Community Regional Policy in Changing Economic Conditions *

Introduction

Serious concern about the economic disparities between the regions of European States predates the formulation of European Community regional policy, and even the foundation of the Community itself. In the mid 1950s the United Nations Economic Commission for Europe (UN/ECE) examined regional development in Europe, and likened the situation to the world phenomenon of industrial areas prospering relative to less developed areas in the postwar period of recovery and economic expansion.[1] When the European Community in its turn came to consider regional disparities, it tended to view them in isolation from world economic developments. The Treaty of Rome recognised that there were indeed areas which had always lagged well behind average European income levels, which suffered rural underemployment and outward migration from subsistence farming; moreover, it acknowledged that the process of European integration could itself result in disadvantage for certain areas, as the Community's competition rules promoted freer movement of capital and labour. Though no provision was made in the Treaty for a Regional Fund, or even a common regional policy, it was envisaged that various other policies and funds would function with regional problems in mind: the European

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[1] Annual Survey of Europe, United Nations Economic Commission for Europe, Geneva 1954.

Social Fund, the European Investment Bank (EIB) and the Common Agricultural Policy all had regional sides to their operation.[2]

From the foundation of the Community in 1957 until its first enlargement in 1973, several attempts were made to take regional policy beyond the mere supervision of national aids which was its main role at the start. An Action Programme, Memoranda on Regional Problems, proposals for a Standing Committee and the development of general principles on regional aid schemes all indicate the Community's concern in the 1960s and early 1970s. However the concern was rooted in the economic conditions of the period, as is evident from the wording of the Treaty and later documents. Along with the inherited problems of chronically backward areas, there was the task of spreading economic growth evenly; Article 2 of the Treaty of Rome states that the task of the Community is to promote '... a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and closer relations between the Member States'.[3] At the Paris summit of 1972 it was agreed that the Commission should report on the regional problems of the Community, taking into account its expansion to nine members with the accession on 1st January 1973 of the United Kingdom, Ireland and Denmark. When this report, prepared by UK Commissioner George Thomson, came out in 1973 it too emphasised the balanced use of resources in a growing economy, mentioning the problems of urban congestion and of 'overheating' the economy.[4] Over a decade of discussion had been based on the premise that growth would continue; other European institutions were implying that their greatest problem was planning for the great wealth which Europe would accumulate by AD 2000 as a result of economic expansion and the falling real cost of raw materials, especially energy.[5]

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[2] DENNIS SWANN, *Economics of the Common Market*, 4th ed., Penguin Books, Harmondsworth 1981; Chapter 7 'Regional and Social Policy'.

[3] *Treaty of Rome*, Brussels 1957.

[4] EUROPEAN COMMISSION, *Report on the Regional Problems in the Enlarged Community*, COM (73) 550 final, Brussels 1973, (here referred to as the Thomson Report), Section III, para. 16.

[5] Cf. *Annual Survey of Europe*, UN/ECE, Geneva 1967 and 1968. In a lecture given in 1963, the late Barbara Ward, referring to the "16 or 17 per cent of the human race who live around the North Atlantic" said:

"The ultimate embarrassment is not shortage but plenty ... The problem of organising this plenty, of making it a creative instrument for the development of a better human world, creates for us dilemmas and opportunities which no human society has ever faced before." (P. 10 in the first of the Sir Robert Falconer Lectures, University of Toronto, published as *Towards a World of Plenty?* by University of Toronto Press, 1964.)

Within six months of the publication of the Thomson report, the first oil crisis was precipitated, and between then and the end of the 1970s, the Commission and the Member States had to revise their assumptions about growth. The oil shock affected a European economy already adjusting to the transition from agricultural to industrial employment, and it was reasonable to expect that by the end of the 1970s, the Commission and the European Council would be proposing a very different regional policy to manage stagnation and rising unemployment, yet in practice they proceeded very cautiously. It was as if they felt that the formulae developed for spreading the riches would do equally well for sharing out the poverty.

Recognising that a regional policy formulated in an expansionary period may be inappropriate at the end of that era, we review in this paper the evolution of European regional problems in the growing Community and within a changing world economy. We examine the typology of regions which has emerged from many years of discussion, and suggest some major adaptations in the concepts, policies and priorities of European regional policy today.

Categories, Criteria and Data

The 1966 UN/ECE study of *Regional Physical Planning*[6] in some twenty states, both centrally planned and market economies, drew attention to the difficulty of aggregating data for European comparisons. Denmark, said the study, was regarded as a single 'region' by many larger states, while the Danes thought of their country as at least half a dozen regions. While responsibility for formulating and implementing policy lies with individual member states this presents no problems. In the European Community, in contrast to the UN, the OECD or the Council of Europe, common regimes for state aids and discretionary allocations of European funds are the agreed objective. This requires an acceptable *European* rather than a national basis for defining regions and regional needs.

The problem in the original EC regional policy, as exemplified in the Thomson report of the 1973, is that it took the existing regional sub-

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[6] *Regional Physical Planning*, UN/ECE, Geneva 1966.

divisions of each Member State, and used them as its basis for analysing the EC regional problem. It recognised both 51 'Level I' regions, the major units of regional assessment, and 108 'Level II' basic administrative units.[7] As a result, the Community has tended to view its regional problem as a simple aggregation of the regional problems within each Member State, admitting some part of every country into the category eligible for benefit from the European Regional Development Fund (ERDF). What seems to have happened is some kind of 'fallacy of composition': within the Netherlands, for example, there are clearly more and less prosperous regions, but in a Community context the Netherlands are both small and rich, and no part can justifiably be categorised as a problem region.

