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THE RT. HON. GEORGE THOMSON :
ADDRESS TO THE FINANCIAL TIMES CONFERENCE "EUROPE AFTER THE REFERENDUM"

DUBLIN : 24th JULY at 11.30 am

A great debate is gathering momentum on what is meant by European Union. Sometimes it takes an institutional form - a discussion of direct elections to the European Parliament or the powers of a European Government. Sometimes it takes the form of an argument about the pace of progress to an economic and monetary union.

But neither economic and monetary union nor institutional union will make much progress unless they reflect a European Human Union - unless they inspire the consent of the man in the field or the factory and the housewife in the home.

Disraeli once declared that there were two nations in England - the rich and the poor - where there ought to be only one nation. There are two Communities in Europe today - the Community of the underprivileged periphery of the Italian south, of much of Ireland, of Greenland, of the depopulated agricultural areas in South West France or on Germany's eastern border with Communism, and the decaying industrial areas of Britain; and there is the Community of the more prosperous heartland of Europe from Birmingham to Bremen; from the Dutch Randstadt to Turin.

There can be no true European Union so long as the industrial worker in the centre enjoys a standard of living up to five times that of someone working the land in Sicily or the West of Ireland. One Europe means a Europe not where material wealth is evenly spread like jam. That would be Utopian and indeed dreary and lacking in diversity. But it means a Europe where, by deliberate and conscious action the differences of living standards and of economic opportunity are narrowed to what is politically tolerable in a democratic society.

At present the disparities between one region and another, between one group of workers and another, are if anything widening under the twin pressures of inflation and unemployment. Those who have the power to protect themselves against higher prices by increasing their earnings do so by driving more vulnerable groups out of work. One of the saddest and most serious human aspects of the present recession is that youngsters in increasing numbers all over the Community are going straight from the classromm onto the dole queue. It is a problem on which the Governments of the Community must both nationally and at the Community level show themselves capable of action, if they are to command credibility.

The truth is that in Europe today the underprivileged periphery is spreading. It is stretching out tentacles into the pools of poverty which are growing in the Community's prosperous heartland.

The industrial society of the Western democracies is in fact facing at present its biggest test since that period between the two World Wars when inflation and unemployment led to the revolutionary spread of totalitarian solutions on the Left and on the Right. In the aftermath of the Second World War society seemed to have turned its back on that era of economic misery, revolution and dictatorship. Our mixed economies, with their blend of private enterprise and state intervention, seemed to have found the recipe for high levels of employment, a steady rise in material standards combined with the preservation of the traditions of Parliamentary democracy, personal liberty and the rule of law. A generation has grown up which has taken it for granted that each year there is a god-given right to increased living standards.

Today these comfortable assumptions are under threat both externally and internally. Externally the raw material producers have revolted. The oil producers have succeeded in drastically altering the terms of trade which have been the unspoken foundations of the industrialised economies of the West, and indeed of the whole international monetary system. And the poor nations, who happen to have so many of the other essential industrial materials within their borders, are calling in question their traditional role as the world's hewers of copper or tin and growers of sugar or cocoa.

As a result, there is a lot of talk about a crisis of capitalism. I am a Socialist by political conviction, and I have been hearing about the impending crisis of capitalism all my life. I do not believe it. For a very simple reason. Capitalism, in the classic sense of the idealogues of Left and Right, has been dead for a long time. But what we do face is a crisis of confidence in the capacity of our mixed economies and our democratic systems of Government to go on providing both prosperity and liberty.

In each of our countries there is a crisis of consent between Governments and the governed in which a generation which has been able to take for granted an automatic annual increase in living standards has become blinded by affluence to how thin the dividing line is between a civilised social order and anarchy.

Our kind of society in Western Europe is on trial, and it is against this background - which I do not believe I have over-dramatised - that the significance of the Community's regional and social programme should be seen.

There is a general awareness amongst Member Governments of the Community that they will fight inflation and unemployment more effectively by cooperating together than by engaging in beggar-my-neighbour tactics. There is a general awareness amongst Governments that together they will deploy infinitely more effective bargaining power in the search for a new world economic order. But the fight against inflation and unemployment demands restraint and self-sacrifice from the individual citizen while resources are diverted from consumption into paying increased prices for oil and other raw materials and into investment in the structural changes now essential for future stability. Popular consent for such restraint can only come if at both the national level and theCommunity level there are positive policies to spread the sacrifices more evenly between one region and another, one group and another.

At the present stage of development of the Community, the main responsibility lies with national policies and in the effort of producing a greater degree of convergence between national economic strategies. But if Community action is to seem relevant to the ordinary citizen, there is a role for the policies which give the Community a human face. In the short run, an expanded social programme can support national action to deal with such problems as the unemployed school leavers. In the longer term, a successful Community regional policy has a crucial role to play in making possible the structural changes the Community needs.

Let me therefore go on from these general remarks to tell you briefly where we now stand in launching the Community's new Regional Development Fund. Although the key decision of principle was taken at the Paris Summit last December, the Commission was only finally given the green light to go ahead by the Council of Ministers at the beginning of May. This means we have to do the first twelve months' work inside eight months. But we have moved quickly. The two essential committees - the Fund Management Committee to deal with the detailed applications, and the Regional Policy Committee to bring the national regional policies more closely together - have both been set up and have held their first meetings. National applications for grants from the Fund are now beginning to come in. The Italians were first in the field. This afternoon I will receive the proposed list of priority Irish projects from the Finance Minister, Mr. Ryan. There will be little summer holiday this year for my Regional Policy experts. They will work through August processing the applications. The Fund Management Committee will meet to approve the first batch of projects in October. Andwe hope to be making the first payments on schedule by the end of the year.

I am well aware that this is the beginning and not the end of our job. The phase of political debate is ended; the operational phase is beginning. We will be judged - and rightly so - by the practical results we achieve. And the future expansion of Community Regional Policy will depend on how well we operate the Fund over the next three years. Ours is a long-haul aircraft, not a supersonic fighter swiftly attacking a few selected targets. But at least, and at last, we have the instruments we have been asking for. And we can now make a real start.

They are, of course, far from being perfect instruments. Nor are they in all respects exactly what the Commission first asked for. I am tempted to quote that rather unfair definition of the camel : that it is a horse defined by a committee. But it is firstly unfair to the camel, which in its proper environment is a very efficient animal. And secondly it is unfair to the Community.

Political decisions are always and inevitably compromises between conflicting interests. Community decisions are a compromise between what the Commission proposes on the one side, and what is acceptable to the nine Governments on the other. The results may not always be perfect, but clearly this is the only way the Community can progress.

I am reasonably optimistic. Firstly because there is today a much wider acceptance of the importance of regional development, and that in all of the countries. and secondly because the Regional Fund has been set up during and in spite of a period of particular economic difficulty. This augurs well for the future. The present Fund runs until the end of 1977. I am confident that it will be succeeded by a subsequent and larger fund.

As you know, no one intends that Community Regional Policy should replace national policies in this field. That would, in my view, be entirely the wrong approach, and for three reasons. First, regional problems can best be solved by those closest to them. Our task at Community level is simply to help where help is needed and to see that policies in other fields take account of regional needs. Second, we simply don't have the resources - in money, in people or in expertise. The Commission's Regional Policy Department has a staff of around fifty administrators, and even with all our multi-language typists and translators numbers only about one hundred. Clearly they cannot have a detailed knowledge of local situations and problems throughout nine countries. And third, even if the Commission wanted a single common regional policy, the Member Governments and Parliaments would not accept it.

Our aim is to compare and coordinate and supplement what is being done nationally. And we now have the two instruments with which to do this: the Fund and the Committee.

It is the former - the Regional Development Fund - which has so far had the headlines. Because money makes news. But the Fund is not the policy. And this is not just because of its modest size. Even if it grows over the years - as I hope and believe it will - it will still remain but one instrument of regional policy. I hope myself that, if we can make the other instrument - the Regional Policy Committee-work effectively, it may in fact become more important than the Fund. To underline this hope, I shall deal with the Regional Policy Committee first, before turning to the Fund.

The Committee will be a watchdog to see that the policies of one Government do not run counter to the interests of other regions in the Community or to the development of the Community in general. And on the other hand it will see that the development of the Community and Community policies take full account of regional interests and do not make the solution of regional problems more difficult. Where necessary the Committee will recommend to the Commission and the Council of Ministers that appropriate action should be taken.

The Committee has already decided that one of its first tasks will be to examine the best methods of promoting comprehensive development programmes. Large isolated development projects, often receiving large sums of public money - the cathedrals in the desert, as some large plants in southern Italy have been called - rarely provide the answer to the problems of development. The whole thing needs to be properly, but flexibly, planned to make sure, as much as one can, that all the pieces of the jigsaw fit together. Indeed, the Commission felt sufficiently strongly about this to propose that Regional Fund aid should be available after 1977 only to projects which do fit into an overall development programme for the region in question. And this has been accepted by the Member Governments. One of the tasks of the Committee will be to examine the programmes submitted by the Governments, but also to look into the technical methods of preparing such programmes in order to get a common approach. Indeed, it has to present a first report on this by the end of the year.

Another field the Committee will be examining is the promotion of better information services for both public and private investors in regional development.

Another of the Committee's tasks will be to watch the working of the latest set of Community rules for fair play in giving state aids from the point of view of the less favoured regions, to judge whether the aid levels are really appropriate to the levels of need, and to recommend changes if it thinks they are required.

Earlier this year the Community approved a new scheme of aid ceilings, applying to both national and Community aids. The Community is divided into four types of region, instead of only two previously. In the first category, which includes Ireland (the Republic and the North), the South of Italy, and, for special reasons, West Berlin, the level of aids under national rules applying at the beginning of this year is accepted as being the ceiling.

The second category - the British Development and Special Development Areas, the French Development Areas, and the Italian Development Areas outside the South - has a ceiling of 30%.

Category three, with a 25% limit, includes the special development areas in the North of Denmark, plus the islands of Bornholm, Aerø, Samsø and Langeland, and also the strip of Germany along its Eastern border.

The rest of the Community is subject to a 20% aid ceiling.

The scheme will run for an initial three-year period.

Personally, I feel very strongly that for many of the more highly developed parts of the Community, the 20% limit is too high. Do we really need to give that amount of aid in South East England, North East Zealand, or in the Paris, Brussels or Hamburg areas ? And this leads me straight away to another question the Committee will be looking into - that of congestion and over-development and the measures required to combat them.

The Regional Policy Committee will be looking into this field from several different angles. First, to see what can and/or should be done to relieve the economic, social and environmental problems of the overdeveloped, congested areas themselves. And second, to see how effective the various disincentives and controls are, as means of transferring investment to the less prosperous areas.

It is not just a question of seeing what Community-level controls might be appropriate. On that I reserve my judgment. But also of ensuring that the further development of the Community does not weaken the ability of the Governments to use their own national controls effectively. For example, there is little point in the French, Dutch or British Governments trying to control development in Paris, Rotterdam or London in order to help their problem regions, if the firms concerned can simply move to Brussels or Frankfurt. There is clearly here a problem which demands concerted action at Community level.

Finally I would stress that one of its important tasks will be to look at other Community policies and financial instruments to see that they take fully into account the regional dimension. There is little point in our wasting time and money on Regional Policy if our policies in the fields of agriculture, employment, transport and so on ignore or even run counter to regional interests. And regional priorities must also be borne in mind when the Community provides financial aid from its agricultural, social and coal and steel funds.

As I said earlier, the Regional Policy Committee had its first meeting at the beginning of the month - on 7th and 8th July. It is composed of senior officials of the Commission and the Governments - two from each. The Committee elected as its first Chairman, for two years, Dr. Klaus Noë of the German Federal Economics Ministry, and as Deputy Chairman Mr. Maurice Doyle of the Irish Department of Finance. The meeting really went extremely well, and confirmed me in my view that the Regional Policy Committee is going to be at least as important as the Fund in helping solve our regional development problems.

I turn now to the new Regional Development Fund. It is not as big as we would have liked. But we now have roughly £540 million with which to help encourage new investment in the less favoured regions over the next two and a half years. Next year it will already be second only to agriculture in terms of the Community budget. And it is up to us to show that the money will be used efficiently, effectively and for the purposes for which the Fund is designed. If we can do that, I am confident, as I said before, that we can get the figure increased for subsequent years.

If you look at the other financial instruments of the Community, you will see that the pattern has been the same. A modest fund to start with, but once its utility has been demonstrated, political pressures mean that its size is increased over the years.

As I said, we have available £540 million (1,300 million units of account) for the period 1975 - 1977 inclusive. We can take decisions on the allocation of up to £125 million of this this year; half the remainder becomes available for commitment in 1976, and the rest in 1977. This does not mean that actual payments out of the Fund will be made on this time-scale;

and here there has been some misunderstanding in the press and elsewhere. Our payments are bound to get started more slowly, with a time-lag behind commitments. This is not because of any bureaucratic shortcomings in Brussels or in national capitals, but simply reflects the fact that the Fund grants can only be paid out in instalments in step with the payments the Member Government makes as the project moves towards completion.

On one extreme are big infrastructure projects now still in their early stages; although the commitment of money may be made in 1975, it may well take several years for the project to be completed and the final instalment of Community money to be made. At the other extreme are routine industrial projects to which national governments have already paid their aid, in a one-off grant, at the time they apply to the Regional Development Fund; in cases like this, we may be able to complete our payments within weeks of the commitments. You will see from this that just at the beginning of the Fund's operation, where we are now, two objectives conflict. The more the Fund's early grants are made to the sort of project where the R.D.F. can make the biggest economic and political impact, the more the rate of payments will lag behind the rate of commitments decided by the Summit and the longer it will be before the money starts to flow from Brussels to the deprived regions. But this is only a temporary conflict of interests, during the running-in period. Certainly by the time the day comes in 1977 for deciding on the long-term future of the Fund, this temporary situation should no longer be distorting the picture.

To ensure that the money from the Fund goes where it is most needed, there is a system of national entitlements. Italy can claim up to 40% and the United Kingdom 28%. Ireland can claim up to 6% plus an extra 6 million units of account. Denmark qualifies for 1.3%, which we expect will go mainly to Greenland. In cash terms, this means about £215 million for Italy, £155 million for the U.K., £35 million for Ireland and £7 million for Denmark. In terms of aid per head of the population, Ireland comes out easily top, as it ought to since it is the only country without a substantial industrial base of its own.

All areas which qualify for assistance under the main national regional development schemes are eligible for Fund assistance, but within each Member State priority will be given to the national priority areas, which are those with the greatest need. In Ireland the whole State territory is eligible for the R.D.F., and we expect applications for projects all over the country. But in accordance with the Community's priority principle, the Government has announced its intention of concentrating its applications on counties in the West and North-West where the need for extra development assistance is greates.

The Fund can contribute to financing two main types of project.

In the industrial and service sectors, we can contribute to projects within eligible regions which create at least ten new jobs, or maintain existing ones which would be lost through a forced cut-back of activity if the new investment were not made. Within the service sector eligible projects are limited to the tourist industry and to projects which have a real choice of location. By this I mean that we can provide money for the establishment in a development area of, let us say, the computer centre of a bank, but we would not help build a local branch of the bank. The Fund will, as a general rule, provide 20% of the investment cost or 50% of the total aid from national sources, whichever is the less.

The second type of investment which the Fund can finance is infrastructure projects. But they must be directly linked to the development of the industrial or service sector. In other words, we could help finance an industrial estate, a port modernisation scheme, a power station or a main road, provided these were necessary in order to maintain or create industrial or service jobs in the area. We can also finance certain items of infrastructure required to maintain agriculture in certain less favoured farming areas. For infrastructure investments the Fund will contribute 30% where the investment cost is less than 10 million units of account (this is roughly £4.2 million) and between 10% and 30% for larger projects.

Applications have to come to us from the national governments, not direct from investors themselves. Many people have asked why this should be so, and have criticised the close oeprational link between the Fund and national regional aid systems. But we in the Commission have never pretended that Community Regional Policy should take the place of national regional policies. Our purpose is to supplement and to coordinate national regional policies, following aims and priorities to be worked out together between the Community and the Member States.

This explains the principle to which the Commission attaches great importance that the Community's Regional Fund should be an additional bonus to the national total of a Government's development expenditure. The Community's financial resources must come on top of national financial efforts to reduce regional disparities - that is in addition to them, not in partial substitution for them. The main reason for this is that the regional disparities within states are smaller than those across the Community. The purpose of Community Regional Policy being to reduce these dispartieis, it follows that an additional financial effort is required.

This principle, that Community resources should not 'lead Member States to reduce their own efforts', is contained in the preamble to the Fund Regulation. It is therefore not a legal requirement, but a political undertaking. Indeed, as I shall try to explain, it is more than that; it is an essential condition for the success and the future of the Fund.

In the body of the Regulation, on the other hand, is a provision allowing the Member States to use the Fund, in respect of individual investments, either to add to national aid or to replace it partially. There has been a lot of unnecessary confusion between this provision and the commitment to adding the Fund contribution to the overall national total.

The choice is left to each Member State either to increase the existing level of aid to particular investment, or to add to the total national resources available to assist investment without changing the levels of assistance to each individual project. Obviously the former course should be followed only when it is clear that the existing terms of national aid are not attractive enough to promote an investment; in all other cases the honouring of the undertaking in the preamble will lead to more investment being financed - which is where the Community's principal interest lies. Though, legally, each Member State is quite definitely entirely free to choose case by case, I expect that using the Fund to top up present levels of national aid will be the exception rather than the rule.

From this you will see that the real impact will be entirely dependent on the Member States adding the Fund contribution to his total national expenditure. Without this the Fund would lose its Community raison d'être. I would illustrate this point by contrasting the R.D.F. with the Guarantee Section of the Community's Agricultural Fund. The Agricultural Fund is used to finance a common system of farm support which has taken the place of nine different national systems. The case for financing the CAP by Community money is well established in Community politics.

The case for Community financing of regional development is quite different. It rests on the proposition that it is an important Community interest to increase certain kinds of investment in the worse-off regions. Without the principle of what has come to be known as 'additionality in the aggregate', the R.D.F. would simply not be contributing to this objective.

Now several of our member Governments have already taken various measures and announced various decisions in favour of 'additionality in the aggregate'. I welcome all these positive steps in the right direction. We should all be well aware that the way these decisions now work out in practice will be very closely watched. The Commission is traditionally the watch-dog of the Community, but in this instance the Commission will certainly not be alone.

The Commission's watch on additionality will be inspired by our conviction that the future of the Community Regional Fund after the review due in 1977 - indeed the future of the Community expenditure more generally - will, for the reasons I have explained, depend critically whether in practice the new Regional Development Fund leads to an increase in the total of Community resources being devoted to development. It seems plain that the longer-term interests of regions, governments, Commission and Community all coincide. Balanced regional development is an important Community and human interest. A European Regional Development Fund, soundly based on Community principles, smoothly administered by the Commission, made good use of by Member States, promises to make a steadily growing contribution to that interest.

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July 23, 1975

Extract from a speech by Mr. George Thomson, Member of the Commission for Regional Affairs, to the Financial Times Conference in Dublin on 24.7.75.

There can be no real progress on economic and monetary union nor political union unless we can create a European human union which inspires the consent of the man in the field or the factory and the housewife in the home, said Mr George Thomson, the European Commissioner for Regional Affairs, speaking at a conference in Dublin organised by the Financial Times on Thursday, July 24. Mr Thomson quoted Disraeli's remark about there being two nations in Victorian England, the rich and the poor. There are two communities in Europe today, he said, the community of the underprivileged periphery and the community of the more prosperous heartland of Europe.

There can be no true European union so long as the industrial worker in the central areas enjoys a standard of living up to five times that of someone working on the land in Sicily or the West of Ireland. One Europe means a Community where by deliberate and conscious action the differences of living standards and of economic opportunity are narrowed to what is politically tolerable in a democratic society.

At present the disparities between one region and another, between one group of workers and another, are widening under the twin pressures of inflation and unemployment. Those who have thepower to protect themselves against higher prices by increasing their earnings do so by driving the more vulnerable groups out of work. One of the saddest and most serious human aspects of the present recession is that youngsters in increasing numbers all over the Community are going straight from the classroom onto the dole queue. It is a problem on which the governments of the Community must both nationally and at the Community level show themselves capable of action if they are to command credibility. In Europe today the underprivileged periphery is spreading. It is stretching out tentacles into the pools of poverty which are growing in the Community's prosperous heartland.

The industrial society of the western democracies is facing at present its biggest test since that period between the two world wars, when inflation and unemployment led to the revolutionary spread of totalitarian solutions on the left and the right. In the aftermath of the second world war, the economies of the west, with their blend of private enterprise and state intervention, seemed to have found the recipe for combining high levels of employment, a steady rise in material standards and the traditional political liberties. Today these comfortable assumptions are under threat externally from the revolt of the raw material producers and internally from a crisis of confidence in the capacity of our mixed economies and our democratic systems of government to go on providing both prosperity and liberty.

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There is a general awareness amongst governments of the Community that they can fight inflation and unemployment more effectively together than by engaging in beggar-my-neighbour tactics. But success demands restraint and self sacrifice from the individual citizen and this will only be forthcoming if both at the national and the Community level there are positive policies to spread the sacrifices more evenly between one region and another, one group and another. If Community action is to inspire popular consent, there is a vital need for policies which give the Community a human face.

Mr Thomson went on to make a progress report on the Regional Development Fund. Since May, when the Fund was finally set up, the Commission has moved quickly. The key committees to manage the Fund and to coordinate national regional policies have been set up. National applications for grants from the Fund are now beginning to come in. The Italians were first in the field. Mr Thomson said that later on Thursday he would receive the proposed list of priority Irish projects from the Finance Minister, Mr Ryan. There would be little summer holiday this year for his regional policy experts, who would be working through August processing the applications. The Fund Management Committee would approve the first batch of projects in October and they hoped to be making the first payments on schedule by the end of the year.

Finally, Mr Thomson emphasised the importance of the political commitment made by national governments in the preamble to the Fund regulation that the creation of the Fund should not lead member states to reduce their own efforts. Several member governments have already taken various measures to ensure that their receipts from the Fund shall be a bonus on top of their national expenditures. We should all be well aware that the way these decisions now work out in practice will be very closely watched. The Commission is traditionally the watchdog of the Community, but in this instance the Commission will certainly not be alone. There is a wide-spread conviction that the future of the Community Regional Fund after the review due in 1977 - indeed the future of the Community expenditure more generally - will depend critically on whether in practice the new Regional Fund leads to an increase in the total of Community ressources being devoted to development.

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