the public authorities, or, more precisely, with their repercussions on industrialists' decisions about the siting of factories, common action by all the central and local authorities, in liaison with the representatives of industry, the unions and other interested parties, is essential.

The first thing is to see that the decisions taken by the public authorities do not inadvertently cause over-centralization. Taxation and public service charges must be taken into consideration in this connection. For example, the fact that in certain large towns firms do not bear, by way of local taxes or public-service charges, all the public expenditure they cause tends to favour geographical concentration. The first prerequisite of harmonious distribution of industry throughout the Community is that firms should contribute a fairer share of the financial consequences of their concentration in thickly-populated areas.

On the other hand, particularly high-yielding taxes are levied on the turnover of manufacturing industries, which favours industrial towns and places rural centres or dormitory towns at a disadvantage.

A more detailed knowledge of the effects of taxation on the siting of industry is desirable, so that taxation systems can take regional effects into account.

The same applies to credit. Conditions seem to be more favourable to the development of regional projects in Community countries where means exist in the regions of channelling savings into industrial investment, or where there are at least financial institutions with sufficient resources available.

Next, it is necessary to ensure coherent action by local, regional and central authorities. While the Commission is aware that problems vary according to the administrative structure of the member states, it endorses the experts' recommendations*.

Conditions are favourable for the development of local and regional initiative in countries which allow considerable autonomy to local and regional government. Where local authorities have a high degree of autonomy they generally possess the staff and financial means to undertake certain projects. Often the practical problems are better known and can be solved at local and regional levels without the administrative delays involved in applying to the central authorities. But it can also happen that too much weight is given to local interests, with consequent ill-effects in the field of general policy. There is a risk too, that the local and regional authorities will outbid each other to attract firms. Lastly, if some projects are beyond the powers of local and regional administration, it may prove difficult to share out responsibility between the local, regional and central authorities, and this may cause delays in tackling some problems.

This is not so in countries where the administrative structure is more centralized. Vertical coordination is easier, but local and regional initiative meets with more difficulties. Measures to encourage local participation in regional development constitute a step forward, but, more often than not, the ultimate power of decision still lies with the central authorities or their appropriate departments.

In several Community countries there are plans to widen the powers of the local authorities, which in some regions would mean the regrouping of such authorities, and to grant the regions a degree of administrative autonomy. These problems can be solved only in the long term and with caution, avoiding dispersal of effort, especially in the early stages of development.

No one system can resolve all the difficulties. Ideally, the

local and regional population, or more precisely their representatives, should themselves manage local and regional interests; excessive competition for resources between local authorities should be avoided by effective horizontal coordination and by the integration of local and regional action into the national economic policy through adequate vertical coordination.

Effective regional policy calls for a definite assignment of responsibilities, especially in regions where a practical program is to be carried out. How responsibility is assigned will depend on the administrative structure of the individual member state and the regional situation.

Community instruments

First of all, the European Communities must see that the common policies which they implement help to correct regional imbalance; then, through the coordinated employment of their own financial resources, they will be able to help solve the problems of certain regions.

Regional effects of common policies

AGRICULTURAL POLICY

The unification of agricultural markets by aligning prices means that the location of production tends to be governed by natural and economic conditions, and that agricultural activity in each region must be developed on the most rational lines compatible with the economy in general.

But alignment of prices may sometimes result in a reduction in the prices paid to producers. This may place a sufficiently large number of agricultural undertakings in a difficult position to constitute a regional problem. On the other hand, economic expansion may reveal fundamental inadequacies in farming in certain regions, increase the disparity between farm incomes and those of other sectors, and speed up the drift from the land.

Therefore, in order to prevent the worsening of existing disparities between rural and other areas, the common agricultural policy has been concerned from a very early stage with the fundamental problems of farming: the gradual implementation of a policy to raise efficiency and improve organization has been regarded as the essential corollary of the common policy on marketing.

The principal course open to the Community in this field is to coordinate the member states' policies on agricultural efficiency and organization in pursuance of the Council

*See conclusions of Working Party No. 3.

decision of December 4, 1962. This calls for the examination of national policies and their coordination in the light of the interdependence of the common policies for marketing and for fundamental reorganization, and also of the possibilities of regional development.

The second mechanism available to the Community is the Guidance Section of the European Agricultural Guidance and Guarantee Fund. Its responsibility is to finance projects for fundamental improvements in farming, and it must grant priority to schemes integrated into a complex of measures to promote the harmonious development of the general economy of the region (cf. Article 15:1 of Council Regulation No. 17/64).

The Commission has announced its intention of submitting to the Council proposals for "Community plans to improve living standards in farming", including organizational or social measures intended to better the social and economic situation of farms or regions which are economically backward but which nevertheless offer possibilities of adaptation and integration into the economy as a whole.

These plans to coordinate policies on fundamental improvements in farming, Article 15:1 of Regulation No. 17/64, and the Community proposals planned represent three positive contributions of the Community's agricultural policy towards correcting regional imbalances and solving some regions' problems.

It should be stressed again that policy on fundamental improvements in agriculture must be integrated into an overall view of the situation and of the economic prospects of the regions concerned.

TRANSPORT POLICY

The common transport policy must aid the promotion of a balanced regional development.

Exceptions permitted by Article 80(2) of the Rome Treaty in the matter of support rates and conditions must be examined in the light of the economic effectiveness of such measures. These rates and conditions have certain disadvantages compared with other instruments of regional development: the extent of the advantage granted is not known exactly either by the businessman at the receiving end or by the public authorities at the giving end. Such aids are particularly favourable to undertakings whose operations are sensitive to changes in transport costs and may thus prevent the optimum siting of industrial concerns. As an instrument of regional policy improvement of infrastructure is more effective than support rates.

The first objective of the common transport policy should be to promote the construction of a number of main European routes linking development poles in the outlying areas with the central regions of the Community.

Coordination of national and regional programs of transport infrastructure is also necessary in regions situated on the common frontiers of the member countries and in the case of certain forms of infrastructure, such as ports whose hinterland extends over several regions. The experts proposed, in particular, coordinated Community investment in the North Sea ports.*

The Commission has submitted to the Council a proposal to introduce a consultation procedure for the main transport infrastructures, as a contribution to the medium-term economic policy program for this sector. The procedure proposed by the Commission will provide a means of adapting infrastructure programs to the needs of regional policy.

ENERGY POLICY

Recent years have seen radical and fundamental changes in the energy sector. Energy supply played a decisive role in the siting of industry in the nineteenth century, and even now most large Community industrial centres are situated near coalfields. Today, the energy produced within the Community represents less than a half of its total consumption, and this share will certainly decrease. In this respect the peripheral regions are now favourably placed, thanks to the discovery of natural gas and the possibility of importing cheap oil and coal. Lastly, pipelines make it possible to set up refineries in regions where up to the present there has been little industry.

Thus one of the principal limiting factors which in the last century played a major part in determining the regional economic pattern has now been largely eliminated. Similarly, the conditions which governed the expansion of the steel industry are undergoing appreciable changes. The last ten years, in particular, have seen new steelworks set up in coastal areas (e.g. Dunkirk, Taranto), using imported ore with American coke.

Nowadays, as a result of changes in the sources of supply, most of the peripheral regions of the Community could enjoy fuel prices no higher, and perhaps lower, than those in the large traditional industrial centres bordering the coalfields. But current regulations and policies still have the

*See report on Working Party No. 1.

effect of maintaining relatively high fuel prices in some regions. This leads to distortions which are likely to hinder balanced development at Community level.

The Inter-Executive Working Party on Energy (set up by the Common Market and Euratom Commissions and the ECSC High Authority) considers that the common energy policy now being planned should take account of social and regional factors. In this respect the problem is twofold. On one side, it is important that the outlying regions, where development has long been held up by relatively high fuel prices, should now benefit from the reversal of the situation in their favour. On the other hand, the reduction of Community coal output poses difficult problems, which vary from region to region in their nature and magnitude.

In April 1964 Protocol of Agreement provides for coordination at Community level of measures to guarantee a certain level of coal production and to ensure that the substitution of other fuels should not be too abrupt.

At the same time, joint action by the member states and the Community Institutions, particularly the High Authority, to encourage new activities should be intensified; important results have already been achieved.

Finally, it is time to give thought to the siting of nuclear power stations in relation to the objectives of regional development.

OCCUPATIONAL-TRAINING POLICY

The common vocational training policy, to be implemented under Article 128 of the Treaty, may well be an effective instrument of regional action, for such training will play a growing part in regional development. As the handicaps of the Community's outlying areas are reduced, particularly in the field of power supplies, development prospects will depend more and more on the skills of the population. Present tendencies towards specialization and automation mean that increasingly high levels of training are required. Firms that set up in the less-favoured regions should be able to find there, if not trained personnel, at any rate training facilities to adapt the available manpower to their needs.

Training facilities must therefore be developed and a system of financial incentives introduced to enable people who wish to do so to take retraining courses. If necessary, compensation should be paid to firms for costs incurred in employing workers whose initial output is low.

In order to have their full regional effect, training schemes should be planned to meet the existing or foreseeable demand for skilled labour in the region concerned.

In agriculture, where the need for training is particularly acute, Article 41 of the Treaty provides for the coordination and joint financing of training schemes of centres under the common agricultural policy. The Commission recently submitted to the Council a proposal for a regulation under this Article.

Arrangements for retraining provided for in the ECSC Treaty (Article 56 in particular) have in the High Authority's experience proved more efficient when synchronized with the starting up of new industries. These forms of aid have also proved to be easily adaptable to the varying requirements of the operations to be undertaken.

Moreover, in areas with development problems, it is natural that workers and heads of firms should be helped to bear burdens whose origin lies not in the particular firm, but in the trend of the national economy; retraining is of decisive importance here.

Financial resources

Although the financial resources of the European Institutions are allotted for various objectives and are administered by different bodies and with different procedures, their coordinated application provides the Community with important instruments of regional action, allowing it to make an effective contribution to the fulfilment of regional programs.

EUROPEAN INVESTMENT BANK

The European Investment Bank (EIB) has already made a substantial contribution to solving the development problems of the Community's large outlying areas.

By the end of 1965 the Bank had made 117 loans, totalling \$614 million. The investments to which the Bank has contributed total some \$2,800 million.

The Bank's activity in financing regional development could be facilitated if certain problems arising from its operations were solved.

In the first place, the total of the Bank's loans greatly exceeds its paid-up capital, and the Bank has already borrowed large sums. Nevertheless, in future the Bank's resources will have to be adapted to the level of the demands being made on it, and this presupposes, in particular, that the member states will facilitate the Bank's access to their capital markets more than they have done in the past.

Secondly, the Bank should continue, and perhaps even step up, its financing of regional infrastructures, in view of its beneficial effects on the regions concerned and on the

Community's economy. In employing its limited funds in this sphere, the Bank should take into account the relative importance of infrastructure projects for the achievement of specific regional objectives and the extent to which they form part of overall programs.

Lastly, satisfactory solutions should be found for certain technical obstacles to projects that may be particularly useful for regional development. The interest rates charged by the Bank are in general lower than those prevailing in the member states, but they still place a considerable burden on borrowers. If the Bank is to play a more active role in regional development, borrowers should be able to obtain more favourable terms, as they already do in some regions. The Bank's Statute allows member states or third parties to grant interest rebates. The European Parliament has suggested that the Commission could be the third party in such arrangements. A detailed, technical study should be made of methods of granting rebates employed by regional, national and Community authorities.

ECSC HIGH AUTHORITY LOANS

Similar problems arise as regards interest rates on High Authority loans for redevelopment operations and the exchange risks incurred by firms.

The coordination of High Authority loans with those from other Community bodies must be studied in anticipation of the merger of the Communities.

In order to take fully into account all the implications for sectors outside its own field, the High Authority satisfies itself, by consultation in a joint working party on which the Commission and the EIB are represented, that there are no objections to its aiding the establishment of a new industry by granting a loan.

EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND

The Guidance Section of the European Agricultural Guidance and Guarantee Fund provides useful facilities for fundamental improvements in farming, which are an important aspect of regional policy.

An overall concept of regional policy in the Community and the examination of regional programs at Community level are essential in order:

1. To draw up the Community programs, envisaged under Article 16 of Regulation No. 17, setting out the operations (and possibly series of operations if required for greater

efficiency) and the areas on which the main effort should bear;

2. To apply judiciously Article 15 of the same Regulation, which gives priority to schemes forming part of a series of measures to promote the harmonious development of the general economy of the region.

EUROPEAN SOCIAL FUND

This fund exists mainly to remedy unemployment and underemployment by helping finance retraining and re-employment schemes. Given the generally localized nature of unemployment and underemployment, these schemes often further the objectives of regional policy. Aid from the Fund has certainly had an effect, for the prospect of an automatic contribution by the Fund to expenditure in this field acts as a spur to measures aiming at a more rational utilization of the manpower available in the regions concerned.

However, as the initiative in this sphere can be taken only by the member states, it has not been easy for the Commission to guide the Fund's activities towards the objectives the Commission would like to attain.

In order to broaden the scope of the Social Fund, the Commission has submitted to the Council a number of proposals, the most important of which aim at providing the Fund with the means to intervene more directly in the sphere of regional development. The objects of the proposals are:

- To allow the Fund to share in the building, extension and equipping of training centres in regions where they are lacking.
- To promote retraining programs and the building or improvement of centres through a more positive intervention procedure; the Fund could act, by means of advances to member states and public corporations, as soon as training programs are started.
- In cases of redevelopment, to enable the Fund to contribute towards maintaining the wages of workers who, on losing their jobs following the closing down of a firm, take a job with new firms setting up in the same region.
- To extend aid from the Fund to certain categories of underemployed workers who are either completely unskilled or are obliged to learn a new job owing to advances in production techniques. This should provide an incentive to start up new industries in development areas or old industrial areas.

- Lastly, to finance housing for workers moving either within a member country or from one member country to another; this again may facilitate the establishment of new industries in the regions concerned.

COMMUNITY FUNDS FOR SURVEYS

The Commission has funds available to conduct surveys, and it has undertaken a number of pilot studies: the promotion of a development pole in southern Italy; the

creation of a network of growth points in the Eifel-Hunsrück area and in eastern Bavaria; and cooperation between northern Lorraine and the southern part of the Belgian province of Luxembourg. The High Authority cooperates in some Commission surveys and undertakes many studies and technical assistance operations in the mining and steel-producing areas of the Community. The Communities can also provide technical assistance in drawing up certain regional programs.

Organization

Regional policy is one of the fields covered by the Council's Decision of April 15, 1964 on medium-term economic policy. An essential part of the medium-term economic policy that the Council has decided to draw up will be devoted to regional problems. The procedure of consultation with the European Parliament and the Economic and Social Committee and of approval by the Council will therefore be applied automatically to this part of the medium-term economic program.

It is also desirable that the group of senior officials responsible for regional policy in the member states should continue to meet in Brussels to help coordinate their respective countries' regional policies. It is within this group that exchanges of view on the programs for some regions can be most effective, for when the programs for any regions are examined that region's representatives will take part.

As in the past, representatives of the ECSC High Authority will continue to be invited to meetings of the group, in particular to provide, in the mining and steel-producing areas, the unity of action necessary in the Communities. Representatives of the European Investment Bank will also be invited.

In regional policy it is particularly useful for the Commission to obtain the opinions of those who play an active role in their field at regional and local level in the member states. Contacts made, both at the Conference on Regional Economies and in the working parties, will be maintained.

The Commission will from time to time hold meetings of authorities on regional policy, in particular those who have been members of the working parties; to hear their opinions on the policy to be followed in the Community.

The European Parliament has proposed the widening and strengthening of contacts between representatives of local bodies in the member states and the Executives of the European Communities. The Commission already has regular contacts with the representatives of local bodies and has heard their opinions on the reports of the working parties. Anxious as it is for the cooperation of those personalities who, at local and regional level, play a decisive part in regional development, it is ready to study with the member states arrangements to ensure that such contacts are as effective as possible.

The European Parliament has proposed the establishment of an information and documentation centre on regional problems in the Community. Some publications already exist: they represent the fruits of the experience of the Commission (Conference on Regional Economies; reports of the working parties) and of the High Authority (publications on industrial conversion; series on regional economy and policy). Although the resources of the Commission's specialized services are limited, it is ready to develop exchanges of information and documentation, mainly by extending its publications, and to meet requests for information whenever possible.

Conclusions

The regional objectives of the Rome Treaty call for concerted action by the regional, national and Community authorities, embracing not only measures with specifically regional objectives, but the orientation of the whole of general economic policy in such a way as to meet the needs of harmonious regional development.

Implementation of an effective regional policy in the Community requires:

- Action by the member states, about which various conclusions may be drawn from this report.
- Action by the Commission, as part of a program implementing the provisions of the Treaty in line with the requirements of regional policy.
- Procedures for effective cooperation between the regional, national and Community authorities.

Recommendations to the member states

Various points in this report call for action by the member states with a view to promoting a balanced economic and social development in the regions. They will be the subject of Commission recommendations to the member states under Article 155 of the Treaty:

1. In each region forming a coherent social and economic whole, a suitable policy must be applied to ensure diversified economic development and to encourage specialization in economic sectors capable of becoming competitive.
2. Detailed economic and social studies must be made, including regional forecasts of population and employment. For this purpose further efforts must be made to improve regional statistics.
3. The preparation of "guidance programs" for as many regions of the Community as possible; these programs must be integrated into the general policy of the member states and into the Community's medium-term economic policy. This will make an important contribution to the achievement of the Treaty's objectives. Medium-term programs of public investment are needed to ensure the rationalization and coordination of measures taken by national, regional and local authorities.
4. All interests concerned and all representative local bodies must participate actively in the planning and execution of policy in each region, for, while programs are necessary, they are never sufficient in themselves. Development of a region calls for adaptation and creative effort from within.
5. In regions or parts of regions with particularly acute problems, "guidance programs" to ensure the necessary coordination of measures taken by the public authorities, must be supplemented by action programs. In some centres the coordinated and concerted use of the public authorities' resources has been particularly effective.
6. In the large peripheral areas which are far from the main industrial centres and are predominantly agricultural, the creation of development poles must be promoted. These will group coherent complexes of industries and services and contain the necessary infrastructure to be able to develop, after the initial measures through the play of market forces. Such poles, if sufficiently comprehensive and dynamic, will support the development of secondary centres. An active policy of fundamental reorganization must also be set in train in agriculture.
7. In areas less remote from large industrial centres, a better geographical distribution of economic activity must be encouraged by facilitating the development of secondary centres equipped with the necessary infrastructure.
8. In old industrial areas not only must the introduction of new industries be encouraged, but economic structures must be thoroughly overhauled, notably by a drive on retraining and town planning.
9. The programs for areas situated on frontiers between member states, where development has sometimes been hampered by economic frontiers, must be collated and coordinated. The difficulties of regions situated on the border of the Soviet zone call for special attention and measures to help solve their specific problems.
10. Priority must be given to the building-up of infrastructure, so that companies setting up in less-developed areas have the benefit of infrastructures equal to those in prosperous regions.
11. The infrastructures which must be developed go beyond economic infrastructure in the narrow sense (industrial

zones, communications, transport) and include training facilities (general education and occupational training) and social amenities (housing, health, cultural and leisure facilities).

12. Infrastructures must be built up and financial aid granted with a view to encouraging the further growth of the network of development poles and secondary centres discussed above. It is particularly important to build certain main lines of communication linking the outlying areas with the central regions of the Community.
13. Financial aid to facilitate the redevelopment of the structure of Community regions to new economic and technical requirements should give the initial impetus and promote the setting up of sound undertakings capable of meeting competition in the long term.
14. Care must be taken to see that taxation systems and rates for public services do not indirectly encourage a geographical concentration of activities.
15. The member states should facilitate access to their capital markets for issues by the European Investment Bank so that it can expend its regional aid.

The Commission's action program

To further the aims of the Rome Treaty in regional policy, the Commission plans the following measures:

1. To facilitate the drawing-up of coherent regional programs for the regions of the Community, the Commission will:
 - (a) in cooperation with experts from the member states, continue to study methods of drawing up such programs. It considers that the adoption of models suited to different types of regions would make for a more effective regional policy, and will propose procedures for preparing such models. It will continue to provide technical aid for the preparation of certain regional programs;
 - (b) continue its study of economic trends in the main regions of the Community since the inception of the Common Market;
 - (c) place at the disposal of the representatives of the member states and of regional authorities the conclusions of surveys which it has undertaken in certain regions on the "development pole" and "growth point" method;
 - (d) undertake, with expert assistance, a study of the additional costs involved in over-centralization.
2. To obtain a clearer picture of the impact of European integration on the economy of the different regions and of the extent to which the Community's financial institutions (the European Investment Bank, Agricultural Fund, Social Fund, High Authority Funds), can contribute to regional programs, the Commission considers that the programs of certain regions should be discussed at Community level by the group of senior officials responsible for regional policy in the member states. Representatives of regions concerned and of the European Investment Bank will take part in these exchanges of views. First and foremost, the discussions will cover: economic and social trends and the programs envisaged in the major peripheral areas; the programs of regions on the frontiers between Community countries, where development prospects must be studied jointly; regions bordering on the Soviet zone of Germany; and certain old industrial areas.
3. The Commission will use the powers given it by Article 92 and following of the Treaty, concerning aids granted by the public authorities to encourage regional economic expansion, and those given it by Article 80 on transport rates and conditions. In order to be able to coordinate the policies of the member states in these fields, the Commission intends, by a procedure it has already proposed to the Governments, to observe the ways in which general aid systems operate. This will make it possible gradually to build up a body of rules for regional economic policy in harmony with the Community's interests, especially in connection with development poles and secondary centres; these rules will also serve to guide the member states in applying the aid systems presently in force.
4. The regional policy will also be furthered by the co-ordination of policies on fundamental improvements in farming under procedures laid down by the Council. As regards the European Agricultural Guidance and Guarantee Fund, priority will be given in accordance with a Council decision, to projects forming part of a set of coherent measures to encourage regional development. In 1965 the Commission will propose the Community agricultural guidance programs provided for by Council Regulation No. 17/64. It intends to suggest priority areas

for "guidance" expenditure by the European Agricultural Guidance and Guarantee Fund. Social measures in agriculture are to be placed on a regional basis. Finally, the Commission intends to propose "Community plans to improve the living standard of the farm population".

5. As part of the coordination of investment in transport infrastructure, particular attention will be paid to improving lines of communication between development poles and the central regions of the Community.
6. The Commission considers it desirable that one aim of the common energy policy now in preparation should be to enable the peripheral areas of the Community to take greater advantage of the opportunities offered for their development by new energy supplies at lower prices. The common policy must also take into account the social requirements of the coalmining areas.
7. The Commission will make proposals, under the common occupational-training policy, to encourage the more efficient use of manpower still unsuitably employed in certain Community regions.
8. The Commission, together with representatives of the European Investment Bank and experts from the member states, will study the technical details for granting interest rebates which will permit the Bank to extend its operations, particularly for the development of infrastructures.
9. On the Social Fund, the Commission has made several proposals for widening its possibilities of granting aid in connection with regional problems, especially development and retraining.
10. The Commission will improve coordination of regional aids given by the Community's financial institutions. The granting of priority to schemes forming part of regional programs will facilitate such coordination.

Policy machinery

Efficient machinery for cooperation must be established to permit concerted action by national and regional authorities on the one hand and the European Institutions on the other.

1. Regional policy will form an essential part of the first phase of the Community's medium-term economic policy. After reference to the European Parliament and

the Economic and Social Committee, the Commission will accordingly submit to the Council for approval, by the procedure laid down in the decision of April 15, 1964, the regional elements of its first medium-term economic program, covering the period 1966-70.

2. The group of senior officials responsible for regional policy in the member states will continue to hold meetings on the coordination of regional policies. Representatives of the ECSC High Authority and the European Investment Bank will be invited to its meetings.

The group's terms of reference will be:

- To carry out the preparatory work which may be required of it by the Medium-term Economic Policy Committee in order to draw up the section of the medium-term economic policy program dealing with regional policy;
- To follow the economic trends of the various Community regions in order to examine the consequences of the establishment of the Common Market and the regional effects of common policies;
- To serve as a framework for consultation on regional policy measures planned by the authorities of the member states and to put forward suggestions for coordinating the policies adopted;
- To hold exchanges of views on the programs for certain regions, as proposed in section 2 above.

3. From time to time the Commission will hold meetings of leading figures in the field of regional policy, to elicit their opinions on the policy to be followed in the Community.
4. As the Commission is anxious to associate with its work personalities who play a decisive part in development at local and regional levels, it is prepared to study with the member states arrangements for making such contacts as fruitful as possible.
5. As far as its means allow, the Commission will facilitate exchanges of information and documentation on regional policy in the Community.

Aims and methods of regional policy

Conclusions of Working Party No. 1 on problems of development areas

Summary of report

1. The regions of the European Community are subject to very varied conditions of development: the ratio between the *per caput* gross product of the poorest and the most active regions is one to three.

2. Certain tensions are necessary for the stimulation of economic growth; but such wide divergences adversely affect the overall economic balance of the Community.

In a fully-employed economy, the absorption of under-employed labour in or from less developed regions, as well as the reduction of communal expenditure in oversized urban areas, can contribute substantially to general economic growth.

3. The aim of regional policy is consequently to enable every man and woman in every region of the Community to contribute more effectively to and to participate in the prosperity of the member countries and the Community in general.

4. Individual development schemes are often necessary, but alone they are never sufficient; the development of a region can only spring from a local effort of adjustment and enterprise; costly social investment contributes nothing to regional development unless the local people become aware of the effort that they must themselves make.

In order to harness the full development potential of a region, the harmonious growth of economic activities must not be hindered by deficiencies of infrastructure, as is often the case in underdeveloped regions; but the existence of appropriate infrastructure is not in itself enough to encourage economic activity, and the quality of the infrastructure is but one factor in prosperity.

5. In examining the contributions of various economic activities to the development of a region, we must distinguish between:

(A) "motive" industries, i.e. those that provide the driving force, which export to other areas, together with ancillary activities – subcontracting and services; these bring into the area where they are established a flow of money which stimulates its economy;

(B) "induced" or secondary activities, which produce essentially for regional

consumption, and the prosperity of which depends on the regional standard of living, whether this is supported by income from "motive" and related activities or by transfer income (i.e. supplied from outside the region).

6. The development of a region depends first of all on the development of "motive" activities, which may be agriculture, certain services with effect outside the region, and, above all, industry.

Regional action must therefore hinge on leading industries, or an industry and ancillary trades. Secondary activities are also of considerable importance in regional development, for they act as relays for the spread of economic activity, though they generally arise spontaneously as a result of market forces, as soon as the infrastructure necessary to them has been installed.

7. Agriculture plays an important part in regional development. Cash crops are the essential "motive" activity in sparsely-populated areas. Furthermore, the aim nowadays is to improve productivity in agriculture in order to give farmers an income comparable to that in other economic sectors. In many areas, it is therefore to be expected that during the coming years agriculture will continue to release a considerable number of workers for work in other occupations.

8. Tourism may contribute to the development of certain regions with scenic and climatic attractions, but this industry is very sensitive; careful coordination of its development by the regions involved is necessary for it to prosper.

9. Notwithstanding the contribution of other economic activities, manufacturing remains the dominant industry in densely-populated areas.

During the last century, transport difficulties and the large share of costs attributable to energy requirements attracted the engineering industry to iron- and steel-working areas. Owing to technical progress, mainly improved transport and cheaper raw materials and energy, these factors governing location now play a far smaller part.

10. However, concentration continues in the manufacturing industries, engineering attracting engineering, chemicals attracting chemicals, and so on. In modern economies, production units are more and more specialized; they generally call on outside firms for auxiliary work, maintenance and sub-contracting. Firms undertaking the whole production cycle, from raw material to finished product, are now the exception; the majority form links in a more and more complex pattern of inter-industrial traffic. These relations require very frequent commercial and technical contacts between suppliers and customers. This close interdependence of the processing industries is particularly evident in such highly-integrated branches as electronics, light engineering, chemicals, etc., each of which calls upon service industries which are rather different from those required by other groups.

The tightening of links between processing industries is accompanied by a loosening of relations between processing industries and basic industries; the products of the latter being for the most part standardized, technical contacts between processing and basic industries are less necessary.

11. Regional policy must be adjusted to the economic structure and natural propensities of each area. It is therefore out of the question to define precisely the methods to be applied in all possible situations; however, on this point most of the regions of the Community can be divided into a limited number of basic types, for which the Working Party has studied the policy to be followed, particularly as regards industrialization.

12. The need of the processing industries to be located near a large industrial centre, where they can find the suppliers, customers and the services they call upon, has necessitated a differentiation of regional policy, depending on whether a region already includes or is near one or more industrial centres, or is a large region still predominantly agricultural.

13. In regions possessing or lying near one or more large industrial centres, industrial development is conditioned by the economic dynamism of those centres. In such areas economic policy must therefore aim

at maintaining the dynamism of these centres, while avoiding excess concentration, and at a better distribution of economic activity by developing secondary centres, particularly in order to absorb manpower leaving the land.

In regions that do not possess any such centre, but are sufficiently close to one, the principal aim of regional policy becomes the harmonious development of secondary industrial centres accompanied by an improvement of agricultural structure.

14. In large densely-populated agricultural areas not in proximity to a large industrial centre, the first aim of regional policy must be to create as quickly as possible such a pole of development; it is advisable to avoid dispersing the efforts of the public authorities as long as such a centre does not exist. The setting up of industries in secondary centres may solve local social problems, but without a dynamic pole of development in the area these industries may not thrive. Also, such undertakings are only justified if they are in relationship to the main centre, the creation of which they must not be allowed to delay, for the problem as a whole may only be considered as solved when the existence of a main pole of development, sufficiently broad-based and dynamic, allows the development of normally competitive industries in the secondary centres of the area.

When industrialization has in fact started, as in western France and certain parts of southern Italy, the creation of large industrial centres is all the more urgent in order to maintain the activity of factories in smaller towns; the beginnings of industrialization in such towns in this case prepare the ground for the normal spread of large industrial centres.

It is therefore advisable to start by studies of resources, the potentialities of the region, its present situation and the foreseeable short- and medium-term evolution. These studies should provide pointers to the branches of industry most likely to succeed. The choice of a development pole is generally dictated by concentration of population or favourable site conditions.

Industrial development is necessary to absorb the manpower leaving agriculture and to change the mental climate of these areas. But if industry is developed without regard to other sectors, there is a danger that the modern industrial centre will remain the odd man out. The promotion of new industries should therefore be accompanied by coordinated efforts in the other sectors.