A further difficulty arose in formulating a common regional policy based on the guidelines for the ERDF established at the Paris Summit of the EC in 1972. These (tacitly) rejected previous attempts to draw up a European regional typology and established the purpose of intervention by the new ERDF as follows: '... the correction of the main regional imbalances in the enlarged Community and particularly those resulting from the *preponderance of agriculture* and from *industrial change* and *structural underemployment*'.[8]

The Commission interpreted this mandate in the light of the voluminous data and analyses collected in the 1960s, and outlined its task in the Thomson report of 1973. It considered

(a) that the regional Fund's role was limited to assisting certain geographical areas overdependent on backward agriculture or declining industry, and was not 'to act as an overall corrective to all economic problems affecting the growth rate of a Member State ...', and

(b) that the absence of 'modern economic activity' (advanced industry and services) and of alternative sources of employment was the crucial determinant of regional imbalance.[9]

In the event, however, there was a political compromise over the disbursement of the ERDF, and all the Member States received quota

[7] The United Kingdom is analysed only in terms of its eleven standard regions; there are no UK Level II regions.
[8] *Thomson Report 1973* Section I, para. 1, emphasis added.
[9] *Thomson Report 1973* Section IV, para. 22.

allocations, so that about 52% of the land area and 32% of the population were declared eligible for assistance.

The Commission's reluctance until recently to highlight the really chronic regional problems, in case it appears to favour one or two countries by so doing, shows up particularly in the presentation of statistical data. The Community's Statistical Office has over the years improved the coverage and the comparability of its regional statistics, as demonstrated in its 'First Periodic Report on the Regions'[10], yet these are not always used to greatest advantage in showing up the least favoured regions. A recent Community map of the regions is a graphic example of the omission of relevant detail which could have been illuminating. The map in the *Yearbook of Regional Statistics 1981* showing real gross value added per inhabitant by region (figure 10) uses 5 shadings to illustrate income bands around the Community average, for an EC of Nine in 1978, the top and bottom bands being ±15%. It differentiates three narrow bands of income close to the Community average, while all the remaining regions are allocated to the two open-ended categories, and are thus presented as the 'prosperous' and the 'poor' regions. On this basis, 'poverty' is widespread. A quarter of the population of nearly 260 million lives in regions where income is below 85% of the EC average, and Southern France, much of Lower Saxony and part of the Netherlands seem 'as poor' as the Mezzogiorno in Italy. Some Commission publications still make statements such as 'The average income in Hamburg ... is six times greater than that of Southern Italy ... After Spain and Portugal have come in, ... the richest area will soon be earning twelve times more than the poorest'[11] which, though true, do not tell us enough. The richest 'region' is a large industrial city with one and a half million inhabitants, the poorest (Calabria) a large rural area of two million people with a low activity rate, high unemployment and over 20% of its workforce in agriculture.[12] Moreover, this type of comparison ignores the important variation in purchasing power of the respective currencies.

An encouraging sign is that the European Commission has started to describe the regional problems of the Community in a new way.[13] In October 1981, Commissioner Giolitti presented the main elements

[10] European Commission, *First Periodic Report on the Economic Situation in the Regions*, COM (80) 816, January 1981.
[11] John Greenwood, 'Regional Aid', *Europe 81*, no. 5, May 1981.
[12] Data from *Yearbook of Regional Statistics*, Eurostat, 1981.
[13] European Council, *Proposal for a Council Regulation amending regulation (EEC) no. 724/75 establishing a European Regional Development Fund*, Brussels, November 1981.

of the Commission's proposed revisions to the European Regional Development Fund(ERDF). If the proposals are adopted, only regions suffering from 'especially serious structural problems' will be eligible for aid on the basis of national quotas. These areas are set out in what would become Article 4 of the Regulation on the ERDF and cover the following regions:

Regions	*Quota*
Mezzogiorno	43.67%
Greek regions other than Athens and Thessalonica	15.97%
Ireland	7.31%
UK Assisted Areas	29.28%
Greenland	1.30% } [14]
French overseas departments	2.47%

In the Introduction to the Regulation, the quota section is defined as assisting areas of 'serious structural underdevelopment' and it is this categorisation which casts doubt on the Commission's reasoning. The quota section now appears to apply to two types of regional problem. One type, covering the first three areas in the table above, and accounting for two-thirds of the quota fund, is the problem of regions which have not undergone the transition from traditional agriculture or rural artisanate to modern farming methods or manufacturing industry. These large areas on the periphery of Europe which have never shared in its prosperity are patently 'sub-European', and their underdevelopment is recognisable. The claim of UK Assisted Areas to quota status is less obvious. They are clearly suffering 'especially serious structural problems' but these are the problems of industrial decline, not of underdevelopment. This does not make them any less deserving of Community aid, but they would not qualify as needy if the criterion for aid were the level of per capita income in the regions. Instead, they are included in the quota section of the regional fund on the basis of a dual index, an unweighted average of the index of per capita GDP (at

[14] Greenland voted to leave the Community in a referendum on 23rd February 1982. The Départements d'Outre-Mer (DOM) of France are excluded from all but the most detailed reviews of the Regions and the Eurostat *Yearbook of Regional Statistics* omits them completely, and they are not further considered here.

current prices and exchange rates) and the long term unemployment rate (those out of work for more than six months). Any region of Italy or the UK which scores less than 75% of the EC average on this index falls into the category of region eligible for quota aid.

