Draft Speech for Mr Hume, Aix-en-Provence, October 1980

Good morning .... ladies and gentlemen ....

## Introduction

It is always a pleasure to be in the South of France and, as we have discovered over the last couple of days, Aix is a particularly agreeable place to hold a conference such as this.

Agreeable and appropriate too. Appropriate in the direct sense - having nearby Fos providing an example of one route to regional development, and also experiencing the benefits - and disbenefits - provided by another route to development, namely tourism.

But Aix is also an appropriate location in another, less direct, sense - the town and surroundings have played host to many famous writers and artists - and among them was Camus, who is buried at Louvmarin. Camus, as you probably know, was much preoccupied with the myth of Sisyphus, Sisyphus being condemned forever to push a boulder uphill. Those of us who have continually to defend the role of regional policy, and to seek aid for our regions, feel condemned in much the same way.

For those of you whose taste in imagery is different, perhaps I can point out that another ex-inhabitant of the region is the Marquis de Sade ..

## The questioning of regional policy's role

Why has regional policy been called into question of late ?. Certainly it was not always so. During the post-war period, during the 1960's for example, regional policy was widely supported on two main grounds - that of fairness or equity, and that of efficiency.

Only extreme egalitarians would argue that regional differences, in themselves, are bad and ought to be eliminated. Most of us accept that Hamburg is always going to be richer than Schleswig-Holstein. On the other hand, too great a difference does affect people's opportunities, life expectancy and a host of other indicators which go to make up a satisfying life. Following this line of thought, large-scale migration in search of work is not the answer - the social cost to individuals and to communities is too great. In contrast the cost to industry - in terms of locational disadvantage - is less than often thought.

The second ground - the efficiency argument - was a question of rather plain economics: the unemployment and underemployment in poorer regions represented and typified unused resources. With economic growth causing inflationary pressures in the richer and more congested areas, these "unused resources" were needed.

You may have noticed that I put the second argument - the unused resources argument - in the past tense. That is the part of the coalition, the coalition between equity and efficiency, which since the war has sustained a positive role for regional policy, that has now broken down. In these chronically recessionary times, it is difficult for governments to maintain full employment <u>anywhere</u> in the economy, never mind seek out bits of unused capacity in the regions. It is not surprising therefore that regional policy has come under increased scrutiny. On top of this, of course, the rightward shift discernible over recent years means that some governments - and the British one is a prime example - have a dogmatic aversion to anything that involves so-called "intervention" or state expenditure. This is a short-sighted view - shortsighted because governments cannot avoid <u>in effect intervening, and it better be explicit about it</u>. It is of course the population at large - and in particular in depressed regions - that suffers while certain ministers complete their education.

## The economic outlook

Last year was not a bad year in Europe; GNP grew by something over 3% in the Nine. Whilst we are now in a downturn, there are signs that the US is through the worst of its recession and on the upturn, with a consequent stimulus to the world economy. In other words, there will be the usual ups and downs. Nevertheless, although I don't go along with the view that the current recession, oil problem and all, is the "end of the (economic) world as we know it", the era of steady and substantial growth does seem to be over. Economic forecasting is indeed a black out, and energy forecasting even more so. Hence my hesitation. But several things seem clear to me:

- the West will be dependent on OPEC oil for a long time to come, and their economies affected by its price. Of course other sources, both oil and other forms of energy, will be developed. But such developments are only made worthwhile by the high price: the effect is similar, although there will be extra security of supply;

- recent events in Iraq and Iran may well prove me wrong, but I think OPEC has sufficient basic coherence to survive for some time yet;

- to the extent that the West booms, OPEC will want to raise its prices; conversely it will also want to keep the West in adequate economic health so as to safeguard its investments there.

These factors lead me to the belief that, whatever the shorter-term ups and downs, we are condemned to a period of, at best, slow growth, and perhaps to stagnation.

In some areas, economic and geographical areas, a further factor has to be borne in mind - and that is competition from newly-industrialising countries - the Brazils, South Koreas and Hong Kongs of this world; the problems of the steel, shipbuilding and textile industries we all know about. Will cars and chemicals be the next, especially if buy-back deals with Eastern Europe continue to expand ?. European enterprises might well prosper - but how much of their workforce will be employed in the traditional locations?. The new international division of labour is a danger, as well as an opportunity, for Europe's poorer regions.

This is a rather gloomy picture, but it is supported by the fact that unemployment has risen in Europe in each of the last five years.

Is a regional policy possible ?