15. In sparsely-populated agricultural areas, the chief aim of regional policy is to improve structures; with the drift from the land, sufficiently large modern undertakings can bring in a satisfactory income, but often the entrepreneurial spirit is lacking even where the material means exist.

A drastic change of outlook is necessary, which may result from an inflow of new-

comers from more dynamic and more advanced farming areas; but for imported techniques to be put to full use by all farmers in the area it is necessary that the local authorities consolidate holdings and provide advisory services.

This reorganization is necessary where an area is too thinly populated to justify the public utilities and services nowadays expected in a modern society. Moreover, it is easier to maintain the desired technical and cultural level among the rural population where there is contact with other sectors. It is therefore necessary to promote complementary industries and services, which may vary from one area to another.

These complementary activities justify economically the infrastructure necessary on the regional level, but they do not solve the problem of villages where the population has dwindled to the point of not justifying even minimum utilities and services and, furthermore, does not constitute a socially-viable community. Thus, in thinly-populated areas it must be an aim of regional policy to form rural communities of adequate size.

16. Regional policy is an aspect of general economic policy which must be integrated with the general economic system in any state, and by any means consistent with overall policy.

17. In all member states of the European Community businessmen can take what decisions they choose, provided they respect legal and town-planning regulations; when governments wish to influence business decisions they offer financial or fiscal inducements. Moreover, utilities and services are always a matter for public authorities; long-term plans for public investment, coordinating the action of various authorities, are becoming increasingly the general practice of modern states.

18. In the Community countries which make medium-term forecasts for each economic sector, these usually constitute the framework for regional programs, although fitting them into national programs is still a novelty and no final conclusions from this experience can yet be drawn.

In the member countries which do not make sectoral economic forecasts there is no framework into which regional economic programs can be fitted. This does not mean that regional programs are non-existent, but it does imply that the objectives are qualitative rather than quantitative; besides, the national authorities have to supervise the planning and execution of these regional programs because of their own participation in most cases.

19. The planning and, above all, the execution of a policy of economic and social development in a given region require a full understanding of the situation at the start and the spontaneous developments to be expected as it proceeds. As the nature and

volume of public investments must be determined for each region, and these investments must be rationally spread over a period of time, it is imperative to form a precise estimate of the labour supply and demand situation and of specific needs arising from population growth, such as housing and schools.

20. Such a survey should include the following:

- (A) Population projections, assuming no migration;
- (B) Employment prospects on the basis of foreseeable developments in the main industries in each region;
- (C) Comparison of these prospects, noting possible imbalances.

21. This study of population and employment prospects will indicate the probable social and economic evolution of the region, assuming no bias is introduced by official measures; this will suggest several possibilities, which it will be for the regional planning authorities to choose between.

22. In any case, the regional policy decided upon must respect certain general principles, particularly:

- (A) Unity of economic policy within each region;
- (B) Coherence between policies applied in the various regions;
- (C) Adjustment to economic growth.

23. The practical work of coordinating regional policies at national level is dependent on constitutional and administrative structures and will therefore be different in each member state.

24. Coordination at Community level has the following main objectives:

- (A) To reconcile the demographic forecasts for the various regions, and particularly those for the migration of labour;
- (B) To see that the agricultural objectives of various regional policies fit into the common organization of agricultural markets;
- (C) To prevent adjacent administrative districts which, although separated by national frontiers, are part of the same socio-economic region, from applying different and uncoordinated regional policies which would entail economic distortions inconsistent with the common market;
- (D) To coordinate tendencies in regional policy with the common policies adopted, particularly in the sphere of manpower movement, training and retraining, transport, etc.;
- (E) To integrate in a comprehensive policy the operations of Community financial institutions: the European Investment Bank, the European Social Fund, and the European Agricultural Guidance and Guarantee Fund;

(d) To see that any measures proposed conform to the rules of the common market.

25. Procedures for the coordination of policies on agricultural structure were laid down in a decision of the Council of Ministers dated December 4, 1962. Other aspects of regional policies also call for a certain coordination in the framework of common policies. The proposed medium-term economic policy for the Community will contribute to this.

26. There are three elements of regional policy:

- (A) Attraction of industry, mainly by financial facilities and tax concessions;
- (B) Installation of utilities and services;
- (C) Stimulation of social and cultural activities.

27. In order to attract firms whose activities will further the aims of regional policy, all the member states offer certain financial and fiscal inducements. In principle such inducements take different forms in countries which make sectoral forecasts under a national development plan from those in countries, such as Germany, which adhere to the concept of a market economy. In practice, however, these instruments of regional policy have so far remained almost as indiscriminating between branches of industry, in member states that plan for each sector at national level, as they are in Germany. In fact, public policy on economic activity depends less on any general principles of national policy than on the nature of the problems to be tackled at regional level.

28. Where businessmen meet with no serious obstacles in following the guidance of the public authorities, even small financial and fiscal inducements may be enough to gain their acquiescence. As the private entrepreneur bears most of the financial risk, there is not much danger of taking wrong economic decisions. Generally speaking, the sectoral planning of investments is unnecessary and undesirable.

29. On the other hand, in the under-developed areas as a whole, government assistance will reach such a level that there is a risk of provoking unbalanced development. The public authorities must therefore take an active part in the organization of industrial development.

As the aim is first to set up firms and services constituting a modern industrial centre, the public authorities must inevitably lay down certain lines for economic development: they must at least show preference for branches of industry that are likely to make a substantial contribution to the development of the area. For instance, it is advisable to foster industries which provide the motive force but it is unnecessary to

provide for the development of secondary activities.

The need to channel investments into particular sectors may decline as local economies develop and become more diversified, since then their internal dynamism will be enhanced, and direct intervention will appear both more difficult and less necessary.

30. It is important in regional development to provide the necessary utilities and services. This is of course a matter for the public authorities. The distribution between central and local government varies from one member country to another.

Decisions about public utilities and services are taken at different levels according to their nature and importance: some by local authorities, some by regional authorities, some by the state. In some fields, coordination is provided for at Community level within the framework of common policies; moreover, at certain levels, regional and particularly national, competence is often divided between several authorities.

This is necessary so that the schemes undertaken may be appropriate to the needs. However, it often has the disadvantage that, while all utilities and services are important for development, policy-making bodies often act without bearing in mind the implicit choices their decisions represent for the future of the area. The sporadic nature of such decisions is aggravated by the fact that budgeting is done from year to year.

This is why, once economic policy for a region has been decided, the best course is to plan and execute an infrastructure program based on that policy. Such a program must place responsibility on the various authorities – it must say which authority will do what – but it should not go into all the decisions in detail. It should contain the major schemes which are important for regional development, indicating the priorities dictated by economic considerations; as regards secondary matters, it should merely lay down the broad lines and criteria.

31. What such a program should not do is to anticipate every branch of activity the area may conceivably support and expect the government to provide all the necessary facilities.

32. The program should provide for the three types of infrastructure we have discussed above:

- (A) Training facilities;
- (B) Social and educational capital;
- (C) Economic infrastructure proper, i.e. the necessary utilities and services for the branches of industry contemplated, plus transport and communication.

33. Incentives, varying in complexity with the relative difficulty of the problems involved, together with appropriate in-

frastructure programs, are certainly necessary for regional development. But they will not be effective unless the local people take advantage of them. Action must be taken to arouse their interest and infuse new life into the area.

Other suggestions

The question of adapting administrative organization to the needs of regional development has been studied by Working Party No. 3 and is dealt with in the third part of that Working Party's report. The present Working Party has therefore left this question aside, but would stress that, in areas where economic backwardness is combined with outdated social structures, the concentration of technical and financial means needed to start a self-sustaining process of economic development often requires the establishment of special bodies distinct from the normal administrative machinery of the state and areas concerned.

Other subjects, which the Working Party could only touch upon, would repay further study:

1. Occupational training. This is mentioned several times in the report, in particular in the paragraph concerned with educational matters.

2. Local-government expenditure. Many studies have shown that *per caput* public expenditure increases with the size of the town; it appears, however, that no one has yet isolated the portion of that increase which is attributable to an improvement in services from that which is attributable to an increase in unit costs. Moreover, one would have to evaluate the advantages which result for various industries from their siting in a large town in order to compare those advantages with the marginal cost to these towns, i.e. the extra burden laid upon the community.

3. Water supply problems, especially of drinking water, are becoming more and more difficult in many areas of the Community. In the more developed areas, economic and population growth, which shows itself in a constant development of infrastructures and proliferation of urban centres, causes a mounting pollution of surface and underground water.

In the peripheral areas, especially those of the Mediterranean basin, water supply has always been a major problem. Until now, it has generally been studied at the local or regional level, without adequate liaison. But water resources are often common to several regions, sometimes of the same country, sometimes of different countries; inter-regional coordination is, therefore, indispensable. The *Cassa per il Mezzogiorno* has made an inventory of the water resources of southern Italy and has prepared a general plan for supplying water to the population and to agriculture and industry to meet estimated needs up to the end of this century.

In the remainder of the Community, the water problem must be studied in relation to large river basins; the Community approach will have practical advantages in the study of basins which lie astride internal Community frontiers.

4. Afforestation cannot be dissociated from the water problem; it is important for cellulose production but must also be considered from the viewpoint of water retention, control of erosion, protection of dams and climatic control; in tourist regions, it is often essential to the preservation of scenic attractions; finally, it is one factor in the improvement of agricultural

structures. All these aspects have been taken into consideration in the efforts made to develop southern Italy.

5. A scientific study of the economic potentialities of the various regions and of the optimum location of enterprises would help in deciding policy.

6. Methodological research in regional development should make a valuable contribution to regional policy-making in the member countries. The Working Party suggests that closer relations should be established between Community bodies and the universities to obtain as far as possible

their assistance in the study of certain regional problems. This liaison could be arranged either, as recommended by the European Parliament, through a "Central Office for Documentation and Information on Questions of European Regional Policy", or, more easily, by the appropriate Commission departments.

7. A periodical publication on regional problems, issued by Community bodies or through any other adequate channel of distribution, would assist the exchange of information between the promoters of regional action as regards both practical experience and theoretical studies.

Redevelopment of declining industrial areas

Conclusions of Working Party No. 2

The present report deals with the following matters:

- Regional non-adaptation;
- Incentives to redevelopment;
- Means of redevelopment.

The recommended courses of action naturally vary according to the situations here denoted by the general term "non-adaptation". Between the general and cumulative decline of a whole region and localized non-adaptation come a series of intermediate situations. It is easier to halt local deterioration than to undertake a complete overhaul of a depressed area.

Conversion schemes must form part of a general policy for the balanced expansion of Community regions. If the right course is adopted the difficulties of adaptation should be transient; an effective redevelopment policy should overcome them, so that redevelopment schemes can gradually be superseded by a diversified development policy similar to that adopted in other industrialized areas. Even if technical progress and European integration hasten the change in economic structures, and possibly create difficulties in certain sectors, an effective regional policy, aimed at the permanent adaptation and necessary diversification of regional structures, should ensure that such unavoidable difficulties in some sectors do not create regional problems.

That is why preventive treatment is particularly advisable. Areas which depend too much on one industry, prosperous though it may be, must – while business is still booming – diversify their industries sufficiently to avoid problems of redevelopment arising in the event of the dominant industry running into difficulties.

Even in regions where a development policy is being pursued, industries set up in the area must be sufficiently competitive and diversified so as to avoid new regional problems arising should business slacken. It is not for us in this report to deal with the aims and methods of regional policy in general. But we support the view of Working Party No. 1 that undertakings in different branches of a particular business or branch of industry should be encouraged to establish themselves in industrial centres in sufficient number so that any difficulties

which may be encountered by a company or branch do not at some stage expand into full regional problems.

Non-adaptation Diagnosis and prevention

In view of the diversity of situations and regions and the inadequacy of statistics, it is often difficult to detect the early signs of non-adaptation in a given area.

The first thing needed, therefore, is closer observation in order to forestall the appearance of non-adaptation; if this has not been possible, then all the data necessary for remedial action must be collected.

In applying remedies for non-adaptation the time factor must be taken into account. It is in fact possible to say when non-adaptation becomes evident. This moment can be determined precisely when, for example, traditional trade flows are cut off by political developments; in other cases there may be a lapse of time during which a structural crisis appears in certain branches of industry or a cumulative crisis in several branches which have reached the same degree of obsolescence. If, looking back, we can then say exactly when the phenomenon appeared in certain areas, we feel impelled to forestall its appearance in others. By means of effective economic regulators recession should be avoided.

Prognosis assumes the use of a certain number of well-chosen economic indicators, referring to both quantitative and qualitative factors linked to the general economic machinery.

Several member countries have systems of indicators of growth or recession for the purposes of their regional or national programs. On the national level, indicators and means of analysing structures have reached a fairly high degree of refinement, but the same is not true at regional level, where basic statistics are often lacking.

It would be useful to work out ways of studying economic conditions at regional level. In areas threatened with problems of adaptation, marginal sectors, which are always the most sensitive to changes in the business situation, usually predominate, and any slackening of business activity in general would have particularly serious repercussions.

Within the Community there is a need

for better regional statistics and also for some machinery for studying economic conditions, particularly in areas where difficulties are likely to arise, so that any signs of non-adaptation can be detected in good time.

Conventional analysis of data relating to population, migration, employment, etc. can provide some initial insight into the problem, but more complete data are also needed, which could be used in any system of regional accounting that might be introduced (regional product, income, etc.)

Forecasting, which is necessary for all regions,* is particularly useful for detecting the first signs of non-adaptation. Manpower forecasts would certainly be helpful. The ECSC High Authority has begun to compile socio-economic information on the various coal and steel areas, so that comparable and up-to-date data will be regularly available.

Forward surveys at the regional level will be easier to carry out if, on a wider scale, details are available as to employment prospects in the different branches of industry; any decline in employment in the industries that are most important for the economy of the area could then be foreseen in good time. Forward studies of employment in each of the main branches of industry should be carried out not only at national but also at Community level.

It has become apparent that in some cases there may be disadvantages in defining the various regions too rigidly, for then regional forward studies might not be coordinated with those of neighbouring areas, or some centres which could support an effective redevelopment policy might be excluded from the study.

Forward studies in the area to be redeveloped must therefore be coordinated with those undertaken in neighbouring areas, whether in the same country or other Community countries.

Inventory of favourable and unfavourable factors

The first step is therefore to work out a number of regional indicators by means of which it will be possible not only to detect instances of non-adaptation but also to foresee and prevent them. Once such problems have arisen, the structures must

*See sections 19–21 on population and employment prospects in the report of Working Party No. 1.

be analysed in greater detail, so that an appropriate policy can be devised.

The forward survey must therefore be supplemented by an inventory of the essential factors for any conversion policy. Without attempting to be exhaustive, this inventory, we suggest, might cover:

- (A) Equipped industrial sites, water supplies, power sources, etc.
- (B) Land and buildings which the declining industry – the dominant or perhaps the only industry – will no longer require, and which would be used for other purposes once the property has changed hands;
- (C) The existing labour force and employment prospects; skills, wage levels; facilities for training or retraining;
- (D) Houses already built or under construction;
- (E) Infrastructure works in progress or planned;
- (F) Industrial projects completed or decided upon;
- (G) The behaviour patterns of the population.

The inventory must not only mention the difficulties of these areas but also the favourable factors which could be turned to good account by new industry, assisted by the public authorities, and on which any regional conversion policy must be based. Although the difficulties are often studied, much still remains to be done before the potentialities of these areas can be better known and exploited.

Here a sharp distinction must be made between underdeveloped areas and declining industrial areas. While the former have not yet reached the stage of industrialization, the latter have a legacy from the past which, although inadequate and old-fashioned, nevertheless constitutes a considerable asset.

Moreover, underdeveloped areas are in many cases peripheral and therefore handicapped by their geographical situation, while declining industrial areas are often centrally situated in the Community and are thus most likely to benefit from increased trade.

If, by an appropriate policy, the assets of these areas can be put to good use, they can serve as a basis for new development. The difficulties connected with such a policy must not, of course, be underestimated, especially since the disadvantages of areas with an obsolescent structure are often obvious, whereas their advantages are generally not apparent until more detailed study has been carried out, and radical action is required if they are to be turned to good account.

These are, firstly, assets in the form of **capital and industrial premises**. No doubt, certain branches of industry no longer exert the same preponderant influence on development as formerly, less initiative is shown by industry, and companies are sometimes controlled by decision-making bodies outside the area; but part of this capital is still

available for use (installations, subsidiary activities, services).

Declining industrial areas are endowed with **infrastructure**, industrial sites, urban centres and housing, and – particularly important – they possess schools and hospitals, which often represent considerable social capital.

These areas also have the asset of a **trained labour force**. Even if the population is declining, it is still concentrated and the socio-economic problems inherent in urbanization have more or less been solved. The workers are skilled and accustomed to the kind of life led in large industrial centres. Sometimes their aptitudes are latent, although it is these that make the area suitable for the establishment of new enterprises (textile workers could, for example, be re-employed in electronics).

Technical training is generally fairly well developed in declining areas, but local industries sometimes cannot use the managerial staff trained in the area, so that the latter have to seek employment elsewhere.

Lastly, these areas generally have the advantage of a **fairly highly developed administration**, even if it is no longer adapted to modern conditions.

The main asset, as far as training and management are concerned often lies in the managerial staff and foremen of the declining industry, who can be re-employed locally on a permanent basis in some other branch. If these people move to other parts of the country or of the Community, the declining area would be drained of part of its substance and it would be very difficult to re-create this human capital. New firms would be discouraged from bringing in managers and the more sophisticated services would stay away.

Incentives to regional redevelopment

The choice of areas for action

In some cases, one must first consider whether it is in fact advisable to attempt redevelopment of a particular area. New activities will have to be created which will be able to hold their own in the Common Market after the initial period of public aid comes to an end. Before redevelopment can be undertaken, therefore, renovation must be feasible. When a mine is worked out, for example, it is doubtful whether it is always wise to attract alternative industries to the area at great expense if, in spite of public aid, their unfavourable siting will prove a handicap in competition.

If in such cases conversion on the spot is impracticable for economic reasons, suitable arrangements must be made so that the workers, especially older or handicapped workers, do not suffer as a result of the introduction of new techniques. New activities should, moreover, be developed near enough to the declining areas to ensure that workers are not obliged to move to places a long way off.

Effort should be concentrated on the points where redevelopment has the greatest chance of success – near a main transport artery, for instance. In addition, redevelopment operations should be carried out near towns of some size, already endowed with social and cultural amenities.

In view of the general process of urbanization, the sites chosen as poles of attraction in any redevelopment policy should be such as to permit a very considerable increase in population.

The investing bodies must enjoy a certain minimum of external economies and subsidiary services, without which it is difficult for an industry to expand and keep its skilled workers.

It would also be useless to try to spread incentives to redevelop the whole of a declining industrial area. Such a policy would lead to a dissipation of effort and, in the end, to failure. It may be preferable to concentrate regional redevelopment operations at certain points where successful new undertakings have already begun to prepare the way for a new dynamic industrial centre.

Any regional redevelopment policy must do more than merely offer financial incentives to one or more firms to come to the area; action is required in all fields, involving not only industry but also infrastructure, vocational training and the renovation of urban structures. Operations scattered over a wide area would be extremely costly and less efficient, whereas if different instruments are employed simultaneously at key points, this may provoke a chain reaction which will ultimately benefit the whole region.

In this connection it is worth mentioning the interesting new development in regional policy in Great Britain, which consists in selecting a limited number of "growth points".

Choice of investments and undertakings

Regional economic problems arise when the crisis in sectors made obsolete by technical progress is not counteracted by the development of new activities. It is particularly important to find out why concerns in the dynamic sectors of the region are not expanding sufficiently fast. The first step is to see how the productivity of existing industries can be increased.

But it is generally not sufficiently simple to expand existing concerns, and new industrial investments have to be sought.

The whole of the regional economy will, of course, have to be overhauled; although the importance of the services sector must not be underestimated, the main effort must be concentrated on new manufacturing industries.

In areas with once prosperous, old-established industries, people are often fettered by the past and lacking in aim. Care must be taken, therefore, in selecting the type of industry to be proposed.

The new industries must:

- (A) Be economically viable and able to face increased competition within the Common Market. It would be foolish to risk having to undertake further re-development at a later date;
- (B) Guarantee a certain level of skill and pay, so that family incomes do not decline;
- (C) Take into account the former activities and industrial endowment of the area;
- (D) Be suited to labour market conditions in the area, i.e.:

Guarantee a certain number of jobs for older workers, who tend to be relatively more numerous in declining areas;

Allow for the need to retrain workers laid off by works that are closing down;

Be attractive to workers who may have to be brought in from outside if new industries are to be attracted to the area;

Require degrees of skill commensurate with the occupational training received by young people, in particular, so that skilled workers and managers and supervisory staff will not be tempted to seek employment elsewhere.

These requirements, of course, represent the ideal, and the public authorities will in many cases have to limit their choice to some of them only.

As we have pointed out, one of the principal assets of a declining industrial area is often the presence of managers and able supervisory staff. In some cases, the need for redevelopment has not arisen because of poor management but as the result of technical and economic progress.

In future, it should be possible for the necessary technical adjustments to be made much more rapidly than hitherto, as the pace of technical progress has quickened and economic substitution can be effected in a shorter time. Where manufacturing industries have become obsolete or resources have been worked out, the undertakings that are to be converted ("internal conversion") may have able managers and supervisory staff at their disposal. In so far as the entrepreneurs, managers, supervisory staff and workers in these industries are tied to the area for many reasons, it may be advisable to encourage internal conversion. A certain amount of technical assistance in the form of surveys and studies concerning new manufactures, or market research, may be very helpful to such enterprises. The survey that the ECSC High Authority has undertaken on new manufacturing industries, and on which it has published its first report, is designed to meet this need.

Experience has shown that difficulties arise when new manufacturing processes are introduced into obsolescent enterprises. It will be easier to overcome these if the whole business is radically overhauled,

rather than if, for example, a new workshop is simply added.

If it is often possible to make good use of the entrepreneurs, managers and supervisory staff already in the area, it may nevertheless also be desirable to encourage initiative on the part of firms outside the area; as experience has shown, this may have a decisive influence on the mood of the area and break through the traditional barriers which often hinder efforts to effect the complete overhaul of declining areas.

The action to be taken will of course depend on the initial circumstances of each area. It is difficult to define exactly where the emphasis in any one area should lie. Certain industries are faced with different problems; in predominantly textile areas, for example, there may be no need to do more than merely offer incentives to any firms that wish to change over to other activities, whereas in mining areas, for example, it may be essential to encourage new industries to come in. It often seems preferable to exclude certain branches of industry from financial benefits rather than give an area any particular orientation. Thus in an area where the principal industries are coalmining or iron and steel, and these are in decline, it would be appropriate to stimulate investment in other branches of industry.

The question then arises of how new investment capital is to be found for an area scheduled for redevelopment, when this is not forthcoming in sufficient quantity. The methods used to stimulate new investment will vary to some extent according to the circumstances of the region and the general economic philosophy of the member states.

Companies generally maintain contacts with the public authorities, by which the latter can exert some influence on investment decisions. When this is so, the granting of financial facilities can be made conditional on a certain specified performance on the part of the firm concerned, so that its activities can be incorporated in an overall redevelopment program.

However, if action is taken to influence large firms whose decisions are taken outside the area in question, this must not mean that no attention is paid to small and medium-sized enterprises, for these have an equally important part to play in regional development. For these, direct action is less effective than the development of the basic structures that will await them.

Need for an overall program

The widely-held view of redevelopment as being based solely on new industrial investment is increasingly giving way to the idea of a general and radical revival of economic and social life in declining areas. The further the cumulative process of decline has gone, the greater the need for radical action of this kind.

The different courses open to the public authorities (e.g. employment policy, social progress, renewal of urban structures,

infrastructure development) should be employed as part of an overall plan. The more the structures of the area have deteriorated, the more necessary it will be to carry out public investment programs lasting several years.

Of course, all this must be linked with general economic policy. In addition, the programs of neighbouring areas must be harmonized; this is particularly necessary in the case of frontier areas whose mutual relations have long been hampered by economic boundaries.

Overall programs are also useful for the activities of the European Institutions. To be sure, their action supplements that of other bodies, but it is important that they should do more than merely finance operations already planned. If there were no overall program, it would be hard for them to know how far their aid is really supplementary. For this reason, the ECSC High Authority, for example, would like the governments to submit overall programs for the areas to be converted, to guide it in granting them aid.

Means of regional conversion

Any redevelopment policy must form part of a general policy of regional development. In the present report there is no need to repeat the conclusions of Working Party No. 3 on the effectiveness of incentives offered to promote regional development.

It will be sufficient here to underline the specific aspects of redevelopment, which are bound up with the need sometimes to turn existing assets to good account by reorganization on the spot and sometimes to create parallel structures.

This applies first of all to firms; the existing capital must be concentrated and redistributed, but new capital and investment are also required.

In the case of infrastructure, the declining industrial areas must be remodelled, but at the same time it will also be necessary in certain cases to create new development areas outside the established urban areas.

Similarly, with regard to the working population, if it is advisable to encourage the retraining and re-employment of the existing labour force, it may also be useful to consider bringing in supervisory staff and specialists from outside.

Finally, with regard to the administrative structure, reorganization of existing bodies may possibly need to be accompanied by the creation of specialized regional bodies.

Without going into the details of all the instruments of conversion policy, the following aspects are worthy of note:

Financial aid*

Decline must be treated promptly. Swift action is required as soon as signs of non-adaptation to new conditions appear, if they are not to be followed by cumulative decline.

If the aid given proves effective, it will

*See report of Working Party No. 3, part 2.

bring about a revival based on new economic structures. Non-adaptation is then a transient feature, and the aid given to overcome it need only be temporary. Such aid should therefore provide the initial impetus and be rapid, adequate and temporary; a time-limit might perhaps be fixed.

The substantial amounts of capital and various sources of finance which already exist in industrialized areas should be taken into account. Certain countries have pointed out that investment aid given for a limited period (particularly in the form of early amortization) can then be very effective.

The European Investment Bank

The present report has described what the European Investment Bank has done to assist conversion, and the problems that it has had to face in fulfilling the task assigned to it by the Rome Treaty. It would seem possible to agree on a number of principles and suggestions that might be of use to the Bank, particularly where conversion is concerned.

1. The Working Party considers that the European Investment Bank can help to solve certain problems connected with re-development in the Community. It welcomes the fact that the Bank has already begun operations in this field, although the number of such operations is still small. Such aid at present represents but a fraction of the Bank's activities, and the Working Party hopes that it will in future be increased.

2. The Bank's resources will, of course, be limited, although Article 130 of the Rome Treaty and Article 18 of its Statute require the Bank to deal with many situations. But the Working Party hopes that both the governments (particularly where access to capital markets is concerned) and the Bank itself will try to ensure that sufficient funds are available to meet future requirements.

3. The Working Party recognizes that the broad lines of the Bank's credit policy have been fixed by Article 130 of the Treaty, its Statute and the directives of its Board of Governors, but hopes that the Board will periodically review its directives on credit policy to see how far they are still suited to changing circumstances in the Common Market. The Working Party notes that the Common Market has now entered upon a period of accelerated development, and that this may present certain enterprises or areas with fresh conversion problems. It would perhaps be advisable for the Bank's Board of Governors to issue new directives concerning credit in order to take this development into account.

4. The Bank may provide aid both for infrastructure and productive projects. With regard to the first type of project, the Working Party hopes that, when applications are being examined, the emphasis will be on the general economic interest of the project - i.e. in cases connected with regional redevelopment, on the contribution that the project will make to the recovery of the area affected by closures. Where productive projects are concerned, the

Working Party would like to see the Bank pursue a flexible and selective credit policy while recognizing that the projects it finances must be basically sound.

5. Solutions should be found to the following problems, which are liable to put a brake on certain operations that are particularly desirable from the point of view of the general interest:

(A) INTEREST RATES

The interest rates which the Bank charges by virtue of its Statute are relatively high, although lower than most of those current in the member states. If the Bank is to play a more active part in conversion, it would have to be able to offer borrowers more favourable terms. The Bank's Statute allows member states or third parties to grant rebates of interest. Such rebates are granted by the Italian *Cassa per il Mezzogiorno*, for example. It would be useful to study arrangements for the grant of such rebates, whether by regional, national or Community institutions.

(B) EXCHANGE RISKS

The Working Party stresses the need for studies and contacts to be pursued with a view to overcoming difficulties under this head.

Loans from the ECSC High Authority

Similar problems arise with regard to the interest rate on loans from the High Authority and the exchange risks that have to be borne by companies.

Synchronization of operations

An attempt must be made to ensure that the termination of certain activities is timed to coincide with the creation of others. In this respect it may be appropriate to distinguish between "internal conversion", i.e. modernization of the existing enterprise, and "external conversion", i.e. the creation of new production units. In order to ensure a gradual transfer of responsibility as development progresses, it may be desirable to specify the responsibilities of the old and new entrepreneurs by means of "conversion agreements" or "quasi-contracts" concluded with the regional, national or, possibly, Community authorities. In this way entrepreneurs can know precisely what obligations are incumbent on them in return for the advantages they receive. The "conversion agreement" is a freely consented form of constraint, by which the normal sanction for a company in difficulties - bankruptcy - can be replaced by some solution involving redevelopment.

Retraining of workers

Action taken with a view to vocational adaptation (training and retraining of adults, maintenance of wage levels in the case of release for the training period or during the

first months in the new job) must be closely linked to the establishment of new industries; in principle, industrial projects should be carried out before retraining is undertaken. Training must be adapted to the future economic structures of the region.

Retraining must follow a very strict timetable covering the whole period of the operation and closely coordinated with that for the creation of new manufacturing industries. It should then be possible for intervals between jobs to be cut to a minimum or even avoided altogether (thus, for example, training for new activities may be carried out in the old firm, without break of contract).

Special training will have to be provided for older and handicapped workers and for unskilled immigrants. There must also be better arrangements governing access to employment in the services sector, which is expanding.

In areas where the trade unions have valuable experience, their cooperation is an essential factor for success. Of course, the way in which this is achieved must depend on local circumstances.

Grants for retraining given by the High Authority and the European Social Fund have already produced very good results. It would be advisable to give the European Social Fund power to initiate action, so that it could, for instance, provide loans for retraining; this would act as a stimulus and give rise to a number of redevelopment schemes. In addition, when implementing the common policy on occupational training, the general principles of which were laid down by a Council decision of April 2, 1963, attention will have to be given to the problems that regional development poses.

When in certain areas economic decline is accompanied by a decline in population, there may be a shortage of some types of skilled labour. It may then be necessary to bring in workers from outside to fill these gaps. They will, of course, have to be offered good conditions.

Infrastructure and urban redevelopment

Urban redevelopment is sometimes hampered by the scarcity and cost of building land.

When equipped industrial sites are available, diversification of an area's economic activities are encouraged. In connection with land acquisition, site development, and possibly the construction of certain industrial premises, it may be necessary to set up a special body to act as a "development corporation".

Urban redevelopment is particularly important and must be conditioned by new economic expansion.* It is essential that the first urban schemes should be of considerable scope if the initial impetus is to be given and newcomers encouraged to settle. Only a rapid, large-scale operation concentrated in one industrial centre

*This point is dealt with in Appendix 3: problems of urban redevelopment and regional conversion.

scheduled for redevelopment will provide sufficient evidence of the fact of renewal, whereas an effort spread over a wide area will attract less attention.

Urban redevelopment must encourage the growth of a more diversified social structure, particularly by the introduction of more advanced services.

In areas where the infrastructure is clearly becoming obsolete and many young workers have moved to other places, it may be advisable to encourage immigration, not only in order to achieve a better balance between age groups but also to remedy the lack of variety in the social structure. If urban redevelopment is carried out, this may help to attract, settle and integrate workers from elsewhere, who will make a valuable contribution not only in their jobs but also by stimulating the services sector and urban life.

Everything possible should therefore be done to house, welcome and integrate these new workers.

The need to remove the vestiges of earlier industrialization (e.g. slag heaps) has been recognized. In Great Britain, grants are made for this purpose.

Development of industrial areas, as also urban redevelopment, presupposes a land policy including specific provisions for areas showing signs of non-adaptation, even if only temporarily. Special bodies may be required to help in executing and financing such schemes. Special problems may arise in mining areas, where a large part of the land belongs to mining companies.

Sometimes the development of parallel infrastructures offers the cheapest solution, especially when economic considerations are distorted by the speculation that may flourish in old industrial areas.

Transport infrastructure development is especially important in areas where cumulative decline has set in; for example, if motorways are built, industrial areas and new centres can be created near them rather than in an outworn urban environment.

Social and psychological aspects

Social and psychological aspects must have an important place in any redevelopment policy. The active cooperation of the people in the area must be secured in order that the operations to be carried out may be broadly based. Fear of new ideas or of technical and economic progress can sometimes hamper the solution of redevelopment problems.

It is not enough simply to provide new facilities for education, sport, culture and leisure; the local population must be encouraged to take an active part in the new developments and to share the responsibility involved. Initiative and a sense of responsibility on their part are the best guarantee that the attempt to revitalize the area will succeed.

The active cooperation of the population is essential for the success of redevelopment policies, and these should be framed with this fact in mind, whether it is a question of choosing between the instruments of economic policy and regional development when infrastructure is to be created or improved, or of coordinating social and cultural activities at the national, regional or local level.

The active cooperation of local associations in planning, carrying out and financing the activities of organizations of a social and cultural nature is an important psychological factor.

Administration

It is not always certain that the administrative machinery is such that action taken with a view to conversion has the best possible chance of success.

At the local and regional level, the traditional local authorities are sometimes ill suited for the rapid action required in new spheres, such as the development of industrial areas or renovation of urban structures. In short, it may be necessary to set up special bodies, with adequate means of action at their disposal, to coordinate the decisions taken by widely scattered bodies and local authorities. Even if these special bodies are set up, it may still be necessary to rethink certain administrative structures already in existence and adapt them to deal with new problems.

At the national level, redevelopment poses the problems of coordination common to all regional development schemes;* urban redevelopment, for example, requires concerted action on the part of several ministries. Ways of coordinating decisions and procedures must then be found, and this may even involve the creation of a special body for this purpose at the national level. The work of the various public authorities can be effectively coordinated if redevelopment forms part of an overall plan.

It is also necessary to get rid of certain outdated budgetary rules, which were perhaps appropriate for the economic and institutional structure of the past but often prove to be insuperable obstacles to certain key operations connected with structural renewal or re-equipment.

The role of the European Communities

The European Communities, whose actions supplement those of other bodies, bear a special responsibility because the Common Market may cause problems of adaptation to arise sooner than expected. Inevitably, the enlarged market stimulates general economic expansion, which is accompanied by rapid changes in economic structures; areas where there is little economic diversification are bound to suffer.

*See report of Working Party No. 3, part 3.

Factors that will help to solve the problems of regional conversion and adaptation are the dynamism inherent in the wider market, the maintenance of full employment by means of an appropriate economic policy, and the concerted action of the Community Institutions.

1. The main task of the Communities is to study and coordinate the measures adopted by the various Community countries. If their policies and courses of action are compared and discussed, progress can more easily be made in the treatment, and above all the prevention, of symptoms of non-adaptation.

2. The European Communities are helping to carry out regional surveys concerned with the specific problems of certain declining areas, and methods are gradually being evolved that can be applied to other areas of the Community similarly affected.

3. The studies and coordination undertaken by the European Communities are very useful for harmonizing programs for the development of frontier areas, especially if redevelopment problems arise on one or both sides of the frontier. The European Communities can make it easier for the measures contemplated on either side of the frontier to be compared and coordinated, so that they will be more effective. In frontier areas transport infrastructure programs, in particular, would seem to be in urgent need of coordination.

4. In areas where there is not enough diversification, difficulties of regional adaptation are often connected with a crisis in particular industries. For the whole of the Community a special study should therefore be made of the outlook for production and employment in the branches of industry that are likely to run into difficulties. This is most necessary when the scale of those industries in certain areas is such that any difficulties in one sector could easily give rise to new conversion problems.

5. The European Communities have financial means at their disposal. Without going back over the suggestions made with regard to the European Investment Bank and aid from the ECSC High Authority and the European Social Fund, we would point out that there is much to be gained from concerted use of these different facilities.

6. The common policies envisaged by the Rome Treaty for foreign trade, transport and vocational training must take into account the special problems of areas which have failed to adapt.

7. When taking decisions concerning such matters as customs arrangements, aids and taxation, which will affect various sensitive sectors (coal, lead, zinc and sulphur mining, shipbuilding, textiles etc.), the European Communities must take the probable regional effects of such measures into account.

Instruments of regional policy in the Community states

Conclusions of Working Party No. 3

The present study was made by Working Party No. 3 in conjunction with Working Party No. 1, and is based on the latter's report on "Aims and methods of regional policy in the European Community".

Working Party No. 1 drew a distinction between large, underdeveloped, predominantly agricultural areas with no great industrial centres and other less-developed areas, which are smaller and lie relatively close to the major industrial centres of the Community.*

If the area in the first case is sufficiently densely populated, it seems advisable to promote "industrial development poles" or "primary" industrial centres large enough to provide employment locally for workers who are at present obliged to move away. Until such time as such "industrial poles" develop spontaneously, any dispersal of efforts on the part of the public authorities will be harmful to their efficacy.

In the second case, the prime need is to encourage the development of "secondary centres" by using already existing large industrial centres as a basis for development, in order to alleviate excessive concentration of population in the cities and to create employment in towns of medium size, particularly for workers who leave the land. These secondary centres must include enough undertakings to ensure a reasonably stable level of employment in spite of the inevitable variations of business activity. They must grow out of towns which already possess a certain minimum of educational, cultural and social capital and health services, and which offer opportunities for industrialization.

These conclusions are the responsibility of Working Party No. 1, but Working Party No. 3 found that the Community states were already making this distinction to some extent in planning their regional policies. The methods employed for large underdeveloped areas differ from those employed for other less-favoured areas of the Community which lie nearer the great industrial centres. The map at the beginning of this report shows the differences in size between the areas to which aid is granted by member states.

We realize, however, that this distinction, which is essentially analytical, is not to be

applied automatically in taking measures to promote development. Each region has its own characteristics and therefore requires individual treatment in various respects. Moreover, the problems of the small less-favoured areas are often felt just as keenly by those concerned as are those of the large depressed areas, and they are sometimes very hard to solve.

As the present report gives a general picture, it is inevitably rather abstract. It observes the distinction between large and small areas wherever this is useful for analytical purposes. But we are well aware that this analysis is not exhaustive and that it only brings out the extreme cases, between which there is often a wide range of intermediate situations.

The conclusions of the present report may be summarized as follows:

1. Infrastructure

By the planning and equipment of industrial areas, provision of services and preparation of sites, the public authorities can direct industry towards the less-favoured parts of the Community, attracting firms to places where conditions are propitious for development.

For several reasons, it is desirable to concentrate the effort on areas in the vicinity of potential "industrial centres".

The creation of a limited number of relatively large development areas permits more rational planning and reduced the cost of works and utilities both for public authorities and for private firms. The establishment of several firms in such "centres" means that the local and regional infrastructure is put to better use; the development of public and private services is facilitated, and firms can then benefit from many "external economies". The presence of several firms also creates more favourable conditions from the social point of view, it makes for higher skills among the working population and prevents their being too dependent on a single firm.

The policy of creating industrial development areas must be adapted to local circumstances. In large depressed areas in the Community, where the main thing is to encourage the growth of "primary" industrial centres, large development areas should be created in towns which can offer the necessary utilities and services.

Governments will have to play an active and often a decisive part in selecting these development areas, for the broad outlines of the area's future industrial structure will depend on this choice. As the cost of creating such areas is high and local authorities cannot shoulder the whole burden, it is desirable that the state should take a large share.

In the other less-favoured areas of the Community where development can be based on primary industrial centres which are relatively close, the main requirement is to encourage the growth of "secondary" industrial centres by creating smaller industrial development areas. Too much dispersal of effort must nevertheless be avoided if public funds are not to be wasted and local authorities are not to outbid each other by offering land at very low prices, artificially influencing the choice of sites.

The need for regional transport infrastructure depends to some extent on the stage of development the area has reached. In the large depressed areas in the Community, particularly southern Italy, the first thing is to develop main lines of communication between the primary industrial centres that are being set up. As the creation of such a network requires a considerable amount of time and money, priorities will have to be worked out, preference being given to the industrial centres which offer the best prospects for development. In that case, transport infrastructure will often be adapted to the specific needs of those centres, for the creation of infrastructure and industrial development are interdependent.