The use of this criterion raises two issues. First, the statistical device employed is a dubious one. The index is crude and at the same time extremely sensitive to rather small changes in one of its components. For example, an entirely realistic change in half the composite index could switch an area from well above the average to well below it in the space of a year.[15] Such wild swings are hardly an adequate basis for determining chronic structural problems. The second issue concerns the application of the index only to Italy and the UK. Italy's disadvantaged regions would qualify for quota aid on an income criterion alone, while regions of other Member States with similar characteristics of industrial decline are not subjected to the statistical test.[16]

At the same time there are areas suffering 'current and serious problems of industrial decline' in the Commission's new terminology. These would be eligible for aid from an enlarged 'ex quota' section of the ERDF. Any region of the Community could qualify, and parts of northern France and of Belgium would be clear candidates. Yet the decline these areas are experiencing is historically and economically related to that which began to affect Wales, urban Scotland and the industrial North East and North West of England some years, even decades, ago. In our view, the policy division between current industrial decline, to be treated outside the quota section of the Fund, and 'Assisted Area' decline, treated within it, is an artificial one. It mars the Commission's honest attempt to reorganise the Fund so that it gives priority to the regions experiencing the most serious problems of regional imbalance. It also separates unnecessarily regions with the same problem which are obvious potential beneficiaries of a new European industrial strategy in the process of industrial readaptation on a world scale.[17]

[15] This point can be illustrated by assuming that long-term unemployment in the EEC is 2.5% of the labour force. A region having this percentage for its unemployment rate and a GDP per capita of 80 will have a combined index of 90, well above the critical value of 75. A rise in the region's long-term unemployment rate to 4.0%, keeping the other factors constant, will reduce the combined index to 71.25.

[16] If the combined index is computed using real GDP per capita (i.e. using purchasing power parities), rather than the nominal value calculated on current exchange rates, the Belgian regions of Hainaut, Liège and Limburg move below the critical value of 75 and the UK regions North, North West and Scotland move above it. Calculations are based on 1977 data in COM (80) 816, see note 10.

[17] Dissatisfaction with existing regional typologies has been expressed by other commentators, e.g. JUDITH MARQUAND. See her article 'Spatial Change and Economic Divergence in the EEC', *Journal of Common Market Studies*, Vol. XIX, no. 1, September 1980.

It should be stressed that this division is still only a Commission proposal, and a controversial one at that. A report to the European Parliament by the Belgian socialist Delmotte criticised the proposals for not allowing a detailed territorial division with 'homogeneous data', while the Permanent Conference of Chambers of Commerce and Industry of the EEC 'opposes the exclusion of less-favoured zones of relatively prosperous countries'. However, another lobby, the European Centre of Public Enterprise (CEEP) considers that aid should go 'where imbalances are so obvious that the very idea of European Union would be called into question'.[18]

Clearly the time is right for rethinking European regional policy before political demands force the Giolitti proposals into a tactical compromise. In the remainder of this paper we use a new approach to the assessment of regional problems, subdividing the Community into a small number of regions on the basis of a straightforward statistical measure. We then highlight the most pressing regional problems and examine the way these have changed over time. Particular interest centres on the question of whether the economic situation in the less prosperous regions has deteriorated significantly since the oil crisis of 1973-74. We also analyse the impact of a further enlargement of the Community to include Spain and Portugal, and conclude with some recommendations for the European regional policy of the 1980s.

The Situation in 1973

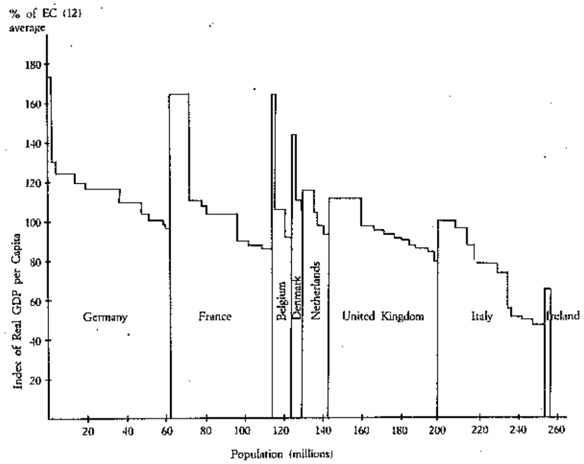
Figure 1 shows the level of GDP per capita in purchasing power parities (PPP), defined so that the average for the nine Member States is equal to 100, and the population of the Level I regions in 1973. This year was chosen because it marked the first enlargement of the Community. The height of the histogram represents the relative size of real GDP per capita in each region, and its width indicates the size of the population.[19] Consideration of the figure suggests three categories of region, depending on the level of GDP per capita:

[18] Reported in Agence Europe's *Daily Bulletin*, 5th February, 28th January and 4th/5th January 1982 respectively.

[19] Luxembourg could not be shown on Figure 1 because its small population (350,000) would not show up on the chosen scale.

Figure 1

GDP PER CAPITA AND POPULATION FOR REGIONS, 1973



(i) the living standards of three-quarters of the Community's population in 1973 lay in a band which one could call 'normal European', between 80% and 120% of the Community average;

(ii) about 26 million of the population (10% of the total) lived in regions where average real per capita incomes were comparable with the highest standard of living achieved anywhere in the world;

(iii) poverty in the Community was concentrated in Italy and Ireland. Some 17 million Italians lived in regions where the real standard of living was about 75% of the EC average, while 19 million inhabitants of the Mezzogiorno, and 3 million in Ireland had a real income well below the 'normal European' band, and possibly comparable with the better-off inhabitants of one of the newly industrialising countries (NICs) of the Third World. Hence less than 10% of the Community's population can be considered 'extremely poor'.