Given the recessionary climate, then, let's look again at the rest of the title of today's session - "Is a regional policy for the European Community possible ?". In a way, of course, it is not only possible but inevitable - whatever general economic policies are followed they will almost certainly affect the poorer regions - positively or negatively : we shall have a policy by default unless we formulate one that is in time with the times and with the needs of the regions.

What, then, should be the objectives of our explicit policy ?. As you might expect, I do attach importance to the traditional arguments of fairness. The rapporteur, Mr Corrie, of a European Parliament report on peripheral coastal regions of the Community summed up the goal of regional policy as follows. It was to help regions:

"develop their resources and improve the quality of their life so that their inhabitants will benefit from opportunities for living and working in the region of their choice that are comparable to those enjoyed by the inhabitants of Europe's most prosperous areas".

Now that is clearly a politician's formulation, open to all sorts of subjective interpretation. But it does contain the two important ideas: firstly of regions having a large degree of self-sufficiency in employment opportunities, and secondly, a similar self-sufficiency in social infrastructure. These in turn will keep the population size and structure stable. In short, healthy regions may differ in character, but they will have a large degree of independence. If you prefer, they will be able to "stand on their own two feet".

<u>Role of regional policy in getting Europe's economy out of recession</u>

The arguments in favour of a positive regional policy do not, however, stop there - and there is no need to be defensive about the role of regional policy in a time of recession. I believe regional policy has a major part to play in getting our economies out of that recession.

Looking back over the sustained growth of Western economies during the post-war period - an extraordinary performance in historical terms - one feature that stands out is the role played by trade. Not only the supply of raw materials to the developed economies and the reverse flow of finished goods, important as that is. But more especially the explosion in trade between developed countries. A most striking example, and the one with which we are most familiar, is the European Community, although similar trends developed elsewhere. Although the idea of comparable advantage is far from superseded, it seems that trade perhaps develops best between developed countries because they offer so many market opportunities to each other.

One of the long-established trends of regional studies is to view regions as rather akin to trading nations. At a basic level therefore, promoting the health and growth of poorer regions is vital for the richer regions themselves - the poorer regions provide markets for their products. The role of the poorer regions as markets goes further than that, however. It is unfashionable in these monetarist days to talk of demand management and demand deficiency. But the poorer regions do provide not only a substantial market, but also - in comparison with richer and more saturated regions - a larger degree of unsatisfied demand. That is - a larger degree of demand to be filled before overheating of the economy and inflationary pressures arise.

Let's pursue this idea of regions as trading entities a little further. As I mentioned above, trade between countries seems to flourish best when both are sufficiently developed to produce a wide range of goods and offer a wide range of market opportunities. Just as the best tennis matches are between opponents of roughly the same skill, so it is important that the trading countries are at roughly the same level of sophistication. The European Community has long accepted this - hence so much talk of "convergence", talk backed up by concrete measures such as interest-rate rebates for Ireland and Italy under the European Monetary System, the Ortoli facility for structural loans, as well as the bias in the activities of the European Investment Bank.

The point I want to make is that "convergence" applies not only to Member States' economies but to European regions as well.

"Convergence" is not merely a question of charity towards the weaker members of the Community - it is a pre-requisite for stable long-term growth. In just the same way, regional policy too is a pre-requisite for real long-term growth. We should not and cannot rely on richer regions providing the "locomotive" pulling the poorer regions along behind - the poorer regions are vital in generating a bead of steam for the locomotive.

Hence my view that a regional policy for Europe is not only possible, not only indeed inevitable, but a crucial component of any anti-recessionary policy.

Practical problems

Let me turn now to some of the more practical problems in implementing an effective regional policy. I say "effective" because implicit in much criticism of regional policy is a belief that, in its present form, it has achieved little. This is unfair; there is often difficulty in getting proper data on a regional basis. Certainly it is difficult to measure the effects of regional policy, and any effects there are appear only in the long-term. Those researching in the field will know the problems of getting adequate data on a regional basis. Here is perhaps not the place to indulge in a lot of statistics as to where the gaps between regions have been closed and where they have widened - the picture is not black and white.

But one study carried out within the European Parliament indicated that regional inequalities have tended to reduce in the richer countries of Europe and tended to worsen in poorer ones. This study covered the period 1970-77, looking at Gross Regional Product per head, on a purchasing power parity basis. This is, of course, only one of the many indicators that can and should be brought into a composite picture of regional differences. Incidentally, it should be remembered that even where the poorer region manages a better rate of growth, the absolute gap can still increase, because it is starting from a lower base.