In the other less-favoured areas of the Community, the main task in transport is to improve communications between the existing primary industrial centres and the secondary centres that are to be developed, and to link these areas to the main transport arteries of the Community. When such areas are situated at intra-Community frontiers, improvement of communications is very effective. It is essential that areas on the Community's external frontiers should be linked to the rest of the Community if their trade with the great centres of production and consumption within the Community is to increase. In all cases, infrastructure investment must not be determined by present traffic conditions, which almost

*For the definition of "primary" and "secondary" industrial centres, see the report of Working Party No. 1.

always argue in favour of developed areas. Taking a long-term view, services must be provided before they are actually needed, provided always that there is a good chance of success for the overall plan.

Cultural and social amenities are the more important for regional development once the basic economic needs are met. They are particularly important for backward areas that are fairly near to existing industrial centres. In order to attract firms and their qualified staff away from the large industrial towns, these areas must be able to offer similar services to those in the developed areas. It is more effective to concentrate on centres where a certain minimum of equipment is already available.

With regard to housing, guidance in the light of regional economic requirements is exercised indirectly; for example, the national authorities may allocate a larger proportion of public revenue to less-favoured areas, or such revenue may be distributed according to social criteria which favour the populations of less-developed areas. Direct guidance can be given by concentrating public facilities on places scheduled for industrial expansion (e.g. development centres in the Netherlands and "central points" in Germany). It is becoming increasingly apparent that more can be achieved by concentrating and coordinating the use of different types of financial aid in a few places that can be regarded as the administrative and cultural centres of their areas.

Vocational training will become more and more important in regional development. The less difference there is between areas, particularly where supplies of power and of certain raw materials are concerned, the more industrial development is conditioned by the aptitudes and skills of the working population. The public authorities must help both workers and firms to bear the charges that arise not from private enterprise but from the general development of the economy.

A great effort will be needed if the large less-favoured areas of the Community, particularly in southern Italy, are not to fall even further behind where occupational training is concerned. The measures taken must concern every level of training (skilled workers, foremen, engineers) and must also extend to managerial and supervisory staff.

The first requirement is to provide the existing labour force with training for the jobs available in the new industries by organizing rapid training courses. The public authorities may also make grants to firms to compensate them for losses incurred during the initial period when productivity is low. The cost of training may be reduced if it is given in centres shared by several firms in the same or related branches.

The universities and technical colleges have an essential part to play in training managers and supervisory staff. They must help the areas where there is little industrialization to make up leeway in this respect.

If the general level of training in the large

depressed areas is to be improved, there will have to be considerable investment in education. The cumulative tendencies towards economic underdevelopment must not be aggravated by insufficient expenditure on education and training.

In the other less-favoured areas of the Community, the problems that arise in connection with occupational training are more varied. Sometimes farm workers have to be helped to enter industry, or retraining for new types of production has to be encouraged before partial or total conversion can take place. As general occupational training is often reasonably well developed in these areas, specific measures are more likely to produce good results. One effective way is to improve the facilities for training in various centres. The employment of workers who have left the land, and where conversion takes place, the retraining of industrial workers, may be facilitated by a system of aids adapted to the specific needs of the undertakings concerned (training grants, etc.).

2. Financial inducements

The following preliminary conclusions can be drawn from the Working Party's study of the effectiveness of the inducements offered.

None of the various inducements is necessarily better than the others. The choice must depend on the circumstances of the area, the characteristics of the banking system and the situation of the capital market. It is not difficult to compare the aids given to firms in the form of capital subsidies, interest rebates and reduced interest rates on loans from public funds. Comparison is more difficult in the case of these loans as such, guarantees and acquisition of part-interest, which can only be judged according to case.

Financial inducements must help to ensure that the industrial structure of the Community's declining areas is adapted to new economic and technical requirements. Such aid should be given for the initial period only. Permanent aid might impede the process of adaptation; support for non-competitive enterprises might lead not only to a loss of production for the whole of the economy but also, in the long run, to fresh regional problems.

If financial inducements in the Community are to be effective, they must be commensurate with the seriousness of the problems in the different areas. Financial aid is usually more effective if, at the same time as inducements are offered to enterprises, the necessary infrastructure is created in certain well-chosen centres.

Though unemployment, whether actual or potential, and under-employment are essential criteria for assessing the gravity of regional problems, it is more effective, from both the economic and social angles, to provide aid in the places that hold out the best promise of development.

Financial inducements are no substitute for adequate infrastructure. Although finan-

cial inducements can to some extent make up for deficiencies in the infrastructure of a region, they cannot compensate for inadequate cultural or social facilities. Much the most effective policy is to provide industries with the infrastructure itself.

If financial inducements are nevertheless offered to make up for inadequacies in certain types of infrastructure, it would be better to grant specific aids linked, if possible, to concrete measures, rather than general aid. Thus direct grants for occupational training linked to particular training courses or inducements for the construction of housing, are preferable to flat-rate subsidies which involve no specific obligation or control and might be applied for purposes other than those for which they were intended.

Financial inducements may help to encourage investment. Aid is particularly effective when it encourages firms to move to centres offering the best conditions for development (installation grants). In such cases, the offer of a grant is particularly effective when combined with provision of the necessary infrastructure; firms are encouraged to come to the area if the necessary infrastructure already exists and, conversely, better use is made of the latter when several firms are established in the area.

In addition, financial inducements in certain centres may help to create the "external economies" that are essential if firms are to be competitive. "External economies" are more easily effected if enough firms are established in the industrial development areas so that "induced activities" are encouraged (handling, maintenance and other services); such economies are also favoured, especially in large areas containing primary centres, if industries combine to obtain the greatest possible economies in production, research, sales, etc. (selection grants).

Financial inducements must be offered only to firms that are competitive and financially sound. Firms that are interested only in profiting from financial inducements, or wish to carry out investment with very limited resources of their own, rarely fulfil this condition.

Financial inducements cannot by themselves bring about the development of areas that are as yet insufficiently developed. If development is to be rapid and lasting, it is essential that coherent action be taken by public authorities and private interests in a great number of different fields. Such action must be interrelated, so that progress made in one sector or locality does not remain isolated but arises out of progress already achieved elsewhere and prepares the way, in its turn, for a new step forward. Thus financial aid is never a substitute for the creation of the necessary infrastructure.

Experience of what has been done in large depressed areas shows that even if infrastructure has been created there or large-scale aid has been granted to make up for local deficiencies, it may nevertheless

be necessary for the public authorities to offer further inducements to stimulate certain types of investment.

Complementary action on the part of the public authorities – investments in the public or semi-public sector in Italy, or joint programs between the state and firms in France – is sometimes needed if the policy of granting financial inducements and creating infrastructure is to be fully successful; in certain areas it facilitates the establishment of a complex of industries large enough to provoke the necessary chain-reaction.

In these areas it will not be until later that around this complex a complete network of firms – especially small and medium-sized firms – can be established, as in other areas, and develop independently simply by the play of market forces.

3. Administrative reorganization

If an active policy of regional development is to be pursued, certain administrative problems must be solved:

- (A) The local, regional and national administrative services should be adequately staffed and financed to meet the demands of regional development;
- (B) The people living in the area should be encouraged to take an interest in its economic problems and an active part in its development;
- (C) There should be effective “horizontal” coordination of the various administrative services, not only at the national but also at the local and regional levels;
- (D) There should be normal “vertical” relations between the local, regional and national administrative bodies;
- (E) In certain cases intervention by special bodies should be envisaged.

Local and regional authorities are likely to show most initiative in countries where they enjoy a large measure of independence. Local authorities which enjoy a high degree of independence are usually adequately

staffed and financed. Often practical problems are better understood and can be solved at the local or regional level without the administrative delays inevitably involved in calling upon the central authorities. But, on the other hand, undue importance may sometimes be attached to local interests to the detriment of the general interest; local and regional authorities may outbid each other to attract industries to their area. Finally, when administrative tasks arise which lie outside the competence of the local and regional authorities, it may be difficult to divide responsibility between local, regional and national authorities, and this may delay the solution of certain problems.

The situation is different in countries which are more highly centralized. “Vertical” coordination is easier, but it may often be harder for local and regional authorities to take the initiative. Efforts to associate various business and other interests with regional development are a step in the right direction, but the power of decision usually remains with the national authorities or their appropriate departments.

If the powers of local authorities are to be widened, it will be necessary in certain areas to regroup the local government units and grant the regions some degree of autonomy in administrative matters; measures to this effect are already being planned in several Community countries. These problems can only be solved in the course of time and with the necessary caution. It is most important to avoid any dispersal of effort, especially in the early stages of economic development.

When regional problems are particularly large in scale, it may be necessary to set up special bodies alongside the normal administrative machinery; in certain areas or sectors, these could help solve the problems involved in getting the regional economy going, which the traditional administrative bodies are often ill-equipped to deal with. The more important such special bodies are, the more care must be taken to see that what they do is fully integrated into the

economic policy of the country as a whole and that there is the necessary coordination, with the normal national, regional and local authorities. The fact that a special body of this type is functioning efficiently cannot relieve the authorities of the obligation to reorganize and improve the traditional administration so that it will be able, once the special body has completed its task, to take over from it and resume all administrative duties.

No system will answer all problems. It would, of course, be ideal if the population of the locality or region or, more precisely, their representatives could look after local and regional matters themselves, excessive rivalry between the local authorities being avoided by efficient “horizontal” coordination and by integrating action at the local and regional level into the general economic policy by means of adequate “vertical” coordination.

The Community Institutions may soon have to deal with the problem of coordinating and rationalizing their own administrative machinery. Where regional policy is concerned, the final responsibility must, of course, rest with the member states, but if the Rome Treaty objective of balanced expansion is to be realized, the Community Institutions will need to have a clear idea of the effects that their decisions on agricultural policy, transport and vocational training will have on the different regions. The use they make of the instruments at their disposal (Social Fund, agricultural arrangements, loans from the High Authority) and the operations of the European Investment Bank should also be integrated into a general concept of regional policy within the European Community.

It has become clear that an appropriate “medium-term economic policy” will facilitate the integration of the measures taken by member states and by the Community Institutions into an overall economic plan and will ensure that those measures are compatible with each other and adequate for the purpose of a balanced development of the different regions of the Community.

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