This three-fold classification is the basis for aggregating Level I regions for the four large countries, and these are given in Table 1. The 'average wealth' band for France contains some regions which are below 100, and are clearly less prosperous than those French regions above the EC average. Within the UK, the heavily populated South East region has a value in excess of 100, and is noticeably better off than

TABLE 1

POPULATION AND GDP PER CAPITA * IN 1973

	Population		GDP per capita	
	Millions	Percentage	Mkt Exch	PPP
Ile de France	9.96	3.9	173.0	164.0
'Prosperous' Germany [1]	14.25	5.5	156.5	133.8
Luxembourg	0.35	0.1	134.0	130.0
Denmark	5.02	2.0	140.0	121.0
UK - South East	17.32	6.8	88.0	111.0
Germany - Remainder [2]	47.73	18.6	128.9	109.9
Belgium	9.74	3.8	112.0	107.0
Netherlands	13.44	5.2	109.0	106.0
France - East & Central less Paris [3]	24.48	9.5	112.0	105.6
Italy - Northwest [4]	19.03	7.4	81.4	96.0
UK - Remainder	38.62	15.1	71.9	90.6
France - Western & Southern Periphery [5]	17.69	6.9	92.0	87.0
Italy - Northeast & Central [6]	16.72	6.5	64.6	76.3
Ireland	3.05	1.2	52.0	65.0
Italy - Mezzogiorno [7]	19.18	7.5	42.3	49.7
EUR 9	256.58	100.0	100.0	100.0

Source; Regional Statistics Main Regional Indicators 1970-1977, Eurostat (1978).
* Regions are ranked by level of GDP per capita in purchasing power parities.
[1] Hamburg, Bremen, Baden-Württemburg, West Berlin.
[2] Schleswig-Holstein, Niedersachsen, Nordrhein-Westfalen, Hessen, Rheinland-Pfalz, Bayern, Saarland.
[3] Bassin Parisien, Nord-Pas-de-Calais, Est, Centre-Est.
[4] Nord-Ovest, Lombardia, Emilia Romagna.
[5] Ouest, Sud-Ouest, Méditerranée.
[6] Nord-Est, Centro, Lazio.
[7] Campania, Abruzzi-Molise, Sud, Sicilia, Sardegna.

all the other UK regions. This subdivision of the average wealth regions for France and the UK is also made in Table 1, while the small countries (Luxembourg included) are each treated as a single region. This aggregation gives fifteen European regions. The table shows total population in each of these fifteen regions, together with their share of total Community population. The third column gives GDP per capita at current exchange rates, while the fourth column gives this value in purchasing power parity terms.[20]

Table 1 highlights first the disparity between the Ile de France on the one hand, and Southern Italy and Ireland on the other: the ratio between real incomes in the Paris region and the Mezzogiorno is 3:1.

[20] The reason for the choice of purchasing power parity figures, and the method used for calculating them, are given in the Appendix.

Next, there is a noticeable gap between the highly prosperous regions and the best-off 'normal European' areas, with Denmark (121.0) markedly richer than UK-South East (111.0). It also strikingly indicates the gap between the Mezzogiorno and the other parts of Italy, and suggests a very wide gap between the regions of extreme poverty and 'normal Europe'. Even the poorest Level I region of the UK, Northern Ireland, with a real per capita income 79% of the Community average, was almost 60% better off than Southern Italy. Hence, by Community standards Northern Ireland can hardly be classed as 'poor'.

The main problem of 'serious structural underdevelopment' which the quota section of the Regional Fund is intended to assist only occurs in two regions, which are quite clearly shown up in this new classification as the Mezzogiorno and the whole of the Republic of Ireland. In retrospect, it is hard to understand why the Commission did not use a clearer picture, such as this one, as the basis for European Regional Policy. The answer is presumably related to the following:

(a) the Paris Summit had already laid down categories for assistance, and the available statistics were used to justify the categories *ex post facto*;

(b) the Member States were reluctant to take European comparability too far;

(c) the regional economic development problems of Europe were not usually presented as being related to general world economic problems until the oil crisis and subsequent recession.

Developments in the 1970s

'Whereas during the 1960s, the range in economic prosperity between the regions of the Community narrowed somewhat, *the impact of recession in the Seventies has served to widen it'*.[21] Such statements indicate the consensus view of the decade: the impact of higher oil and other raw material prices, slower growth, the decline in world trade, and structural unemployment in Europe must have been greatest in the

[21] From a EUROPEAN COMMUNITIES *Background Report* (Press Release) 12th February 1981. Emphasis added.

poorer regions. In fact, as the report to which that statement refers makes clear, recession put an end to the narrowing of disparities, rather than actually widening them.

When one examines the figures for the end of the 1970s in Table 2, it turns out that the Community's poorest regions were no worse off vis-à-vis the Community average in 1978 compared with 1970. Though its position deteriorated slightly between 1970 and 1973, the Mezzogiorno recovered, and was a little better off in 1978 than in 1970, with an income level of 52.8% of the Community average, compared with 50.6% before the oil crisis. Ireland's position fell back after 1973, but was unchanged on the total period at 61.0%. At the top of the table the Ile de France maintained both its primacy, and the level of income it had at the start of the decade, but it had experienced a sharp rise (to 195% of Community average income in 1975) and a sharp fall. Of the other richer regions, only 'Prosperous' Germany came through the oil crisis relatively unscathed, with average income almost unchanged. Lower down the table, the middle income regions weathered the difficulties generally better than the richer areas – with the striking exception of the United Kingdom. In 1978 the UK-'Remainder' area, which had been at 91.0% of Community income in 1970, had fallen to 85.6%, while the UK-South East had suffered a still larger fall from 112% in 1970 to 102% eight years later. Again, though, it is the poorer region which suffered less than the richer one in deteriorating world economic conditions. In the poorer regions, and among those active in promoting their interests, there was an understandable view that these areas found it more difficult than the richer regions to bear the impact of a slowing down in their rate of economic progress. This was the view, for example, expressed in a report in January 1981 to the Conference of Peripheral Maritime Regions.[22] Nevertheless, the best statistical information available does indicate a 'homogenising' effect, whereby income levels at both extremes have moved closer to the Community average.