No simplistic conclusion should be drawn from these observations. Growing inequality does not, for example, condemn regional policy - the inequalities might have been worse without it. Similarly it may not be that richer countries can "afford" to spend more on regional policy; rather that an effective policy for the regions is a component of overall management of the economy that in fact creates the wealth. So for the time being at least, it is difficult to say that spending amount "X" on regional policy will have "y" effect on regional inequalities. The decision on funding regional policy remains a political one.

## The European Community and Regional Policy

The need for regional policy was foreseen in the Treaty of Rome, and the Preamble calls for the "harmonious development" of Member States' economies "by reducing the differences existing between the various regions and the backwardness of the less favoured regions".

Things rarely move quickly in the Community, and it took until 1975 for these words to to put into effect, with the setting up of the European Regional Development Fund. The sums of money involved are not trivial - nearly 4,000 million units of account will have been committed by the end of this year, but that still leaves it rather thinly spread over the disadvantaged regions of Europe.

Various shortcomings of the Fund's operations have become apparent, in addition to its overall lack of resources compared with the problems:

- it is administered via member states, and is therefore subject to the criticisms one can make of national programmes;

- it is supposed to provide funds <u>additional</u> to member States' own spending, but one doesn't need to be a cynical politician to guess what governments have done;

- it has had to take account of national sensibilities and share out the funds according to quota. Italy accordingly gets about 40%, the United Kingdom 27%, France 17% and so on.

Thus without decrying the useful work that the ERDF <u>has</u> done, it is difficult to avoid the conclusion that there is as yet no real <u>European</u> regional policy - either in terms of resources or criteria. There <u>is</u> a chink of light on the horizon, although it is no more than that. A so-called "non-quota" section of the Fund has been set up - it has a devisory 5% of the money, but that 5% is to be spent according to Community criteria rather than national quota. The first programme will concentrate on areas affected by enlargement of the Community, by the steel and shilbuilding crises, and on certain internal frontiers. The emphasis is to be on programmes rather than projects. There has been some determined wrangling over this proposal in Council. One can see why : the guiding principles of the non-quota section are a big step forward towards a truly Communal policy even if the amounts of money are - as yet - laughable.

Of course, the other activities of the European Community cannot - and should not - be overlooked. The Coal and Steel Community's investment and retraining aids are of course concentrated in problem areas. The same is true of the Social Fund's spending. But we are all aware of the overwhelming importance of agriculture in the Community's Budget - around three-quarters. Agricultural spending falls under two main heads - the price guarantee system and the guidance section for restructuring, etc. An accurate breakdown by region is difficult, but it is no secret that it is the larger units, and the dairy farms, that do best out of the price support system. In general, these are the types of farms <u>least</u> likely to be found in the poorer regions of the Community (Ireland is something of an exception, I admit). Nor is there - and again I speak in general terms - a <u>real</u> bias towards regional development in the activities of the second arm of the agricultural policy, that is the guidance section.

Thus we have the ironic, and depressing, conclusion that while the European Community has a formal commitment to regional development, the Community's policies <u>in practice</u> - because of the preponderance of the CAP - may well work in the opposite direction.

<u>Shortcomings of existing regional policies</u>

We could spend all day chewing over what is wrong with existing policies. I shall confine myself to just a few generalisations, recognising that they may not apply rigidly in every circumstance.

I think my main unease with existing policies arises from the overdependence on capital grants to private enterprise and on the infrastructure projects. I am <u>not</u> saying that such expenditure is wrong - far from it : it is vital. On the other hand, I do think that we ought to keep in mind the objectives of regional policy, and design our policy instrument accordingly.

The provision of jobs is the crucial issue, and the ostensible aim of virtually every regional development programme. Is it not strange, therefore, that there is such an emphasis on capital grants for investment, and on infrastructure projects, projects which do not directly provide employment beyond the construction period ?.

Oh, I know it's not as simple as that. Infrastructure, and particularly transport, can provide an important stimulus. Similarly, short-term subsidising of jobs is no substitute for a healthy industry well-equipped with modern plant and able to compete effectively. That is of course true.

But the current approach on capital grants for investment is surely rather unimaginative :-

Firstly, it is very oriented to attracting often-sizeable chunks of investment from outside. Something like 80% - according to Stuart Holland - of investment is replacement of existing plant or machinery, or the expansion of existing factories. The amount of so-called "footloose" investment is thus fairly limited. There is expensive bidding by regions to get it, and attention is distracted from promoting and developing possibilities within the region itself.

Secondly, the needs of firms differ. Some would prefer an investment grant, some a tax holiday, some a labour subsidy, some an interest-rate subsidy. Surely ways can be found to offer an "amount" of aid, structured to suit the recipient ?.