While the developments described above might be thought to indicate the negative effects of Britain's accession to the Common Market in 1973, there is some evidence that the UK's declining position in the European per capita income table dates at least from the early

[22] Réseau Européen Scientifique pour l'Environnement, l'Aménagement du Territoire et l'Urbanisme, *Perspectives d'Evolution des Disparités Régionales en Europe dans le Contexte du Redéploiement des Appareils Productifs*, Study for the Conference of Peripheral Maritime Regions, January 1981.

Table 2

GDP PER CAPITA (PPP) IN THE 1970s

REGION*	1970	1973	1975	1977	1978
Ile de France	160.0	164.0	195.0	162.6	160.0
'Prosperous' Germany	134.9	133.8	133.1	135.5	136.5
Luxembourg	127.0	130.0	116.0	110.7	115.0
Denmark	120.0	121.0	119.0	119.0	114.0
UK - South East	112.0	111.0	105.0	102.8	102.0
Germany - Remainder	111.0	109.9	111.3	110.5	113.0
Belgium	102.0	107.0	109.0	107.2	104.0
Netherlands	107.0	106.0	108.0	106.2	103.0
France - East & Central less Paris	100.9	105.6	104.7	107.4	104.7
Italy - Northwest	99.8	96.0	94.1	102.2	101.7
UK - Remainder	91.0	90.6	87.9	85.7	85.6
France - Western & Southern periphery	83.8	87.0	80.8	90.5	88.6
Italy - Northeast & Central	79.0	76.3	75.1	80.7	82.5
Ireland	61.0	65.0	61.0	59.5	61.0
Italy - Mezzogiorno	50.6	49.7	50.5	52.4	52.8
EUR 9	100.0	100.0	100.0	100.0	100.0

* See Table 1 for area covered by each region.

Source: *Regional Statistics Main Regional Indicators 1970-1977*, Eurostat (1978); *First Periodic Report on the Economic Situation in the Regions*, European Commission (1981); *Yearbook of Regional Statistics 1981*, Eurostat (1981).

1960s. J.W. Gardner [23] bases a comparison of GDP per head in the (then) nine member countries on Eurostat National Accounts figures, using figures at purchasing power parities. He discovers that in 1962, the UK at 108.3% of the EC average was behind only Luxembourg and the Federal Republic of Germany in income terms. By 1972 it had lost its lead over France, Holland and Belgium and had already fallen below the Community average. The position had deteriorated further by 1977, when real income per capita stood at 91.8% of EC(9) average. Over the fifteen year period, the relative position of the UK had deteriorated by just over one percentage point per annum. Only Luxembourg, Gardner points out, experienced a similar steady relative decline in income in that time.

[23] J.W. Gardner, 'The United Kingdom's Economic Performance: Comparisons with Other Countries of the European Community', *Economic Trends*, no. 310, August 1979.

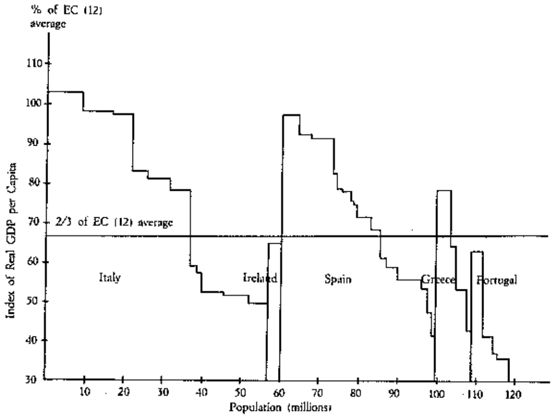
Enlargement to a Community of Twelve

Greece, with its population of over 9 million, joined the European Community on the 1st January 1981. If all goes according to plan, Spain will join by the mid-1980s and Portugal will join within the decade. These two new members will add another 47 million people and bring the Community population to some 315 million. More importantly, the expansion from nine to twelve members has serious implications for the nature and severity of the regional problem within the Community. This will be considered in this section using data for 1977, that is, studying the situation as if we had a Community of twelve at this date.

The Appendix explains how the purchasing power parity estimates of GDP in each country have been computed. Naturally the picture within the new countries varies considerably, and in Figure 2 we plot the real income levels in the regions of Spain, Greece and Portugal.[24] For comparison, we have included the poorest members of the EC(9), Italy and Ireland.

FIGURE 2

GDP PER CAPITA AND POPULATION FOR REGIONS OF ITALY, IRELAND, SPAIN, GREECE AND PORTUGAL, 1977



Though some of the Spanish regions are rather small in population, they bunch together in three recognisable income groups: 'industrial Spain' (Madrid, the Basque Country and Catalonia), a middle income belt running from the Bay of Biscay to the Balearic Islands, and the rest,

[24] See Appendix for the choice of regional subdivision in each country.

dominated by Andalucia. The industrial regions have 13 million people with per capita incomes within 10% of the Community average, slightly less prosperous than the Northwestern part of Italy, and comparable with France-Western and Southern periphery, and UK-Remainder (see Table 3). The middle income regions of Spain are clearly less prosperous than Northeast and Central Italy, but are nevertheless above the level of two-thirds of EC average income. It is this level which comes out as a crucial dividing line: below it come the Mezzogiorno, the whole of Ireland, the periphery of Spain, Greece apart from Athens, and the whole of Portugal including the Lisbon region. When the Community had nine members, 23.2 million people lived below this poverty line; the accession of Greece added 5.4 million[25] and further rounds of enlargement would bring the total number of people living in areas of serious structural underdevelopment to 52.4 million.

In a world perspective, Greece, Spain and Portugal can all be regarded as NICs that have developed on the fringes of the European Community of the Six and the U.K. They continue to show in their less developed regions the same low level of incomes and predominance of traditional agriculture as characterised France, Italy and parts of Germany in the 1950s. These regions correspond to the group of countries which the UN/ECE termed 'Southern Europe' in the 1950s, and they can be regarded as a long-established category of less developed European territory.

If one were to include Turkey, the possible thirteenth member of the Community, the number of people living in regions with per capita GDP less than two-thirds of the EC average would almost double again. However, while some areas, e.g. the Bosporus and Western Anatolia may be comparable with the level of development of one of the newly industrialising countries, Eastern Anatolia presents characteristics that belong to less developed countries in the Third World. Speculation about the impact this would have on European regional policy is hindered by the absence (for constitutional reasons) of regional data, though some economists, among them Dieter Biehl [26] have constructed their own statistics.

[25] The Commission's proposals (see note 13) would exclude Thessalonica from quota status, in which case the population of the worst-off Greek regions would be 3.8 million. However, real per capita GDP in the Thessalonica region is 64.0% of the Community average, slightly below that of Ireland, and we prefer to include it in the category of most deprived regions.

[26] Cf. BIEHL'S chapter in W. Wallace and I. Herremans *A Community of Twelve? Proceedings of the 1978 Bruges week symposium*, De Tempel, Bruges 1978.

TABLE 3

GDP PER CAPITA AT FACTOR COST AND IN PURCHASING POWER PARITIES IN REGIONS OF A EUROPEAN COMMUNITY OF TWELVE IN 1977

REGION*	Population Millions	Population Percentage	GDP per capita
Ile de France	9.97	3.2	181.7
'Prosperous' Germany	13.83	4.4	145.1
Luxembourg	0.36	0.1	129.4
Denmark	5.09	1.6	127.2
Belgium	9.83	3.1	123.0
Germany - Remainder	47.57	15.1	122.5
Netherlands	13.86	4.4	120.8
France - East & Central less Paris	24.76	7.9	113.3
U.K. - South East	16.83	5.3	109.5
Italy - Northwest	19.28	6.1	102.2
Spain - Industrial	13.31	4.2	94.1
France - Western & Southern periphery	18.35	5.8	93.7
U.K. - Remainder	39.09	12.4	91.5
Italy - Northeast & Central	17.27	5.5	79.8
Greece - Athens	3.86	1.2	78.1
Spain - 'Biscay to Balearics'	9.85	3.1	73.2
Ireland	3.27	1.0	65.1
Spain - Remainder	14.04	4.5	55.0
Greece - Remainder	5.41	1.7	54.3
Italy - Mezzogiorno	19.91	6.3	52.0
Portugal	9.77	3.1	44.1
EUR 12	315.51	100.0	100.0

* See Table 1 for area covered by each region of the Nine members in 1977. See Appendix for area covered by regions of Greece, Spain and Portugal.
Source: As Table 1 for the Nine. See Appendix for data sources on new and candidate members.

Conclusions

In 1973 the Thomson Report regarded the case for building a comprehensive Community Regional Policy as a compelling one, resting on economic, environmental and moral grounds. But the Thomson Report was written before the oil crisis of 1973-74, and was the culmination of many years' thinking within the Commission of the European Community, during a period when all international organisations in Europe were assuming continuous growth of the economies of the industrialised nations. As a result, both the economic and the environmental arguments in the Thomson Report presuppose conditions of economic growth that would threaten urban areas with congestion and confront national economies with problems of overheating. Community regional policy as put forward in the Thomson Report was conceived as an instrument for promoting more widespread industrialisation and mitigating the effects of industrial change when the European national economies were providing the driving force of economic growth. In such prosperous days, discrimination for the benefit of less-favoured regions did not seem to be one-sided generosity but rather a form of enlightened solidarity; all regions benefited from a better utilisation of resources.

Ironically, the years that followed the publication of the Thomson Report marked the end of these buoyant times: mounting unemployment replaced virtual full employment, the transfer of labour and resources from agriculture to industry and services slackened its pace, growth rates fell to zero or below, and the expansion of industrial investment into less developed regions was superseded by retrenchment in manufacturing and even 'de-industrialisation'.

When economic growth ceases and all regions lack new sources of employment, there is no longer any general justification on economic and environmental grounds for discriminatory regional policies. Regional policy ceases to be beneficial all-round and becomes a one-way traffic alleviating the burden of the less favoured regions by transferring to them some of the income and opportunities that would normally have gone to the richer areas. Such a European Regional Policy would still be justifiable on moral grounds (the third of Thomson's arguments) as it was in more prosperous days, but it would be naive to pretend that these arguments would not be deeply affected by what might be called 'a change in the climate of European solidarity'. When regional policy seriously becomes a sharing out of the poverty rather than an enlightened management of prosperity, even matters of state become as cold as charity. It is no longer sufficient to note that the poor are still with us and need our help; help in hard times must be reserved for the 'deserving poor'. The 1981 Giolitti proposals would establish criteria whereby the ERDF resources can be effectively concentrated on the areas of greatest need instead of being dispersed over a third of the Community's population, and the acid test of these proposals will be their ability to persuade the member states that only truly 'deserving' less-favoured regions would be identified by the proposed criteria.

In our view, the Commission falls at the last fence in its endeavour to devise new persuasive criteria because it classifies the United Kingdom Assisted Areas as eligible for ERDF quota benefit. In principle, the Commission's proposals give recognition (which we consider correct) to a cut-off point of two-thirds of the Community average income as the criterion for eligibility for benefit under the ERDF quota. Such a rule would effectively concentrate discriminatory aid on the Italian Mezzogiorno, Ireland and Greece, and the statistical basis for the criterion is stable and not subject to sudden fluctuation. Such a rule would also make large parts of the two candidate countries eligible for ERDF quota benefit. But the rule would exclude the UK Assisted Areas, at present admitted via the dual index device. We believe that if a special case is made for quota aid to these parts of the UK, other member states may in future feel it is unfair to exclude parts of their territory where real per capita GDP is substantially the same as that in the UK Assisted Areas, and will insist on similar treatment.