Thirdly, the costs of processing individual grant applications usually means that projects have to attain a certain minimum size to be considered. This eliminates exactly the sort of local entrepreneur one wants to encourage.

A sizeable chunk of the investment that capital grants have attracted has been invested by foreign firms (23% in one study). That is useful and welcome. But the recession will raise again new worries about whether they will stay. And the longer-term worry is the type of plant they build - the concern used to be that they built straightforward production plants, without a balanced range of ancillary services. The trend now seems to be to put the capital intensive plants in a region offering high incentives, but the labour intensive operations somewhere with cheap plentiful labour. Not only does this make capital grants an expensive way to promote employment in the regions, but it undermines the industrial capacity of the domestic economy. Without being dogmatic about the "bête noire" of multinationals, these developments ought to cause concern. One of the longer-term roles for the Community must be, I think, the provision of the political structure commensurate with the state of the multinational enterprise.

I have concentrated here on investment. There are other policy instruments, of course, but none seems particularly relevant to a time of recession - planning controls - in particular. With regard to price policy, the current market orientation of many governments is putting regions at extra cost disadvantages - electricity is now more expensive in the islands of Scotland than on the mainland, because of the cost of supply. Turning to the public sector, this can provide a useful tool for directing investment, but there is again the problem of overcapacity, and most states' public sectors are concerned with providing basic services; these are not so mobile.

Some ideas

I have made it clear, I hope, that I think regional policy is a necessity. I have also pointed out some of the deficiencies of present policies at the national and European level. What then do I want to see ?. What is the way ahead for regional policy.

One. More money, not surprisingly. More of what has gone before is unlikely in the present climate, so we have to make sure that the money is well spent relative to our objectives. One way of increasing the financial impact is to expand lending operations. The European Investment Bank is committed to devoting a substantial proportion of its resources to projects for less-developed regions. And it does. 75% of its activity within the Community is oriented to the regions - that amounted to investment of nearly 1,600 million units of account in 1979. And on top there are structural loans of the Ortoli facility and the interest-rate rebates on loans under the European Monetary System. This seems to be a route we should try and expand. Some Members of the European Parliament are proposing, either as an arm of the EIB or separately, a European Rural Bank. The Credit Agricole is France certainly seems to have succeeded. This is a good idea, but should cover the similar problems of run-down industrial areas as well.

Two. A danger of introducing a "European Rural Bank", or whatever, is that it introduces yet another element. The sheer number of regional aids, and of authorities sticking their oars in confuses and deters the recipient. Firms seek ease of use, and flexibility, as much as maximum rates of aid. The case for a single development body in each region seems to me to be very strong. They can best judge the region's needs, act as a "front" for other bodies involved, and be a focus for development activity. Ideally they should have discretion over the way aid is granted.

Three. Within the European Community, the main priority - and not just for reasons of regional development - should be to correct the predominance of the agricultural policy in the budget, and the unfavourable bias within that policy. With regard to regional policy, the development of criteria of regional disadvantage, if formally accepted by Member States, could open the way both to an expansion of the non-quota section and to providing a base-line for judging Member States' regional expenditure. The requirement that Community funds be additional to domestic spending could then be better enforced.

Each of these three developments is desirable if regional policy is to be effective as part of an anti-recessionary programme. The adaptation to a new world economic order will not be easy, but for Europe it must surely involve a shift to producing goods of higher added value and to new technologies. The new realities, however, are not just electronic games but also <u>high</u> and <u>persistent</u> unemployment. We shall have to be imaginative in developing, among our new industries, some that are labour-intensive. These need not be short-term palliatives, but a constructive part of the wider reorientation.
One example, studied by the Commission, involves the large-scale recycling and reconditioning of domestic appliances. Labour-intensive, semi-skilled work would go hand-in-hand with substantial savings of the energy content of the materials. This seems to me to be the sort of idea we should be taking more seriously.

## <u>Conclusion</u>

I've tried in these remarks to raise some of the regional policy issues which seem important today. I will not pretend to have provided all the answers and I'm looking forward with interest to the discussion. Regional policy <u>is</u> under something of a clowd in the present recessionary climate, and needs new impetus.

The message I would like to see come out of this (discussion (conference is not "regional policy is something which has to be maintained during a time of recession", but - much more positively - that an imaginative and dynamic regional policy in Europe is a prerequisite, one of the fundaments, of any anti-recession strategy. That is the view we have to impress on the heads of government in Europe.

Thank you.