The force of such a feeling of injustice is clear if we examine per capita income in some of the UK's least prosperous regions in 1977. We find that Northern Ireland has an income level (in PPP) of 72.3% of EC(12) average, having declined more rapidly than the rest of the UK in the 1970s. The next poorest region of the UK, Wales, had a real regional GDP per person of 84.3% in 1977, on a par with the middle income group of Italy. The logic of the statistical criterion which would allow ERDF quota status for parts of the United Kingdom would inevitably indicate that North East and Central Italy (population 21.1 million), the Athens region (3.9 million) and the 'Biscay to Balearics' belt of Spain (9.9 million) ought also to be included. The European Community would seem glaringly inconsistent in discriminating in favour of Northern Ireland and Wales while refusing to give the same treatment to areas in Italy, Greece and Spain with income levels that were similar. If however all comparable areas were included, the ERDF quota section would find itself back in a position where nearly a third of the Community's population became eligible for discriminatory aid and the whole effort to concentrate European regional aid more effectively would be defeated.

In dissenting from certain aspects of the Giolitti proposals, we do not wish to disparage the Commission's political goodwill in trying to find objective statistical criteria for keeping all the major historically less favoured regions of Western Europe, including the old UK depressed areas, within the ERDF quota section. Nor are we suggesting that the UK Assisted Areas do not need special help with their undoubted economic and social problems. We wish to reinforce the principle expressed in the Thomson Report, that regional policy should not act as an overall corrective to all economic problems affecting the growth rate of a member state. The ERDF is not large (870m ECUs, 4.5% of the Community Budget in 1981), and such assistance as it can give should surely be distributed in accordance with the hierarchy of need. How, then, should the more general economic problems be approached? In particular, can anything be done to help those parts of Europe which are suffering most from unemployment and industrial decline?

As long ago as 1972, the Final Communiqué of the Paris Summit of European Community heads of state and government acknowledged the need "to seek to establish a single industrial base for the Community as a whole". In order to achieve this aim, fiscal and legal barriers to closer relations and mergers between firms, and technical barriers to trade, would have to be eliminated, all in the interests of fair competition in markets within and outside the Community. Significantly, this also required "the transformation and conversion of declining industries under acceptable social conditions". Further paragraphs stress the importance of developing the regional and social policies in line with the objective of the single industrial base. It is our view that, for the European dimension to be applied to this extent in the conditions of the 1980s, Europeans must cease to regard Europe as a special case, as has been the practice in European Regional Policy since the 1950s. Some of the problems of regional imbalance and industrial retrenchment in Europe should now be looked upon as an integral part of economic and social change in the world as a whole. This would necessitate a review of what Community Regional Policy can be expected to achieve in relation to other tasks which should be tackled, not as objects of regional discrimination, but as elements in the establishment of a single European Community industrial base and enlarging the European Community programme in the social field, notably a co-ordinated policy for employment and vocational training.

We suggest that three considerations should be taken into particular account when reassessing European regional problems as an integral part of world economic and social developments:

a) The distinction between problems arising out of initial industrialisation (as in NICs like Ireland, Greece and Portugal or in the Italian Mezzogiorno) and problems arising from structural change in urban industrial societies (as in the UK Assisted Areas and Continental industrialised areas in difficulties) should be made clear. While the former category of problems would be appropriate to a Community Regional Policy conceived as a form of development assistance as might be applied to developing countries, the latter category would seem to be a general problem of urban industrial societies requiring new sorts of public authority intervention, of a functional rather than regional character, in the industrial technology and employment fields.

b) In future there will be even greater difficulty in pursuing discriminatory regimes within the European Community for the benefit of less favoured regions in isolation from more general Community policies towards imbalances between member states. A comparable level of economic performance in all member states has always been considered indispensable for the functioning of European Union. The problems connected with enlarging the European Community to include Portugal and Spain as full members highlight this difficulty.

c) The industrialisation of Third World countries [27] proceeds at a time of increased capital intensity of industrial technology. During the initial phase of industrialisation, the labour force released from the older rural/artisan sectors was absorbed in new manufacturing industry. There is now no obvious new sector to mop up the surplus labour that will be released by the introduction of less labour intensive technology in manufacturing industry. The hope that Europe can maintain high levels of well paid employment by developing new industries and services based on very sophisticated technology, while shedding traditional labour intensive industries to developing countries, seems to be founded on a very optimistic view of Europe's comparative advantages. Such an optimistic view would be a poor basis for continuing with a traditional Community Regional Policy.

[27] In line, for example, with the Lima Declaration by UNIDO in 1975, which set a 25% target for the Third World share in world manufacturing output by AD 2000.

Our belief is that Community Regional Policy in its established form is incapable of managing widespread de-industrialisation at a time of general economic stagnation. It cannot be asked to achieve what only the establishment of the single industrial base can do. In the meantime, regional policy could function as an instrument of enlightened solidarity, concentrating on regions of greatest need where living standards are clearly sub-European.

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APPENDIX

Computation of Real Regional GDP per Capita in a Community of Twelve

The calculations for a Community of twelve were made by taking the 1977 value of GDP at factor cost and converting this into European Units of Account (EUA) using the conversion rate given in the Eurostat *Yearbook*. The number of EUAs per capita was then computed for each country and this was expressed as a proportion of the overall average when aggregating across all twelve countries. These values, which reflect market exchange rates, are given in the first column of table A.1. Greece, the new entrant in 1981, had a GDP per capita of 49.9% of the EC(12) average. Per capita incomes in the candidate countries were 61.5% of the Community average in Spain, and 30.6% in Portugal. This exercise was also undertaken for Turkey, this country having a level of GDP per capita which was 21.1% of the average in the Community of twelve.

It is generally accepted that comparisons of GDP per head at current exchange rates do not reflect real purchasing power over goods and services within each country, and tend to exaggerate the differences between richer and poorer countries. The Commission assesses relative price levels in the different member states, a difficult and time consuming exercise, and then computes per capita GDP in what are called purchasing power parities. This adjustment factor, averaged for 1975, 1977 and 1978, is given in the first column of Table A.2. However, no such conversion factor is yet available from the Commission for Greece, Portugal, Spain or Turkey.

A recent paper by Irving Kravis and associates[28] presents a possible solution as they were attempting to compute an index of real GDP per capita, admittedly in relation to purchasing power in the United States, for more than one hundred countries. Their most recent results were for 1974 when they tabulated values for both real (purchasing power parities) and nominal (current exchange rates) GDP per capita.[29] The ratio of these values is given in the second column of Table A.2. It is immediately apparent that there is a remarkable similarity between the conversion factor used by the Commission

TABLE A.1.

GDP PER CAPITA AT CURRENT EXCHANGE RATES (EUA) AND PURCHASING POWER PARITIES (PPP) IN 1977

	EUA	PPP
Belgium	145.8	123.0
Denmark	158.1	127.2
France	128.1	119.4
Germany	151.2	127.6
Ireland	52.2	65.1
Italy	63.8	77.6
Luxembourg	145.8	129.4
Netherlands	139.9	120.8
United Kingdom	79.0	97.0
Greece	49.9	64.2
Portugal	30.6	44.1
Spain	61.5	74.2
EUR (12)	100.0	100.0
Turkey	21.1	37.7

Source: GDP at factor cost was derived from United Nations, *Yearbook of National Accounts Statistics 1979*.

[28] IRVING B. KRAVIS, ALAN W. HESTON and ROBERT SUMMERS, 'Real GDP per capita for more than one hundred countries', *Economic Journal*, vol. 88, no. 350, June 1978.
[29] See KRAVIS *et al.*, 1978, Table 4, cols 11 and 12.

TABLE A.2.

GDP IN PURCHASING POWER PARITIES RELATIVE TO GDP AT CURRENT EXCHANGE RATES IN MID-1970s

	Eurostat	Kravis
Belgium	0.86	0.83
Denmark	0.82	0.81
France	0.95	1.00
Germany	0.86	0.81
Ireland	1.27	1.29
Italy	1.24	1.18
Luxembourg	0.90	—
Netherlands	0.88	0.84
United Kingdom	1.25	1.21
Greece		1.31
Portugal		1.47
Spain		1.23
Turkey		1.82

Source: see text.

and that used by Kravis: note that Kravis did not include Luxembourg in his study. Consequently, the Kravis ratio has been taken as appropriate for Greece, Portugal, Spain and Turkey and has been used to convert their total GDP in EUAs into real GDP. This conversion for the other nine countries was made using the Eurostat ratio given in the first column of Table A.2. GDP per capita in each country, measured in terms of purchasing power parities, was now expressed as an index in relation to the average for the Community of twelve; see second column of Table A.1. The average standard of living in Spain stands at three-quarters of the Community average, marginally lower than that in Italy. Greece, at 64.2, is a little distance behind Spain, while Portugal at 44.1 is clearly less than half of the Community average.

The regional allocation of real GDP at factor cost in the nine member states was based on data in the *Yearbook of Regional Statistics*. Regional data for the three new countries posed some problems, and these were dealt with as follows:

Greece

Commission (1981) (see note 10) contains a table of regional GDP per capita within Greece in 1977, and this was used, in conjunction with population figures made available by the Cambridge Study of Centrality, Peripherality, and EEC Development, to compute the share of total Greek GDP deriving from the different regions. For the purpose of our analysis in Figure 2 it did not seem helpful to separate the seven non-urban regions, some with very small populations, and they were grouped into two. Consequently, Greece is subdivided into four, figures in brackets show GDP per capita in PPP relative to the EC(12) average:

1. Athens and the rest of the Eastern Greek Continent and Islands (78.1)
2. Thessalonica region (64.0)
3. Thessalonica, Eastern Macedonia, the Peloponnese and Western Greek Mainland, Crete (53.0)
4. Epirus, Thrace and the Eastern Aegean Islands (42.6).

Portugal

Detailed national income figures for Portuguese planning regions, and even for 274 *conselhos* (municipal councils) were made available to us by the Cambridge University Study of Centrality, Peripherality & EEC Development for 1970. The national income for 1977 was assigned according to the 1970 regional shares, and when divided by 1977 population gave the following regional GDP per capita, shown as a percentage of the EC(12) average:

1. Lisbon	62.9
2. Central region	41.1
3. Southern region	37.0
4. Northern region	35.5

Spain

The Banco de Bilbao publishes national income figures by province, and these were aggregated to give GDP at factor cost for the regions. Detailed population estimates for provinces in 1978 had to be used as the exact year required, 1977, was not easily available.

Political changes in Spain since the new Constitution came into force in 1978 have shifted the emphasis from the provinces to the regions. It is the political regions emerging now which we have used here. In some cases, the newly autonomous regions have a strong historical tradition and are clearly defined. This is true for example of Cataluña and Galicia. The third region to gain rapid autonomy was the Basque country, which is also well-defined in a historical and cultural sense, but which may or may not eventually include the province of Navarra. We have included it; the area referred to as País Vasco (Basque country) is really 'Vascongadas y Navarra'. Some of the regions seeking autonomy are single provinces, other provinces had not decided which region to join by January 1982 when these figures were prepared. The final choice of sixteen regional sub-divisions is given below, together with the level of regional GDP per capita as a percentage of EC(12) average: