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**RECENT TRENDS IN REGIONAL POLICIES  
IN OECD COUNTRIES**

**ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT**

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### Preliminary note

This report has been prepared by the secretariat for the Industry Committee's Working Party on Regional Development Policies. It forms part of the regular activity of the Working Party on monitoring and analysing changes in the regional problems and policies of Member countries. It is principally based on information provided by governments and on the discussions held in the Working Party. The situation as studied relates to development from 1991 to autumn 1993. It has been made public on the responsibility of the Secretary-General of the OECD.

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## SUMMARY

Continuous recession in Europe and Japan and a weak recovery in North America and in the UK have resulted in a worsening employment situation or at best in stabilising employment at a level insufficient to trigger off a significant decrease of unemployment. Most countries are suffering from the present unprecedented employment crisis because of its intensity and scope -- a very large spectrum of occupations are now affected. Regions have been impacted at various degrees. The analysis shows that the most affected regions are often the most prosperous ones or those with specific characteristics such as an industrial mono-structure, a high dependence on defense activities etc....

As central areas have been more impacted than peripheral areas, disparities tend generally to diminish thanks to the negative regional rebalancing effect (with the exception of Italy, Switzerland and the Netherlands); long term trends are difficult to identify and could contradict the present cyclical evolution. In the case of the European Community, the reduction of regional gaps is slow and increasingly costly.

Under these circumstances, governments are urged to change their priorities. On the whole, they now devote more attention to :

- infrastructure development;
- medium and large cities (clustering effects are increasingly recognised);
- the need to transfer funds and competencies to subnational levels;
- the elimination of interregional trade barriers.

For this purpose, public authorities have increased their recourse to discretionary measures, improved the coordination between sectoral and regional policies and used regional development initiatives more actively to struggle against unemployment. A majority of countries have put a halt to the decrease in regional aid budgets, in spite of unfavourable cyclical conditions.

In the CEECs, whose policies have been studied by WP6 in the last two years, economic structures are undergoing profound transformations. While these countries have put stress on macroeconomic adjustments in the very first years of the transition towards market economy, they are now designing regional policies in order to cope with the rapidly emerging disparities between regions. However they have to overcome two main disparities: the lack of resources for regional development funds and the weakness of administrative and executive links at regional level.

While there is on the whole policy continuity with past periods, several major changes took place between 1991 and 1993 and should be borne in mind: i) new tasks have been devoted to regional policies and especially cushioning the socio-economic impacts of disruptive adjustments; ii) a greater priority is given to infrastructures to attract new firms and to stimulate the competitiveness of existing local enterprises; iii) the setting-up of free trade zones provides new challenges to regional policies.

## REGIONAL POLICY DEVELOPMENTS

### I. THE MACROECONOMIC CONTEXT AND ITS REGIONAL IMPACT

Between 1991 and 1993, regional economic trends in the OECD countries were greatly influenced by an unfavourable macroeconomic environment which has confronted regions with the general problems of economic decline (Section a) and a concomitant rise in unemployment (Section b). In this context, renewed pressures have militated for the restructuring of production and services (Section c). Moreover, new trends in the world economy, such as the increasing globalisation of markets and geopolitical change that has led to a decline in defence spending, have raised new challenges for regional policies (Sections d and e). Meeting these challenges has become particularly difficult as countries lose financial leeway (Section f) and rigidities increase due to factors such as demographic trends (Section g).

#### *a) Deepening recession*

Average GDP growth in the OECD area remained very weak in 1991, at 0.7 per cent, and rose to only 1.5 per cent in 1992. Since the last report, the business climate has continued to deteriorate nearly everywhere, and the North American recovery has hardly been robust during 1992 and the major part of 1993. The industrialised world's only notable progress was in the area of inflation, which has now been trimmed to less than 5 per cent in the vast majority of countries.

Underlying these unfavourable trends, however, are situations that differ. Several countries experienced relatively drastic changes in their growth patterns, with a downswing in 1990 and clearcut recession for two years thereafter. Such was the case, for example, in Scandinavia (except for Norway), Switzerland and the United Kingdom. Other EEC and EFTA countries, as well as Japan, underwent a very sharp slowdown in 1992, although growth is still positive. In the United States, Canada and Australia, the revival is still slow.

Another characteristic of the current economic cycle is the manufacturing downturn that took place in 1992 and, on average, persisted in 1993. Not as steep as in previous recessions but spread out over a longer period, this decline in industrial output also illustrates a desynchronisation of cyclical movements. The poor showings recorded in North America, Australia, the United Kingdom and southern Europe resurfaced the following year in a large majority of European countries, while Japan's industrial sales decreased markedly in 1992/93. However, U.S. recovery has been confirmed in the last months, and the rise in industrial output has started to restore growth in capacity utilisation rates.

This recession affected the most dynamic regions worst. In areas with a long history of industry, pressures to restructure have been mounting. In Canada, the regions that are richest (Ontario, Quebec, British Columbia) or have the most asymmetrical industrial structures (Manitoba) are among the hardest hit. In France, the regional shift to a service economy has gained momentum (in Aquitaine and Auvergne). Regions where unemployment was less than the national average have generally been affected the most: in 1992, job offers dropped 44 per cent in Alsace. In Île de France (Greater Paris), the economic downturn and collapse of the real estate boom has considerably weakened the property development industry and the banking and insurance sector which had invested in office construction, and has clouded the prospects of construction firms. In Switzerland, the growth rate of per capita income has slowed steadily in the richest cantons (Zug, Zurich) and in certain regions to the south (Valais, Ticino) and to the west (Jura, Neuchâtel).

**b) *Shrinking employment***

In recent times, over half the countries in the OECD area have experienced a substantial decrease in employment (by an average of 3 per cent for the manufacturing sector in 1991 and a further 2 per cent in 1992). Beyond these statistics, there are several reasons why the current situation is cause for great concern:

- In many countries, the service sector has failed to play its traditional role as an absorber of cyclical shocks and has itself been affected. In the United Kingdom, Scandinavia (except for Norway), Australia and Canada, the percentage of the labour force employed by service industries shrank in 1991.
- Long-term unemployment has increased substantially, especially in countries where it had been relatively low. Those affected now represent more than 40 per cent of the jobless population in a great majority of EEC countries.
- In certain countries, the percentage of unsuccessful young job-seekers aged 18-25 is running at nearly two to three times the average unemployment rate.
- In many countries, segments of the population that used to be spared by recessions (e.g. recent graduates, white-collar workers) are now being afflicted by unemployment. One recent survey showed that between June 1992 and June 1993, hiring for managerial posts was down by 28 per cent in Italy, 25 per cent in the United Kingdom and 14 per cent in France.
- The recovery perceived by forecasters is unlikely to come before mid-1994. The OECD has scaled back its projections for Germany, France and Japan. Moreover, the new upswing predicted by the experts will probably lack vigour and therefore contribute little to job creation.
- Lastly, in recent times a large number of firms have agreed to make rationalisation investments that have been heavily geared to the use of new technologies<sup>1</sup>. This consolidation could well increase the risk that future growth will do little for employment.

How regions have held up in the face of this mounting unemployment has varied enormously. A region's resistance obviously depends on the performance of the country as a whole and its mix of industries and competitiveness, as well as on labour force skills and migration. To cite only the U.S. example, in 1991 the change in joblessness ranged from a 55.4 per cent rise in Illinois to a 39 per cent drop in Georgia (see Annex A1). In particular, strong showings were turned in by the Sun Belt (except for Florida and Arizona) and the farm and oil-producing states of the Middle West and the Southwest. On the other hand, recession hit hard in the Eastern and Western industrial states, and particularly in those having a significant dependence on government-funded civilian or defence procurement.

c) *Continued structural adjustment*

Propelled by swift technological change and heightened competition in increasingly global markets, production structures were thoroughly overhauled in the 1980s, although there were fairly wide disparities from one country to the next. The numbers seem to confirm the existence of specific industrial rigidities in countries like France and the United Kingdom (see Table 1).

Table 1

**Index of structural change of output**  
(Annualised variation in percentage)

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	Index of Structural change
Japan (1970-85)	1.04
United Kingdom (1968-84)	1.02
Canada (1981-86)	0.91
United States (1972-85)	0.76
Germany (1978-86)	0.72
Australia (1974-86)	0.68
France (1972-85)	0.68

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Source : OECD, STAN input-output database.

Since the early 1990s, basic industries (such as metals, timber, and iron and steel), certain capital goods sectors (machinery, transport equipment) and textiles have seen their sales decline in the OECD area, while the auto industry has stagnated. On the other hand, other sectors, such as food and chemicals, have improved their position, even if the gains are relatively modest. These are overall trends, however, and can vary by country and by region.

As a rule, the rise in industrial productivity observed in all countries (except Japan and Italy) over the past two years has come at the expense of jobs. Capital investment began to wane virtually everywhere in 1991 -- and even in 1990 in North America, the United Kingdom, Scandinavia and Australia. Against this backdrop, waves of layoffs engulfed major firms in a large number of industries in Europe, but also in the United States. Many of these workforce "purges" hit companies with sharply falling margins, while others stemmed from restructuring connected with enhanced technological efficiency. Their regional impact was often severe.

Before drawing any hasty conclusions, it should be borne in mind:

*a)* that de-industrialisation is detrimental not only to industry but also -- because of outsourcing -- to all the services that depend on industry. Today, as many countries come to realise that if their industrial base is too narrow it helps weaken national and sub-national economies, they are paying greater attention to the possibilities for co-ordinating industrial and regional policies.

*b)* that even if big firms have been responsible for much of the recent wave of job losses, they still constitute the backbone of our economies in terms of economic activity and technological progress. They also generate a great deal of job creation, either directly<sup>2</sup> or indirectly. A recent study<sup>3</sup> in the United States showed that while SMEs had generated a large number of jobs, they had also destroyed many others, and that the manufacturing sector had suffered a net loss over the past decade.

Consequently, the recession does not alter -- and would even seem to confirm -- the ideas put forth in the previous report, i.e. that regional policies could start paying more attention to what is in effect the wellspring of national and regional competitiveness: networks of corporations, and particularly the major firms that often lie at their heart. The priority given to measures to enhance the overall business climate rather than to systems of direct subsidies should therefore be reinforced.

*d) Globalisation strategies and trade*

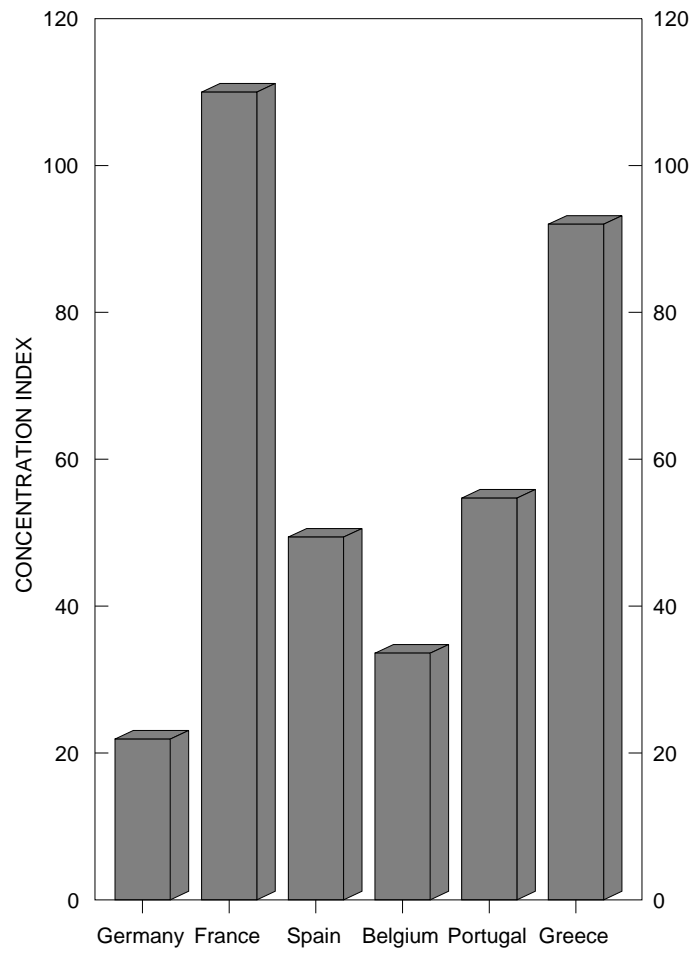
Aside from technological reasons (e.g. the cost of innovation, the increasingly intersectoral nature of research), the fact that growth has been based more and more on company size and on networks is due largely to the acceleration of the trend towards globalisation of corporate activities in recent years. As the statistics show (see Annex A2), following a major round of direct investment which culminated in 1990, recession set in, with sales and acquisitions falling off sharply in the first half of 1993, especially in France, Switzerland, Italy, Japan and South-East Asia. Better figures were recorded in the United Kingdom and the United States. Given the simultaneous growth in the number of strategic alliances, it would appear that globalisation has changed in form rather than lost ground<sup>4</sup>.

Strong support for these trends is being provided by the many free-trade agreements signed or awaiting ratification around the world (e.g. Single European Market, EEA, NAFTA, Visegrad Group, Black Sea Agreement). Within these large groupings there are often wide disparities in regional performance -- disparities greater than those observed between individual nations. To meet new competition, regional policies are going to have to bolster the chances of the most backward areas. This can be done through supranational initiatives (making use, for example, of the European Commission's structural funds) or through actions taken by national governments or regions (e.g. to attract foreign investment). Measures to absorb the cost of the restructuring made necessary by the dismantling of certain trade barriers and by the related rise in competition have been stepped up (with the EEC's structural outlays set to double over the next five years). In these areas, however, many governments wish to avoid any excesses and the replacement of defensive trade regulations at their borders by internal protection measures.

Over the past four years, trade has grown far faster than production (by 4.5 per cent in 1992 and by 8 per cent -- in value -- for services), thus moderating the economic downturn. Trade statistics for 1975-1985 show that in most major industrial countries, exports made a substantial contribution to job creation. In the high-tech sector, where multiplier effects were greatest, the contribution was even intrinsically larger than that of domestic demand in Germany, France and the United Kingdom. A great deal of hope is therefore being placed in multilateral efforts to scale back customs barriers and in a conclusion of the Uruguay Round, in order to place countries and regions on faster growth paths.

Graph 1

**EMPLOYMENT OF BUSINESS SECTOR RESEARCHERS  
SPATIAL CONCENTRATION**



Source: EUROSTAT AND SECRETARIAT

e) *Civilian and defence R&D and regional concentration of technology*

The persisting unfavourable outlook has prompted firms to cut R&D spending, although trends within the OECD countries do diverge. In Japan, France and Italy, research investment continued to increase in 1991, in contrast with what happened in the other G7 countries and the Netherlands. Among the highly industrialised countries, only the United Kingdom has suffered a regular haemorrhage in the ranks of corporate researchers over the past four years.

Many governments are concerned with what is frequently a very lopsided distribution of R&D activities within their borders (see Graph 1). In this area, direct investment often aggravates interregional disparities, since most of it is channelled into the regions offering the mostly highly skilled labour force and the greatest research capabilities<sup>5</sup>. On the other hand, the establishment -- particularly on a regional basis -- of new technology parks has often provided the key to a more balanced distribution of R&D resources. In the UK rural zones have increased their share of high tech employment at the expenses of highly populated cities between 1984 and 1989 (see Table 2). In the United States, the recession does not seem to have hampered the creation of a new generation of such centres. It is deemed that over 600 000 people are employed by some 15 of these new high-tech complexes in fields such as biotechnology, optoelectronics, software, medical equipment, telecommunications and advanced materials<sup>6</sup>.

In all countries, the percentage of research that receives government funding has been declining since the 1980s, and this is a trend that could gain momentum, inasmuch as the new geopolitical situation and budget cuts are causing a great many defence programmes to be scrapped or staggered. In the United States, sectors (such as aerospace) that depend heavily on military research have already been affected, with the impact narrowly focused on certain regions (California, New Mexico, the Southern "Gun Belt") (see Annex A3). The same sort of regional concentration also exists in Europe. In France, four regions are especially vulnerable, since defence accounts for more than 10 per cent of their industrial jobs: Aquitaine, Brittany, Île de France and Provence-Alpes Côte d'Azur. In the EEC as a whole, over 20 regions may be at risk -- as much from defence downscaling itself (e.g. closures of bases and arsenals) as from the budget cuts' indirect impact on defence-related industries.

In these fields, regional policies will probably have to take on new missions. In the European Community's case, it would seem especially necessary to redefine plans of actions, since many of the affected areas are not covered by programmes of assistance under objectives 1, 2 and 5b. Certain countries (for instance, the United States) are placing increasingly heavy emphasis on the development of dual technologies (i.e. those having both civilian and military applications). Virtually everywhere, redeployment policies will have to be based on an appropriate policy mix (combining defence measures, support for R&D, and regional policy initiatives) in order, *inter alia*, to safeguard and make the most of national and regional technological potential<sup>7</sup>.

Table 2

**U.K. High-Technology Employment**

Region	1984	1989	+ or - per cent
South-East (exc. G. London)	236 583	221 660	-6.3
Greater Londres	95 889	66 130	-31.1
E. Anglia	21 338	19 787	-7.3
South-West	79 068	82 480	+4.3
W. Midlands	71 266	60 089	-15.7
E. Midlands	59 018	57 543	-2.5
Yorks & Humberside	29 356	36 404	+24.0
North-West	101 168	98 721	-2.9
North	40 919	37 711	-7.9
Wales	27 974	41 277	+47.6
Scotland	63 489	60 317	-5.0
<b>Total</b>	<b>826 000</b>	<b>782 000</b>	<b>-5.3</b>

Source: Department of Land Economy, Cambridge.

*f) Government deficits and financial institutions*

In the OECD area, general government deficits swelled by an average of 1 per cent of GNP in 1992, swayed by such cyclical factors as the recession-induced decline in tax revenues and by structural causes like debt service. In the Nordic countries, the United Kingdom, Germany and even Japan, the reversal was swift, with surplus giving way to deficit in 1991 and the shortfall increasing in 1992. The positions of countries with structural deficits remained stable at best.

Such conditions confront governments with difficult dilemmas. Expansionist fiscal policies run the risk of deepening deficits and putting pressure on interest rates. Conversely, while government spending cutbacks may help balance the books, they can also unleash a deflationary spiral and new job losses. The room for manoeuvre depends on the scale of the deficit, the impact of the automatic stabilizers (e.g. the weight of the public sector and of unemployment benefits, tax-base sensitivity to output and employment fluctuations, tax rates on earned income) and the potential resources to be tapped through privatisation schemes.

Except for Japan (which enacted four substantial stimulus packages since the summer of 1992)<sup>8</sup>, most countries have tended to opt for budget cuts. This choice has led to renewed efforts to reduce the number of civil servants and, more generally, to moderate the rise in the public sector wage bill. Cost cutting has been given especially high priority in countries whose budget deficits, in relative terms, considerably exceeded the OECD average, and particularly in Italy, Belgium, Canada and Ireland. In addition, reforms have been instituted to enhance the efficiency of tax collection and, in the case of the Nordic countries and Austria, to bring tax systems closer in line with EEC standards.

It is difficult to gauge the extent to which central government budget problems have influenced sub-national finances. Conditions at these levels obviously depend on the past performance of local authorities and their ability to raise taxes. Actually, some of the resources for regions and sub-regional bodies are granted directly by central government through transfer and equalisation mechanisms. In this area, the recession may have brought a certain abdication of central government responsibility. In the United States, states have taken on much of the responsibility for apportioning federal assistance among local administrations. In France, regions, which tend to be financially a good deal healthier than municipalities, have greatly increased their levies on taxpayers (at any rate, much more so than any other levels of government)<sup>9</sup>. In the United Kingdom, local finances have deteriorated: the proportion of non-subsidised expenditure declined from 26 per cent in fiscal 1991 to 14 per cent in fiscal 1993, although relative spending levels remained constant. In Austria, the law of equalisation among the central government, Länder and municipalities has been renegotiated, and new sources of income created for the latter.

In many countries, the banking system, after being confronted over the past two years by recession, monetary turbulence and the burst bubble of real estate speculation, has seen its margins dwindle and has frequently sustained deeper losses. In Europe (except for the United Kingdom), bank financing costs have been weighed down by persistently high interest rates, whereas in Japan, the rapid rise in doubtful debts has weakened the entire profession. The current restructuring, aimed at rationalising the supply of bank loans and cutting spending, may lead to fewer banking outlets, reduced risk-taking and fewer long-term commitments<sup>10</sup>. Certain governments -- particularly in the Nordic countries -- fear that peripheral regions and less developed areas will bear the brunt of this redeployment.

**g) *Demographic shifts and labour mobility***

The ageing of the population in Europe and Japan is today's dominant demographic trend -- one which stems from the fact that birth rates have slipped below generation replacement rates, as well as from medical advances. The swelling ranks of the elderly and the relative decline in the youngest segments of the population pose serious economic problems: they make it harder to control health care expenditure and help aggravate strains in social security funding and pension management.

So far, certain countries have limited these effects with substantial population gains through immigration (e.g. Austria, with 3.2 per cent growth between 1981 and 1991, and Switzerland, up 8 per cent over the decade). Aware that the domestic birth rate was insufficient, Canada raised its annual ceiling on immigrants to 250 000 in 1992. In the United States the ageing trend is relatively slow, insofar as the country is the OECD area's leading destination for migrants. In fact, the U.S.A. receives more immigrants than all the other industrialised countries combined (nearly 1.8 million in 1991). 80 per cent of these new residents are concentrated in seven states: California, Texas, Arizona, Illinois, New York, New Jersey and Florida. Conversely, other countries, such as Portugal, are still major sources of net emigration. In the 1980s, net outflows almost offset natural population growth, and the average age also increased.

Given the data available, it would be premature to attempt to measure the recession's impact on population movements. Nevertheless, in several countries (e.g. Finland), there has already been a decline in the geographical mobility of the labour force within national borders. Faced with the increasing migration of jobs and geographical redeployment outside the OECD area, for many years there have seemed to be rigid obstacles within the European Community to the relocation of certain categories of personnel, notably managers. In Australia, the lack of interregional mobility, which is similar to that in Europe, is attributed to the absence of meaningful wage differentials from one region to another. It has also been suggested that generous unemployment benefits have deterred the migration of people who have lost their jobs.

In several cases, there has been confirmation of the Norwegian model of dual polarisation of the population:

- first, persisting flows towards the most highly developed regions (towards the south in Norway, the South-East in the United Kingdom), with a swelling of suburban areas;
- then, in peripheral areas, continued migration towards cities and away from less densely populated areas.

But this type of model is not necessarily found everywhere. In Switzerland, for example, the mountainous regions which cover two-thirds of the country seem to have halted the exodus that drained their population in the 1970s, and even recovered some lost ground in the 1980s.

## II. REGIONAL DISPARITIES AND NEW POLICY DIRECTIONS

It would be wrong to assume that the above model prevails everywhere and that regional inequalities are on the rise in the OECD countries. One must assess the impact of cyclical and structural regulators and rely on an entire set of indicators rather than look solely at the parameter of migratory flows.

Admittedly, the last study on regional policy trends stressed the tendency towards widening disparities between regions, in the wake of the growth patterns that took shape in the latter half of the 1980s. But at the same time it was also observed, in line with a previously confirmed mechanism, that as certain countries (the United States, Canada and the United Kingdom) slipped into recession, this led as early as 1990 to a negative regional rebalancing wherein the most dynamic areas were hit hardest by the economic slowdown.

As the recession began spreading to most OECD countries in 1991, it very naturally abetted the erosion of regional differences, to the detriment of the central areas which were generally the most efficient. But this rather cyclical development may mask the risks of geographical disparities ultimately re-emerging, as will be seen below.

For now, these trends have encouraged authorities virtually everywhere in their efforts to give regions the means to contribute to future growth rather than to redistribute the fruits of past expansion to the most disadvantaged areas -- a priority expressed by a growing number of nations in the 1980s. Several governments have also assigned new objectives to their respective regional policies.

### a) *Cyclical rebalancing*

Although regional convergence is indeed a characteristic of most countries, it is a finding that does need qualifying. Results can vary substantially according to the geographical level in question; in particular, the outcome may be reversed upon moving down to a sub-regional level, as is illustrated by some of the following examples.

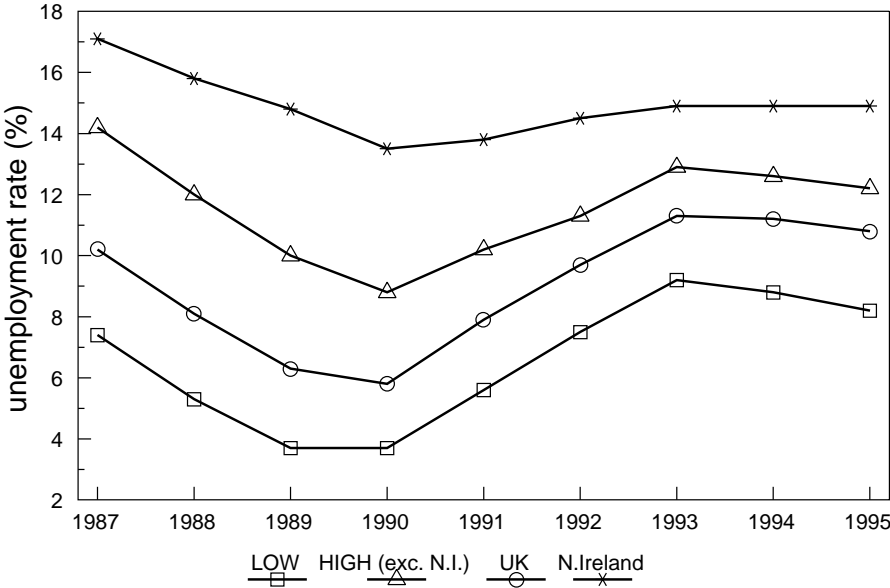
In **Austria**, there has been a certain stabilization. In 1992, Western Austria maintained its growth edge over the South (Styria and Carinthia). Tirol and the Salzburg district stayed in the lead, albeit by a lesser margin, whereas the Vienna area suffered a certain decline. This deterioration led in early 1993 to declining job offers -- particularly in the capital, Upper Austria, Styria and Vorarlberg. Unemployment has remained constant in dynamic regions, but the labour market has deteriorated appreciably in the long-standing industrial areas.

In the **United Kingdom**, the narrowing of the gaps in regional unemployment and growth rates has been unequivocally confirmed (graphs 2 and 3 are quite clear on this point), even if unemployment differentials have widened within regions. Inasmuch as certain regions that had been growth leaders in 1988 ended up at the bottom of the list in 1991 and 1992, it is plain that the convergence process has gained momentum.

**UNITED KINGDOM  
REGIONAL GDP DISPARITIES**



**UNITED KINGDOM  
REGIONAL UNEMPLOYMENT DISPARITIES**



Source: DTI (Department of Trade and Industry, London)

n **Japan**, signs of economic slowdown have been observed in the most dynamic regions (Kanto, Tokai and Kinki). Rising land prices and the Tokyo stock market downturn have hampered the economic development of the Japanese capital, while the provinces have benefited from the establishment and expansion of assembly and processing industries, as well as from their links with the most efficient districts. Nevertheless, the exodus of white-collar workers to the large metropolitan areas has continued. In this respect, it may be considered that the high-speed transport network has facilitated this migration and to some extent contributed to the congestion of Tokyo and its suburbs.

In **Portugal**, the two largest metropolitan areas (Lisbon and Oporto) still have the country's fastest growth rate, but the coastal area has narrowed the gap. The inland regions have made up some of their handicap, but there are major sub-regional disparities. The composite index that measures the narrowing of regional differences gained 14 per cent in the 1980s.

In the Nordic countries, unemployment has risen very quickly in the more highly developed southern areas. Average disparities have diminished in **Finland**, masking well-known differences at the local level or between groups of towns. A similar shift can be seen in **Sweden**, coinciding with a rapidly deteriorating economy and weakening labour markets. Population patterns have remained relatively stable, even in the far north, although declines of approximately 0.5 per cent have been recorded in assisted areas. In **Norway**, the city of Oslo, which previously experienced little unemployment, has moved into line with the national average. The growing convergence of regional conditions was acknowledged in a parliamentary report that was published in 1991 and concluded that living conditions were the same in the North as in the rest of the country.

In **Canada**, the negative rebalancing identified in the previous report has continued to some extent. Because manufacturing was hit especially hard and is concentrated in the central provinces, that area's economy has deteriorated rapidly. Ontario's jobless rate has doubled, to practically the nationwide average. The western provinces have been affected less, as can be seen from the substantial net immigration to British Columbia, but there has still been a fairly distinct rise in the region's unemployment. If per capita income and inflation differentials are taken into account, the shifts have at times been more chaotic and, in the case of investment, indicate slow convergence. At any rate, it is too soon to judge the impact of the recovery that seems to have begun in 1993.

In the **European Community's** case, the Commission considers that the progress made in reducing disparities and structural handicaps is far from sufficient. In 1987, income and productivity differentials between Member States were comparable to those of the 1970s. The least advanced regions' relative dearth of basic infrastructures (transport, communications, energy, water) partially explains why these disparities persist -- they are even greater when it comes to unemployment. A recent note by the Commission states that the poorest 10 regions have only one-third the level of infrastructure provision of the most prosperous 10<sup>11</sup>. The situation with respect to research and development expenditure is even more unfavourable: outlays are four to seven times higher in Germany, France and the United Kingdom than in the least developed Member States. Despite the doubling, in real terms, of appropriations for Structural Funds between 1987 and 1993 and reforms in the Funds' operating procedures, the reduction of disparities has remained particularly slow. Commission studies show that by encouraging investment rather than consumption, subsidies lay the groundwork for structural improvement. In most cases, however, critical thresholds have not yet been attained, meaning that furthering regional convergence will require even higher levels of funding in the future.

**b) *The risks of re-emerging regional disparities***

With regard to the rebalancing discussed above, the countervailing forces of recession sometimes have no effect on certain economic parameters. For example, people have continued to congregate in cities, with Norwegians in the south of their country and Austrians in central areas and suburbs. Young, skilled workers are still fleeing to the big cities in Japan. In Canada, the gap between the highest and lowest provincial unemployment rates has kept widening, and 1993 is unlikely to escape the trend.

Given the data available, it is impossible to gauge the relative magnitude of the cyclical component of the above-mentioned narrowing of regional disparities, nor the manner in which it confirms or casts doubt on long-term trends. Nevertheless, it is to be expected that, as the economy recovers, the spread of results will again widen, spurred by the "free trade" effect engendered by the creation of the major business areas mentioned above.

Moreover, in several countries negative rebalancing has not occurred, and certain regions have continued to fall farther and farther behind. In some cases, it has affected national solidarity.

In **Italy**, the economy of the Mezzogiorno has been expanding at a slower pace than the North-Central part of the country since the mid-1980s, with 2.5 percent growth in the South versus 2.8 in the rest of Italy. The region's recession deepened further in 1992, with a 0.3 per cent decline in the Centre-South (versus a 1.3 per cent gain in the Centre-North), a collapse in agricultural output (which was up sharply in the North) and a decline for local industry (while that of the North levelled off). Compared with the North, all the indicators (household consumption, investment, exports) have worsened, except for the jobless rate (which stood at 16.3 per cent, versus 6.2 for the Centre-North, in early 1993). The policy of repeated government deficits, mounting Treasury debt and devaluation of the currency has helped to restructure production capabilities in the North, but has not helped the economy of the lagging southern regions.

In **Switzerland**, income disparities between the cantons have been trending upwards in recent years -- in the aggregate, and even more so on a per capita basis. The gap has also widened with respect to cantonal unemployment rates. Ultimately the country is likely to benefit (indirectly) from the expansion of the internal European market, even though Switzerland has refused to belong to the EEA. The populous plateau regions can be expected to capitalise on this, with cantonal disparities increasing further.

In **the Netherlands**, the end of the 1980s was marked by the sharp convergence of the southern and central regional economies, as the latest white paper on the subject showed. The northern part of the country has been left behind, however, with respect to growth in activity and employment. It is feared that in the future, with the economic slowdown and the structural problems of high local-concentration industries such as automobiles, electrotechnology and defence, regional disparities will be accentuated once again.

**c) *New directions in regional policy***

These doubts, plus the recurrent growth in regional inequalities, have prompted a number of governments to modify their regional assistance schemes, if not to set new priorities, while others have not changed their approach because they are still in mid-programme. Since nearly all central governments implement multi-year programmes and significantly re-examine their policies only in the final stages, it is the structural dimension of regional policies that sets the pace for change. In the case of the European Commission, for example, the cycle is about four years long.

As discussed in previous reports, a certain international consensus emerged over the course of the 1980s to abandon automatic assistance for instruments of a more discretionary nature, in order to reduce the coverage of aided regions and emphasize support for services, SMEs and technological infrastructures. The shifts in regional policy-making between 1991 and 1993 reflect these concerns. Norway, for example, rather than concentrating its efforts solely on helping peripheral areas to catch up, is now focusing on greater programme selectivity while dividing up its targets (differentiating between built-up areas and cities, and between intermediate regions undergoing restructuring and areas with abundant primary resources).

While the diversity of Member countries makes it difficult to generalise, it would seem that recent trends reflect heightened concern for:

- Land-use planning and infrastructures. In Austria, the 1991 conference of Länder and municipalities adopted a new concept in this area (Regional Planning 1991). In a departure from the policies implemented ten years earlier, the main guidelines called for new perspectives and more realistic goals for regional convergence. In particular, the status quo was to be maintained by bolstering the potential for innovation and encouraging independent initiatives with major regional repercussions. The new policy assigns top priority to protecting scarce resources (land and environmental factors), developing transport infrastructures to enhance individual mobility, and improving control over private and public-sector construction. In France, an additional concern is to make land-use planning a more integral part of major capital expenditure projects. These include the motorway plan to make up for accumulated delays, high-speed rail links and rail/road combinations (installation of multimodal platforms), the consolidation of air routes and public works in mountainous areas. In the United States, the poor state of the country's transport network has sparked renewed interest in government infrastructure expenditure. The congestion<sup>12</sup>, dilapidation and insufficient maintenance of facilities is hampering productivity and export capabilities at both national and state levels.
- Medium-sized and large cities. The authorities increasingly acknowledge the role played by cities -- and particularly by large ones -- in creating businesses and jobs, as well as their ability to manage infrastructures and facilities -- with which they are generally better endowed than smaller localities. Over three quarters of the OECD area population live in cities, even in very large countries like Canada. In addition, non-urban activities account for less than 10 per cent of Member countries' GDP. Many governments therefore consider that it would be risky to go too far in discouraging city-based activities, especially since such a stance would not necessarily lead to the recovery of sparsely populated areas and might even result in negative-sum games.

In recent years, central governments have looked particularly to their regional policies to combat the special problems of cities and their suburbs: congestion, growing pollution, pockets of poverty, inadequate or even non-existent upkeep of land and buildings, delinquency, social rifts, etc. In the United Kingdom, a host of extremely varied measures have been taken in this area, prompting some people to contend that aid for the cities is the essential ingredient in British regional policy. Elsewhere, special initiatives are being taken to prepare leading urban centres for an expected upsurge in competition: in Austria, in anticipation of EEC membership; and in the Netherlands, in response to immersion in the Single European Market. In France, urban policy is absorbing increasingly large appropriations (FF 5.5 billion in 1992 and 7.2 billion in 1993).

- Decentralisation. As emphasized above, recent reforms have handed regions a great deal of the responsibility for redistributing central government appropriations to sub-regional levels. Besides these reforms and new tax opportunities for regional and local authorities, other powers have been transferred directly, diminishing those of central government (e.g. in Austria, Belgium, Finland). In France, intercommunal or interregional groupings are now fully or partially responsible for land use planning, promotion of economic activity and environmental protection. City groupings, furthermore, are in charge of road management and transport schemes. In several countries, then changes take place within the framework or a major redesigning of regional policies, characterised by a reduction of direct aid to businesses from the central and federal levels and incentives for regions to take over to some extent and implement structural policy themselves.

Another aspect involves the growing co-operation between the various levels of government. Generally designed for complementarity, such co-operation is built on systems of consultation and dialogue (Germany, Switzerland). Often, it also takes on contractual aspects (Japan, Austria, the Netherlands). In France, for example, this approach is gaining in importance. Central contributions to contracts between the State and the regions rose by 40 per cent between 1989 and 1993, as the areas covered expanded (to employment, economic development, research and training). In Canada, the number of agreements among federal, provincial and regional authorities also increased significantly.

- The elimination of barriers to interregional trade (in federal or multinational States) and the promotion of backup measures. These countries lose opportunities for domestic economic growth because regulations and product standards differ from one state or province to another. Such sources of inefficiency and barriers to internal trade seem even more glaring against the present trend towards global corporate strategies and supranational free trade areas. In Canada, the federal government has pledged to create an open domestic market before 1 July 1995 and to sign an agreement with the provinces on that date. In Australia, more attention is being paid to these concerns in conjunction with the new restructuring of government activities, particularly to benefit the regions and states. In the United States, the federal government is endeavouring to promote co-operative federalism in areas like infrastructure standardization. With respect to telecommunications and the fibre optic highways of the future, the Administration seems to consider that its role is above all to set the rules of the game to ensure the public's access to reasonably priced telecommunications services and thus to promote interstate trade and economic activity<sup>13</sup>. And in Europe, the Commission now wishes to tackle the special problems that the advent of the Single Market, by dismantling economic barriers, has caused for border regions. Such is the goal of INTERREG, a programme launched in 1990 with ECU 1 billion in funding, the aim of which is to finance co-operative projects among the Community's internal and external border regions, as well as pilot projects for networks of associated EEC regions. The success of the programme has prompted European authorities to initiate an INTERREG II and to double its budget.

### III. THE INSTRUMENTS OF REGIONAL POLICY: TRENDS

In recent times, several factors have militated or are still militating for a change in regional policy instruments, or at least a shift in their mix:

- a) Continued emphasis on the selectivity of government actions. As is stated in the 1992 report, "Direct, automatic and standardised procedures for implementing regional policies are being replaced by indirect, qualitative and discretionary procedures aimed at the structure -- in all its diversity -- of the regional economies."
- b) The increasing interconnection between regional policy and the maze of other government measures. Recession has sharpened governments' awareness of the contribution such policy can make in the overall battle against unemployment and in promoting investment.
- c) The intensification of procedures to evaluate specific measures or policy as a whole. As seen above, certain countries are reassessing their approach to regional policy. A major debate over land use planning has been launched in France. In Australia, the aim is to acquire efficient tools for a genuine regional assistance policy, and a task force has been set up for that purpose.

But in current circumstances, the redeployment of regional policy initiatives must factor in new constraints. Inasmuch as the economic downswing has hit central regions hardest, the authorities are inclined to extend them the benefits of these programmes, but at the same time, budgetary leeway has narrowed and policy choices have become more difficult. In some cases, moreover, countries are bound by international agreements to respect precise limitations on the aid accorded to certain regions (e.g. the European Commission's curbs on Italy's assistance to the Mezzogiorno).

Governments have reacted differently to these conflicting pressures. The following review of the objectives of aid, changes in the categories of assistance, resources committed and institutional change will seek to convey an idea of what solutions have been adopted.

#### *Targeting*

In this area, situations vary fairly widely:

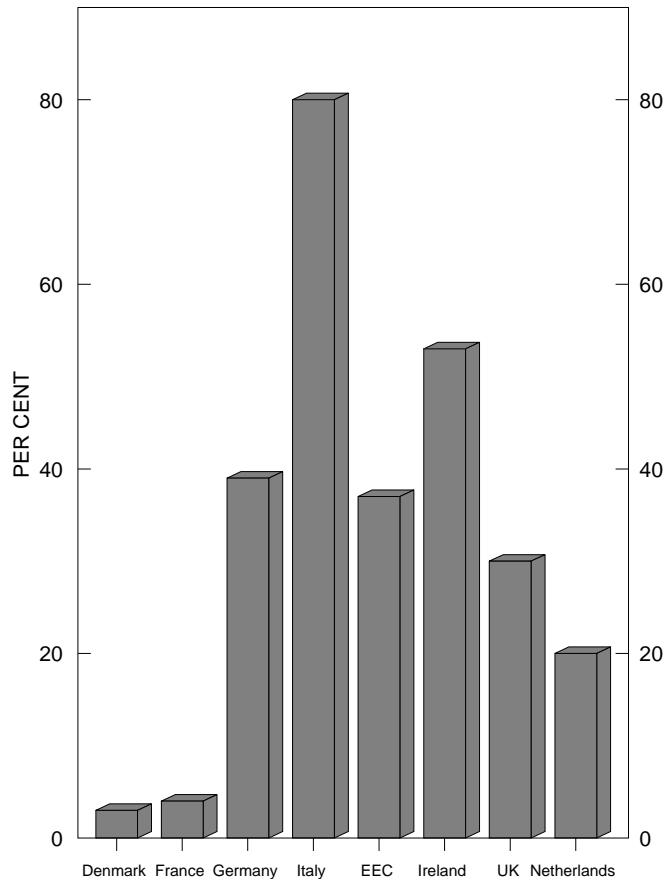
One group of countries has either reduced the geographic scope of assistance or is on the verge of doing so. For example, by 1994 Germany's Joint Scheme will limit assistance for the western part of the country to areas that represent only 22 per cent of the population, as opposed to 30 per cent coverage now. As regional problems have eased in the Netherlands, the government has decided to focus on a smaller number of regions, particularly as regards the Grant Scheme. The only programmes to be maintained were specific projects for Limburg, the Nijmegen and Twente areas and especially the northern part of the country, for which increased isolation is still a real threat.

In a second group of countries, the choice of areas eligible for government aid has not undergone significant changes. One such country is the United Kingdom, where evaluations are being made but nothing has been changed yet, although relative amounts of assistance have been scaled back for the Consultancy Initiative. In France, emphasis is put on the harmonisation of aid coverage with those of the European structural funds. The only change, so far, is the phasing out of the mapping resulting from specific assistance to rural areas (aid to industrial investment, rural development fund assistance. In Italy, the reversion to ordinary procedures for assisting the Mezzogiorno is still too recent for the ongoing transition to have produced a remapping of aided areas. In any event, programmes under way prior to the Decree-Law of 14 August 1992 will run to completion.

In the other countries, the trend has been one of geographic extension of government coverage. In Finland, the mandate of the regional agency KERA has been renewed and its operations made nationwide -- a change likely to be accompanied by an increase in regional grants to business enterprises. In Austria, regional promotion areas were redefined at the beginning of this year; the new list is more comprehensive than the one established by the OROK in 1989, since it encompasses 44 per cent of the country's population. It remains to be established, however, whether the list is compatible with EFTA competition rules.

Graph 4

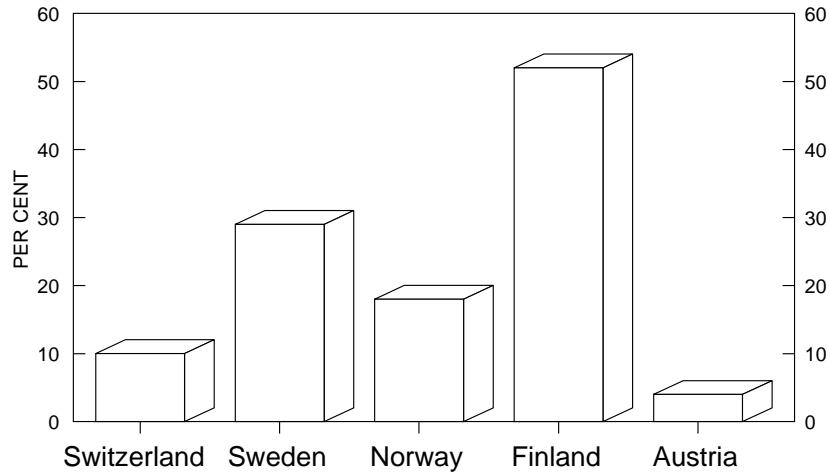
**SHARE OF REGIONAL DEVELOPMENT IN REPORTED  
SUBSIDY PROGRAMMES TO INDUSTRY  
(1989, per cent)**



Source: Database for Industrial Support Programmes (DISP), OECD.

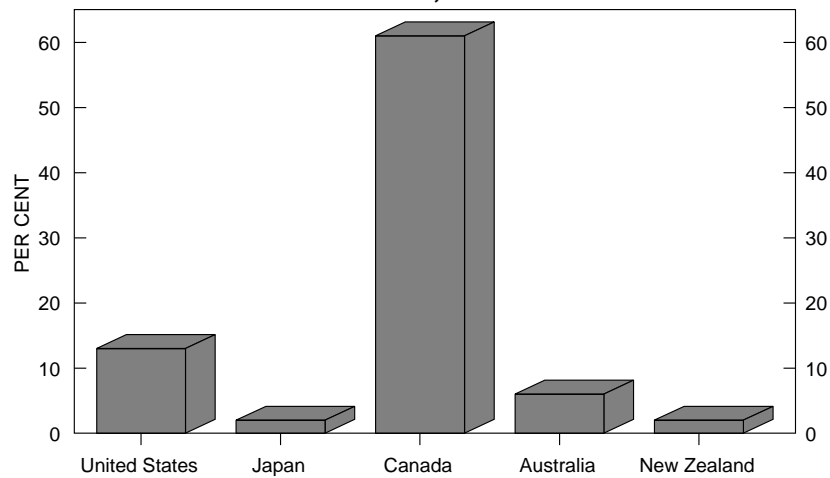
## Graphs 5 & 6

**SHARE OF REGIONAL DEVELOPMENT IN REPORTED  
SUBSIDY PROGRAMMES TO INDUSTRY  
EFTA Countries, 1989 - per cent**



Source: Database for Industrial Support Programmes (DISP), OECD.

**SHARE OF REGIONAL DEVELOPMENT IN REPORTED  
SUBSIDY PROGRAMMES TO INDUSTRY  
OTHER COUNTRIES, 1989 - PER CENT**



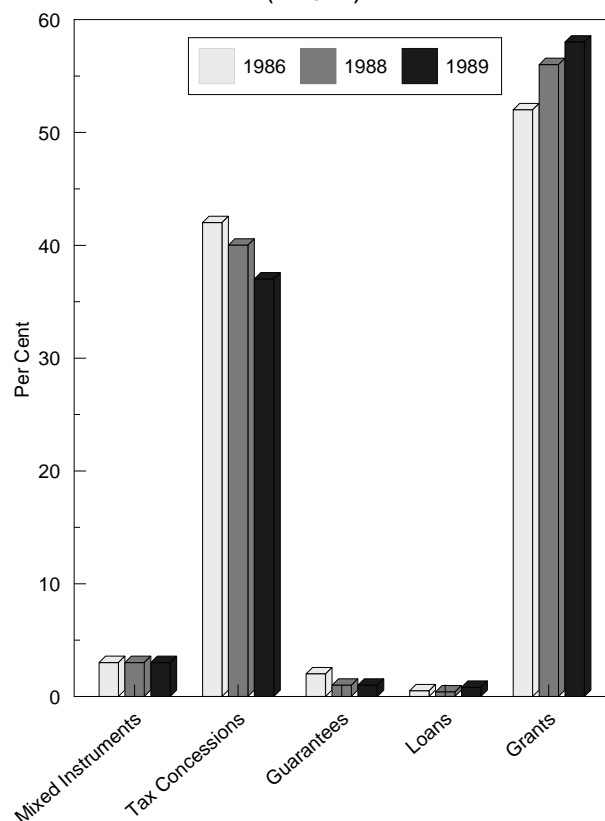
Source: Database for Industrial Support Programmes (DISP), OECD.

Graphs 4, 5 & 6: These diagrams should be interpreted with caution, since calculation are based on non exhaustive samples. Moreover, the selection of programmes and their breakdown by objectives are subjected to bias of reporting instructions.

In truth, virtually everywhere, the redrawing of regions that qualify for government support is part of wider efforts to improve co-ordination between sectoral policies -- in the broadest sense of the term -- and regional policies (e.g. Portugal, Switzerland, the Nordic countries). This attitude often stems from increased acknowledgement of the need to reassess the destinations of grants, which are frequently channelled exclusively to the same areas (and heavily concentrated on outlying regions). Norway is now striving to accord greater priority to cities and industrial regions -- even central ones. Furthermore, the regional development fund and three industrial development funds and banks have been merged into a single entity. As is shown by calculations using the data bank on industrial subsidies<sup>14</sup> (see Graphs 4, 5 and 6), the portion of industrial policy funding that is devoted to regional development varies from one country to the next. Since the beginning of the decade, this percentage has tended to rise in countries where it was already substantial. In the particular case of Canada, where the trend is especially pronounced, it can be seen that, paradoxically, the geographic dimension of aid can become blurred at a sub-regional level. In the western provinces, for example, the policy to foster investment seeks mainly to widen opportunities, encourage competitive projects and nurture import substitutes -- independently of any territorial considerations.

Graph 7

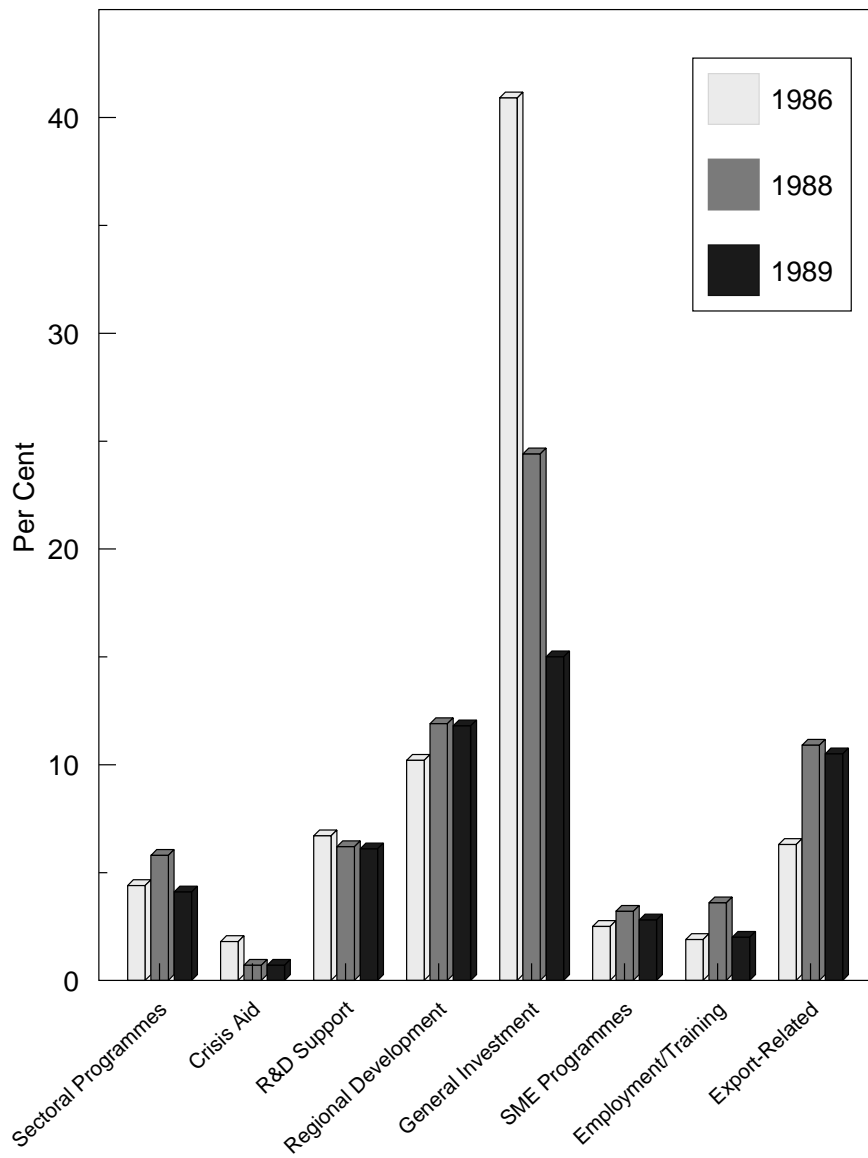
**THE FINANCING PATTERN  
OF REPORTED SUPPORT PROGRAMMES TO INDUSTRY  
(PER CENT)**



Source: Database for Industrial Support Programmes (DISP), OECD.

Graph 8

**POLICY OBJECTIVES OF OECD REPORTED  
SUPPORT PROGRAMMES EXPENDITURES  
(PER CENT)**



Source: Database for Industrial Support Programmes (DISP), OECD.

### *Changes in the raft of aid options*

As shown in the previous reports, the late 1970s were marked by a rise in discretionary assistance (see Graphs 7 and 8). This stance did not waver between 1991 and 1993. Countries also took steps to speed up construction, making special efforts to promote infrastructure projects and avoid penalising employment to benefit capital.

In **Austria**, the most significant change was the creation of a regional premium for innovation, intended to revitalise long-standing industrial regions and help outlying areas to adjust. Because of its success, the measure has been extended until 1995. Funding in the form of grants totalled Sch 428 million in 1992, spread over 145 projects in the areas of innovation and job creation.

In **Norway**, economic conditions prompted the authorities to seek a new balance in aided areas between support for capital and assistance to labour (through the abolition of tax relief for regional investment, the priority given to subsidised loans and reductions in employers' social security contributions). The government has also striven to base local and regional renewal on new infrastructures of benefit to firms (training, R&D, water treatment facilities) and on the establishment of the broadest possible partnerships to stimulate employment.

Four years ago, with help from the Community Support Framework (1989-93), the **Portuguese** Government was able for the first time to implement a regional assistance system that had significant funding. As a result, the regional development plan could rely on outright grants -- through various systems of aid to develop industry and tourism, exploit local potential (SMEs) and modernise businesses -- for areas that are less developed or especially hard hit by the recession. Three particular changes warrant attention: first, the emphasis is now on assisting productive investment and private capital outlays; second, "fragmented" schemes to promote infrastructures have been replaced by streamlined procedures based on local compatibility criteria; third, the various levels of government are more deeply involved in whatever initiatives are taken.

In **the Netherlands**, the chief instruments of regional policy are still:

- The Grant Scheme (IPR), but its scope of application is limited to Friesland, Groningen and South West Drenthe and (only for large projects) to south Limburg and Twente.
- Specific grants for the local Lelystad area.
- Regional development companies (ROMs), whose purpose is to supply enterprises with venture capital and assist projects. The method used to fund the companies has been changed in order to grant them greater autonomy.
- The European Regional Development Fund (ERDF), whose programme complements the government's.

In recent times, Dutch regional policy has gathered new momentum from the start-up of a programme for local environmental protection. The programme makes it easier for firms wishing to create new facilities to become established in the various regions. In this context, central government will act as a partner in strategic projects; it has earmarked funds for this purpose and is to increase funding from Gld 25 to 100 million in the years ahead. The initiative extends the 1981-88 programme's thrust to "create favourable conditions", while setting itself apart by focusing on "super-regional" issues and no longer on medium-sized infrastructures.

In **Switzerland**, the Federal Council intends to redefine the Confederation's mandate for regional action and to propose a series of measures that include revising the Federal Act on aid to investment in mountain regions and amending the Federal Order instituting financial aid to regions facing economic difficulties. Also under consideration are plans to:

- promote and co-ordinate Switzerland's marketing abroad;
- strengthen mediation and consulting services for SMEs (a SF 50 million, 10-year framework credit is expected to be opened); and
- underwrite new business locations.

In addition, a report defining new guidelines for tourism policy is being prepared.

In **Italy**, with the restructuring of aid to the South, a new method inspired by European Commission guidelines is starting to be applied. In particular, assisted areas are being redrawn according to the same criteria as those used to apportion EEC structural funds (objectives 1, 2 and 5b), and subsidies are now calculated with reference to net grant equivalents (NGEs). New initiatives may be accepted (for new production facilities, modernisation, conversion and relocation of activities), and ceilings on subsidies have been revised by zone and category of enterprise. The classification by zones will be spelled out in 1994 by an ad hoc session of the Interministerial Committee for Economic Planning (CIPE), and the formulation of new strategies for the use of regional funds between 1994 and 1999 will take account of European Community decisions.

In **Japan**, efforts have focused mainly on promoting multi-polar economic development. The "Law on the Group Siting of Designated Types of Business" and the "Law on the Multi-polar Pattern of National Land Use" set eligibility criteria for decentralisation investments. In line with the wishes of the Japanese authorities, aid consists of flexible instruments that are relatively neutral with respect to competition: tax incentives, guarantees, subsidised loans, accelerated depreciation.

### ***Financial resources***

Whereas previous reports had noted a decline in aid volume until 1988, since then the trend seems to have grown much less clearcut. At any rate, inasmuch as available data for the period do not suggest any overall trend, a case-by-case analysis will have to suffice.

In the **United Kingdom**, outlays for Regional Selective Assistance, Regional Development Grants and Regional Enterprise Grants fell off fairly sharply, from £329 million in 1990/91 to £264 million in 1991/92. The provisional figure for 1992/93 is £224 million (see Table 3).

Table 3

**Breakdown of Structural Funds**

by objectives and countries:

Country	Objective 1		Objective 2		Objective 5B	
	Mecu	%	Mecu	%	Mecu	%
B	-	-	290	4.3	32.5	1.3
DK	-	-	37	0.6	23	0.4
D	-	-	616	9.2	525	20.1
GR	6 667	18.4	-	-	-	-
S	9 779	27.0	1 361	20.3	285	10.9
F	888	2.5	1 227	18.3	960	36.8
IRL	3 672	10.1	-	-	-	-
I	7 443	20.6	427	6.4	385	14.8
L	-	-	21	0.3	2.5	0.1
NL	-	-	174	2.6	44	1.7
P	6 958	19.2	-	-	-	-
UK	793	2.2	2 545	38.0	350	13.4
<b>Total</b>	<b>36 200</b>	<b>100.0</b>	<b>6 698</b>	<b>100.0</b>	<b>2 607</b>	<b>100.0</b>

Total CCA Objectives 1, 2, 5b: 45 505

Community for objectives 1, 2, 5b: 3 207

Total "regional" objectives: 48 712

Objectives 3 and 4 (initiatives included): 7 450

Objective 5a : 3 415

Innovating and transitory measures: 1 150

Ex-DDR: 3 000

Total structural funds 1989-1993: 63 727

Source: EEC

In the **Netherlands**, after an upturn in 1992, available funds are expected to fall to Gld 341 million (down 17 per cent), with a sharp (40 per cent) drop in IPR and despite a gradual rise in the programme for local environmental protection. On the other hand, the planned 1994 increase should raise the overall budget to Gld 381 million.

Other countries recording a decline in resources include **Canada**, where principal budget authorisations were cut by 5 per cent in 1992/93 for the Atlantic Canada Opportunities Agency (ACOA) and for Western Economic Diversification Canada (WD).

In **Austria**, grants to industry and to enterprises stood still in 1992 at around Sch 1.13 billion (one-third of these involved regions). The only assistance to be increased was aid to tourism and payments to enterprises to promote employment, which were up by 5.5 and 25.5 per cent respectively.

In **Germany** however, the trend is clearly upward. The previous report had indicated 1991 appropriations of DM 4.09 billion for the Joint Scheme and DM 1.2 billion for the Special Programme for the New Länder. In 1993, federal funding for regional development totals DM 9.2 billion, with the vast majority earmarked for the eastern part of the country. In **France**, the new generation of State/Region contracts for 1994-99 will be better endowed than the previous batch, receiving FF 103 billion, putting stress on priority regions (with funding increase of 14.1 per cent or 23.5 per cent) and lowering the effort towards Ile-de-France (-10 per cent). Furthermore, the Delegation for Land Use Planning and Regional Action (DATAR) will receive a substantial (20 per cent) budget increase this year. In **Finland**, grants to regions were down in the budget for 1993, but taking into account all additional budgets during the fiscal year, the actual figure was slightly up by 4 per cent.

In **Portugal**, transfers from the European Community (see Table 3) between 1989 and 1992 and their national counterparts are believed to have represented around 6 per cent of GDP, including roughly a third for outlays directly allocated to regional development. About half (48 per cent) of this amount was used for regional grants, with the rest devoted to infrastructures. Including the funding made available to local authorities by central government, the total rises to the equivalent of 6 per cent of public expenditure.

In **Italy**, the objectives of Act 64 of 1986 were not accomplished, and only a quarter of the funds were used to foster productive activities; with respect to infrastructures, the ratio was only one-fifth. The Act of December 1992 approved expenditure of L 23.8 trillion for the transitional phase (planned financing of production activities + interest subsidies and the negotiation of loans for strategic projects).

In **Switzerland**, the aid fund for investment in mountain regions is expected to receive an additional SF 800 million between 1992 and 2000, thereby doubling its working capital. But loan guarantees in areas facing economic difficulties were reduced between 1990 and 1992, reflecting a drop in the overall cost of assisted projects. The trend is more favourable as regards loans to the hotel industry and resorts.

### *Institutional change and aid administration*

Most countries renewed their commitment to greater administrative decentralisation, but actual changes stayed relatively modest. The most noteworthy progress was made in promoting interregional and intercommunal co-operation.

In **Finland**, the number of municipalities is high (455 at the beginning of 1993). 88 sub-regional units were formed as basic units for statistical and support area division purposes (proposed NUTS-III division). The new Regional Development Act, which took effect at the beginning of 1994, gives the regional development responsibility to the Regional Councils. They will also receive the regional development funds.

Along similar lines, in **Greece**, it is planned to reduce the number of local communities from 6 200 to 600/800 through the creation of constellation of settlements around cities of significant size.

The **Norwegian** Government focused chiefly on local authorities' involvement in job creation initiatives. Central funding is provided to the nearly three-quarters of the country's municipalities that are now involved in such schemes, but the authorities feel that in the future, purely local initiatives should be financed locally. They are therefore encouraging intercommunal co-operation, in order to enhance municipal funding capabilities, and mobilising counties for investments of regional importance. The hope here is that the projects undertaken will be fewer in number but wider in scope, *inter alia* to promote new types of infrastructure.

In **the Netherlands**, the granting of regional investment premiums was decentralised in 1992 for all projects costing less than Gld 10 million. Above that amount, aid is administered directly by central government.

In **Italy**, the return of aid for the Mezzogiorno to an ordinary regulatory framework prompted a redefinition of responsibilities. When the Agency for the Development of the South was dissolved, its powers were transferred to the appropriate ministries, including the Ministry of the Budget (which became responsible for scheduling, co-ordination and supervision), the Ministry of Industry (aid to enterprises), the Ministry of Public Works (construction-related projects), the Ministry of Research (research centre programme contracts) and the Ministry of Labour (youth employment schemes). In addition, an Observatory of Regional Policies was created. Annually, over the next five years, the CIPE will apportion available grants by objective and by area.

In **France**, two additional levels of territorial administration have been set up with tax levying capacities and specific powers (see above): municipalities grouping and city grouping. Furthermore, within the framework of the decentralisation policy, each administration has been asked to transfer at least 5 per cent of its employees to postings outside Paris over a three-year period. It is hoped that this initiative will generate about 14 000 new civil service jobs in the provinces.

In **Austria**, the Association for Autonomous Regional Development (OAR), having been strengthened and given a more professional staff, is operating more and more like an institution subject to market constraints. Its principal activity is to counsel regions and communes and to help implement co-ordinated regional measures.

#### **IV. REGIONAL POLICY-MAKING IN THE CEECs AND INITIATIVES FOR CO-OPERATION WITH THE OECD AREA**

The Central European countries' transition to a market economy has considerably altered the nature of their economies: democracy has been gradually introduced into both politics and business, and free enterprise and private property have been largely restored. At the same time, these transformations have helped change the economic scene in many regions of the OECD countries, either because they border on Eastern Europe, or because the enterprises in these regions can now look to these countries for new markets, opportunities for direct investment and labour for their factories, even rival products.

These growing ties with the OECD area prompted Working Party No. 6 to conclude its review of regional policy in each of the PIT countries. This research is now in its final phase. It has enabled an analysis of these countries' regional policy-making process, made them part of the discussions under way in the industrialised world and fostered bilateral and multilateral regional co-operation.

As the Group's reports<sup>15</sup> have shown, current efforts in these countries are focusing on three major aspects of regional restructuring:

##### **a) *The transition's general economic context***

Besides sharing a postwar heritage of central economic planning, the PIT countries are relatively similar in terms of income levels, labour skills, industrial and technological structures, market size and the weight of their history. They all have considerable growth potential but have also fallen far behind since 1945. The former Czechoslovakia, for example, which between the two world wars had been as developed as Austria or Belgium, now ranks alongside the less developed countries of Southern Europe and is said to be 20 years behind Western Europe's most highly developed nations.

As the State-run, centralised system of management disappeared, borders opened up and markets crumbled to the East, these countries were all faced for the first time with the need to revolutionise their productive systems in a relatively short time and to prepare the labour force and managers for the changes. The initial task was to provide powerful incentives to restructure an industrial sector dominated by monopolies with low productivity and outdated technologies. Another objective was to shift priority away from heavy industry and the specialisations induced by the Comecon's centrally planned trade and to redirect output towards the natural but highly competitive markets of the West. In addition, it was essential to decollectivise and enhance the efficiency of agriculture -- a key element of economic activity and foreign trade for countries like Hungary and Poland. Lastly, revitalising the all-but-abandoned service sector was not the least of these governments' tasks.

The mega-adjustment<sup>16</sup> got underway in 1990, along with -- not surprisingly -- a certain disruption of macroeconomic parameters. Decontrol of prices, swelling State and corporate debt, and a boom in imports and in import prices, fuelled by repeated devaluations and a degree of wage indexation, combined to inflame inflationary tendencies. A double-digit rise in consumer prices hit the area in 1990 and 1991, with Poland experiencing hyperinflation of about 580 per cent in 1990. At the same time, the loss of markets to the East, a decline in real incomes<sup>17</sup> and competition from imports put these countries' production capacities to a severe test. GNP fell 20 per cent in two years in Poland and Slovakia, and the shock was even greater in terms of industrial output, which shrank by 42 per cent in Hungary between 1988 and 1992. Under the circumstances, it was inevitable that unemployment would mount. From virtually full employment (according to official statistics), by 1991 joblessness had reached 11 per cent of the labour force in Slovakia, 12 per cent in Poland and 8 per cent in Hungary. Compared to that average trend, there were marked disparities between regions.

Recent macroeconomic stabilisation efforts have nonetheless helped remedy the situation to some extent. The implementation of tight monetary and fiscal policies (except perhaps in Slovakia) and wage controls have succeeded in curbing inflation (to a large extent in the Czech Republic and partially in the other countries). Moreover, the widespread privatisation of small businesses and of distribution channels, along with the initial transfers of State enterprises to the private sector, represent the first steps in putting the productive system back on a sounder footing. In 1992, Poland's GNP increased for the first time since the transition started, rising by 1 per cent. Hungary, whose output declined slightly in 1993, and the Czech Republic, whose recovery was delayed by the split with Slovakia, should follow suit this year. Furthermore, in the past three years the countries of Central Europe have drastically restructured their trade with the West (for example, between 1990 and 1992 the Czech Republic tripled the percentage of its exports to the EEC and cut the proportion of its sales to the ex-USSR by two thirds).

These somewhat divergent results (see Table 4) highlight the major contrasts between the PIT countries' economies and strategies. It will be noted, *inter alia*, that:

- These countries did not all start on an equal footing. In the CSFR, for example, socialised enterprises employed 95 per cent of the labour force in the late 1980s, versus 71.5 per cent in Poland and 70 per cent in Hungary. The country was thus ill prepared for privatisation, with the "second economy" virtually absent from a great many sectors. Some countries also present structural handicaps on account of their Comecon specialisations or highly artificial regional policies; such is the case with Slovakia.

Table 4

**PIT Countries Main Economic Features**

1992	GDP (\$ billion)	GDP per capita \$	GDP growth rate	German direct investment (DM million)
Hungary	36	3 516	-5.5	825
Poland	78.5	2 045	+1	146
Czech Rep.	26	2 536	-7.1	-
Slovak Rep.	10.3	1 936	-9.5	536

- Reform is not progressing everywhere at the same pace. Hungary, for example, has always moved gradually, preferring to sell off firms one by one and thus to proceed slowly, even to restructure before privatising<sup>18</sup>. The Polish approach, which could be described as shock therapy, consisted above all of initiating a virtuous circle with the creation or transfer to the private sector of a great many SMEs. In the case of larger enterprises, it was decided to use a system of "mass" privatisation (using coupons) and to set up 20 national investment funds whose managers are to be appointed directly by a government commission. The Czech Republic has resorted to almost every method of privatisation: direct restitution, transfers, auctions, coupons and assignment to local authorities. But it is hard to say to what extent the country's strong performance with respect to unemployment (2.6 per cent) and inflation stems from the slow pace of ongoing adjustment;
- Foreign investment, which is crucial to capital-poor countries like those of Central Europe, has been spread very unevenly across countries and regions. Nearly 60 per cent of the area's incoming foreign capital has flowed into Hungary, even though Hungarian labour costs exceed those of the Czech and Slovak Republics. In 1992 there were more than 11 000 joint ventures in Hungary, versus 4 000 in the CSFR and about 5 000 in Poland. Even though that balance has shifted recently and the movement has slowed, Hungary remains the chief beneficiary of foreign investment (see Table 4), which is valued at an accumulated total of some \$5 billion. Western firms' predilection for the country has contributed, *inter alia*, to the relative stability of Hungary's balance of payments and exchange rate and to a substantial boost to its ability to export<sup>19</sup>.

**b) *New developments in the PIT countries' regional policies***

The initiation of transition, the abandonment of the Communist regime's policy of "forced" equity, and recession have all served to widen regional disparities. In Hungary, the north-eastern regions of heavy industry were hurt by the cut-off of subsidies, while the capital area was affected by the collapse of the Comecon markets, but its industrial fabric is more diverse and more dynamic. Unemployment rates at year-end 1992 ranged from 6-8 per cent in the Budapest, Győr and Sopron areas to 18-20 per cent in Borsod, Komárom and Somogy. In Poland, there has also been a deepening of geographical differences. Today, after more than three years of reform, there have emerged four sharply contrasting types of regions:

- The big cities (Warsaw, Poznań, Gdansk), with diversified capabilities, relatively highly-skilled labour and moderate unemployment. These urban areas are poised to meet the market economy challenge.
- Regions undergoing restructuring, with activity often concentrated in a single industry, such as textiles, iron and steel, and mining. These regions, which include Upper Silesia and the Lodz area, are grappling with serious environmental problems, and the private sector has been slow to move in.
- Farm regions, where socio-economic change is still in its infancy and the privatisation of land poses special problems.
- Other regions, whose progress hinges on the results of macroeconomic stabilization.

This widening of disparities (which can also be observed in the Czech and Slovak Republics) has begun to worry Central European governments, whose chief concern until now has been to engineer a satisfactory macroeconomic adjustment. As a result, regional policies are starting to be expanded.

In **Hungary**, regional action draws upon the activities of several ministries (e.g. agriculture, industry, tourism) and is co-ordinated by the Ministry of the Environment and Regional Development. Several funds can be tapped to finance regional projects and infrastructure construction: the employment fund, the agriculture fund, the investment stimulus fund, and funds for roads, water, etc. In this context, the regional development fund plays a complementary role. With nearly 5 billion forints in 1993 (6 billion in 1992), its targets are selected on the basis of precise regional criteria<sup>20</sup>. A substantial portion of available funding is earmarked for crisis-hit areas like the North-East<sup>21</sup>. Moreover, in depressed areas, development programmes have been prepared by municipalities and counties, with assistance from regional commissioners and central government<sup>22</sup>, and a number of them are currently under way. Some of the counties involved include Szabolcs, Nograd, Borsod and Bekes<sup>23</sup>. On the Great Plain and at Lake Balaton, the chief concern is to ensure economic growth -- in farming and tourism -- that is sustainable, i.e. environmentally friendly<sup>24</sup>. Additionally, in order to improve the supply of capital in the regions, the Hungarian Investment Bank sponsors associations<sup>25</sup> that provide venture capital (from the proceeds of privatisation) to business enterprises. In actual fact, many initiatives take shape locally, propelled by numerous associations and regional councils which subsequently direct them after funding is received. Nevertheless, the legislative framework remains vague, and Hungary's regions are still the missing link in the country's chain of executive and financial authority.

In **Poland**, top priority is given to infrastructures, which the country lacks, rather than to production subsidies. Accordingly, in 1992 the Ministry of Transport presented a \$3 billion roadbuilding plan<sup>26</sup> calling for the construction of 2 000 km of motorways by 2010, financed by World Bank and EBRD loans, private capital and toll revenue. Until now, however, work has begun on only very modest stretches. In the telecommunications sector, the goal is to become as well equipped as Portugal (with 20 lines per 100 inhabitants) by the end of the century, at a cost of \$1 billion. The cabling of cities such as Gdansk is expected to begin shortly.

At the local and regional levels, strategic plans have been devised to revitalise the economies of backward areas and of micro-regions with ailing single industries, but implementation has been held up for lack of funding. Such is the case for the restructuring of the Katowice region (the country's largest industrial centre). Prepared by the voivodship, the plan stresses environmental clean-up, new technologies, housing and infrastructure construction, and the creation of SMEs. With the withdrawal of coal subsidies expected to result in 180 000 job losses, it is essential that the plan be implemented now. In this respect, the fact that regional bodies lack decision-making powers is a handicap.

As in Hungary, the government has high hopes that cross-border interregional co-operation will (i) prepare the country for membership in the European Community by fostering partnerships with EEC regions and (ii) produce joint solutions to common problems in conjunction with the free-trade area that the Visegrad Agreement is gradually setting into place.

It is difficult to speak of regional policy in the **Czech Republic**, since nothing has been decided regarding the country's division into regions. At year-end 1992, the government drew up guidelines for regional economic policy, but they amount to little more than a territorial breakdown of overall economic objectives. The main components of the guidelines may be summarised as the institution of tax incentives for SMEs and local entrepreneurship in economically threatened regions (i.e. where declining industries like mining, iron and steel, and heavy plant are concentrated), and the continuation of the REGION programme (a package of subsidised loans and loan guarantees for viable activities in problem regions). The geographical coverage of this latter programme was reduced in 1993. Actually, the most noteworthy

measure was the creation of a regional agency in Ostrava<sup>27</sup> to devise a development plan for the region and co-ordinate government schemes in the area. In addition, four Euroregions were created in combination with adjacent areas in Germany.

Because the **Slovak Republic**, like its Czech counterpart, is not yet one year old, its regional policy is still in its infancy, reflecting the government's tradition of central authority and, for the time being, continuing to treat regions merely as administrative districts. Nevertheless, current efforts to decentralise taxation should help enhance the autonomy of the cities and local authorities. In addition, the government has selected 14 micro-regions for economic revitalisation. Districts have received aid to set up counselling and training centres, and businesses have been granted tax relief in conjunction with a project to rebuild and develop the Horne Povazie region. The Slovak authorities hope that studies of the Slovak-Polish border areas, the Vienna-Bratislava-Gyor conurbation and the Carpathian region will help spawn wealth-creating projects.

*c) Co-operation with bordering western countries*

Between 1991 and 1993, regional co-operation flourished all along the former iron curtain. Apart from a desire for openness on the part of regions that once were isolated for military or geopolitical reasons, this blossoming of cross-border co-operation stems from:

- i.* Substantial and growing funding by the OECD countries directly involved. Sweden, for example, has set up a new three-year, Skr 3 billion programme for co-operation with its neighbours to the East. Most of the support is earmarked for the Polish and Russian provinces located near to Sweden. During 1990-93, Finland has allocated about FIM 1 billion in grants to the Programme for Activities in Eastern and Central Europe, (of which FIM 240 millions for neighbouring areas in Russia and FIM 270 millions for the Baltic countries)<sup>28</sup>. With the OUVERTURE (economic and administrative development), ECOS (urban policy) and, to a certain extent, INTERREG programmes, the European Commission is making more funding available for East-West regional co-operation. Finally special regional incentives will be provided to Greeks and mixed Greeks and foreign firms willing to invest beyond the albanian border. Greece is planning to extend this initiative to Bulgaria.
- ii.* The constitution of cross-border regions. A recent conference laid the foundation for the Barents region, which encompasses Sweden's Norrbotten, Finland's Lapland and the Republic of Karelia, northern Norway and the Russian regions of Murmansk and Arkangelsk. A Council of Counties will supervise co-operative activities, whose general objectives will be set by a Steering Committee composed of foreign ministers.
- iii.* The variety of joint projects. For example, a vast co-operation agreement has linked Finland and Russia since 1992. On the Finnish side, responsibility for co-ordinating co-operation on the local and regional levels lies with the Ministry of the Interior, with the Foreign Ministry in charge of general supervision. Projects already under way in the first region (Lapland-Murmansk) cover a diversity of subject matter including statistics, administrative skills (through KERA), roadbuilding and, more generally, the economics of forestry, tourism and banking. In Karelia, essential projects finance not only the modernisation of rail connections but also the construction of industrial parks (Kostamus-Vartsila) and the development of networks of garages. In the third region (St. Petersburg-Kymi), the emphasis is on food industries, environmental protection and logistics.

- iv.* The all-encompassing approach which has been adopted. In Austria, for example, co-operation has taken the form of institutional frameworks with the setting up of cross-border regional councils (e.g. for Burgerland-Gyor-Sopron-Szombathely) and comprehensive agreements (e.g. for Southern Moravia-Southern Bohemia-Lower Austria). In other cases, programmes of co-operation have been established in specific areas (e.g. trade, environmental protection and tourism for Upper Austria-Bavaria-Bohemia) or to carry out major projects (e.g. the cross-border industrial parks of Gmund-Ceske, Velenice and Kittsee-Bratislava, the Retz National Park).

So far, the impact of all these programmes on the peripheral regions of the OECD area has varied fairly extensively. The Swedish Government expects only marginal consequences for its border areas, whereas Norway and Finland are hopeful that co-operation with Russia will spur a revival of activity in remote regions and give a boost to employment. Austria, which is hemmed in the most by the former Eastern bloc, is forecasting significant changes for its economy, and particularly a shift in foreign trade flows, mounting competition for certain sectors (textiles, food, cement), a relocation of heavily labour-intensive industries to the CEECs and new growth opportunities for innovative industries.

## V. CONCLUSIONS

Because of their structural focus, regional policies are not generally liable to sudden change. It therefore comes as no surprise that the above analysis is in line with the 1992 report and confirms some of its findings: i) cyclical rebalancing does not mean that there has been a reduction in structural disparities between regions, as in the early 1980s; ii) certain countries have cut their regional policy outlays, whereas others have increased them despite swelling public deficits; iii) policies emphasize regional participation in growth rather than the redistribution of the fruits of that growth.

Nevertheless, certain shifts have taken place since 1989-91:

- First of all, regional policies are being called upon to serve an ever wider variety of purposes. Clearly, with many countries facing deepening recession, governments are focusing on the integration and effective co-ordination of their various actions. A large number of countries have endeavoured to improve regional policies' contribution to job creation or to increase their multiplier effect on private investment<sup>29</sup>. Regional policies have also been called to the rescue of sectoral policies to cushion the socio-economic impact of restructuring and offer industrial alternatives.
- In many cases there has been renewed interest in collective investments and their effect on corporate and regional productivity. In many countries, land-use planning is seen as a way to guarantee equality of opportunity in the competition between regions. Since good infrastructures help attract business, one might fear a snowball effect, with concentration leading to new infrastructures and new infrastructures prompting new firms to set up. Governments therefore have a role to play in apportioning externalities, and there is a new, growing awareness of this among public decision-makers.
- Lastly, the emergence over the past two years of free-trade areas amidst geopolitical change to the East and in the wake of Uruguay Round talks has highlighted the disparities that can exist between the regions of such major groupings (see Annex A4). With heightened competition has come a move towards co-operation among regions. Networks have been set up, encouraged by governments, for both cross-border co-operation and partnerships among non-bordering regions. Despite these co-operative efforts and corporate strategies for further globalisation, activities are still becoming increasingly specialised and clustered in specific areas -- hence the term "glocalisation" (globalisation + localisation). More and more, then, regional policies are expected to promote well-balanced land-use development.

As can be seen, the dimensions of regional problems are tending to expand, along with government efforts to solve them. Analysis has shown that regional policies have met these challenges with a vast range of responses and by establishing partnerships with sub-national authorities. In these areas which are expanding broadly (as is illustrated by the resurgence of academic research into regional economies), Working Party No. 6 is making a special contribution of expertise and information.

## NOTES

1. In the United States, expenditure related to purchases of computers was up sharply in 1992 and even in 1991.
2. About 54 per cent of manufacturing jobs between 1973 and 1988.
3. See Davis, S., J. Haltiwanger and S. Schuh (1993), *Small Business and Job Creation: Dissecting the Myth and Reassessing the Facts*, Federal Reserve Bank of Chicago.
4. Whereas there had been only one strategic alliance for every six mergers/acquisitions in 1990, the proportion increased to one for three over the first four months of 1993.
5. See OECD (1994), "Globalisation and Local & Regional Competitiveness", Paris.
6. See "Hot Spots", 19 October 1992.
7. In the United Kingdom, the defence industry employs nearly a third of the country's most highly qualified engineers and research scientists.
8. The last package, announced very recently, is different from the previous ones, given its scope (more than \$ 100 billion) and objective (to stimulate consumption rather than investment). This package includes substantial tax cut, public procurement, aid to SME, real estate and employment.
9. Local direct taxation increased by 7.7 per cent in 1993 in real terms.
10. In France, the financial weakness of regional development companies (SDR) and the discriminating strategy of many banks *vis-à-vis* regional risks have probably contributed to increasing handicaps for locally and regionally based firms.
11. See CEC (March 1992), "Community Structural Policies: Assessment and Outlook", Brussels.
12. Excluding pollution and vehicle wear, it is estimated that motorway congestion costs the United States \$100 billion a year.
13. See Competitiveness Policy Council (1992), 2nd report: "A Competitiveness Strategy for America", Washington.
14. On the basis of statements from Member countries, the secretariat of the Industry Division collected data on some 800 programmes of aid to industry. These were classified by major objective: R&D, regional development, sectors, exports, SMEs, training, the fight against economic decline, investment. Data cover the period between 1986 and 1989.
15. See OECD (1992), "Regional Development Problems and Policies in Poland, Paris. OECD (1994) -- currently being published -- Regional Development Problems and Policies in the Czech and Slovak Republics, Paris.
16. To borrow the expression used by Rémy Prud'homme. See the above mentioned.
17. Between 1989 and 1992, real incomes in Poland declined by 26 per cent.

18. As recession deepened in 1992, the government implemented a crisis-management package of measures; these included a programme to restructure 13 major enterprises, at an estimated cost of 8 billion forints. In addition, a large public holding company was created to manage the State's interests in the 163 enterprises of which it intends to retain either minority or majority ownership.
19. Joint ventures account for 30 per cent of exports.
20. Including area unemployment, per capita taxes, average wages, the average age of the population, telephones per inhabitant, the number of houses built over the past ten years, cars per inhabitant, special aspects of migration, and the school system.
21. The fund can underwrite business modernisation investments with financial assistance of up to 30-40 per cent of a project's total cost.
22. Central government grants for the projects of local authorities throughout Hungary totalled 18 billion forints in 1991 and 26.6 billion in 1992. This is because local tax bases are too thin to raise enough funds for investment.
23. In several of these counties, the EEC's PHARE programme subsidises the creation of local regional development agencies.
24. Hence the official rejection of intensive farming and mass tourism. In this respect, construction and land-use regulations have an important role to play.
25. Three such associations will soon be operational: one in the south of the Great Plain, one in the eastern part of the country, and the other at Lake Balaton.
26. Three major cross-country highways are to be built: North-South, linking Gdansk, Lodz, Katowice and Slovakia; East-West, between Belarus, Warsaw, Poznan and Berlin; and a southern route, connecting Wroclaw, Crakow and Lvov.
27. The agency's other responsibilities are to promote the region to the outside world, seek sources of external financing and attract foreign investment. Its permanent budget is balanced thanks to municipal and national financing and PHARE loans.
28. The government will devote FIM 270 millions to this programme in 1994.
29. The number of job creations and the amount of investment generated by regional assistance programmes are frequently used evaluation criteria. See the British and Canadian contributions.

**ANNEX A**

**TABLES**

## Annex AI

## State Performances (U.S.A.)

State	Unemployment growth %	Earned income growth %	Export growth %	Business failures growth	New business incorporation growth %	Small business profit %	Income per capita \$ 1990	GDP (89) billion \$
Alabama	7.6	4.5	17.4	43.7	- 2.9	+ 5.3	9 775	68.0
Alaska	33.2	4.4	10	15.3	- 7.1	2.9	17 091	19.6
Arizona	39.7	3.6	19.8	102.8	- 2.9	4.7	10 300	65.3
Arkansas	1.3	5.0	24.7	79.3	- 12.8	3.7	8 680	37.2
California	15.8	2.0	13.2	61.3	- 6.9	4.6	14 079	697.4
Colorado	15.4	6.3	13.2	- 7.0	+ 10.8	6.5	12 857	66.2
Connecticut	45.5	0.9	14.7	106.4	- 7.0	2.8	16 504	88.9
Delaware	- 9.9	3.5	7.2	97.5	+ 0.1	4.1	14 715	15.4
Columbia	17.0	3.2	- 16.2	98.0	0	5.0	42 504	39.4
Florida	32.6	3.0	13.9	41.3	- 1.3	5.3	10 618	227.0
Georgia	- 39.5	2.9	18.3	73.2	- 4.2	4.2	11 929	129.8
Hawaiï	33.0	6.9	- 17.3	- 51.7	- 0.1	8.0	14 324	25.8
Idaho	9.4	6.8	6.8	25.0	+ 1.8	5.1	9 505	16.3

**State Performances (USA) (cont.)**

State	Unemployment growth %	Earned income growth %	Export growth %	Business failures growth	New business in-corporation growth %	Small business profit %	Income per capita 1990 \$	GDP (89) billion \$
Illinois	55.4	3.1	8.2	40.9	- 0.7	5.9	13 683	256.5
Indiana	24.1	3.5	8.6	47.1	- 3.8	5.4	11 155	105.3
Iowa	- 5.8	4.4	3.4	- 47.9	+ 3.4	4.8	10 216	52.6
Kansas	- 17.2	4.2	1.7	30.4	- 7.5	4.9	10 927	48.8
Kentucky	35.3	4.1	1.3	14.9	1.7	4.7	9 485	65.9
Louisiana	6.2	5.4	8.9	- 4.4	- 0.1	5.8	9 336	79.1
Maine	11.5	- 0.9	5.1	97.0	- 4.2	- 1.0	10 813	23.5
Maryland	13.3	1.6	29.7	89.6	- 1.3	4.2	13 222	99.1
Michigan	19.0	1.1	9.5	7.8	- 9.5	3.9	12 043	181.0
Minnesota	3.8	4.0	5.6	196.0	- 1.2	4.3	12 626	93.6
Mississippi	- 9.8	4.1	8.3	14.8	5.8	5.2	7 860	38.1
Missouri	0.7	2.3	7.6	29.0	- 2.5	4.2	11 680	100.0

**State Performances (USA) (cont.)**

State	Unemployment growth %	Earned income growth %	Export growth %	Business failures growth	New business in-corporation growth %	Small business profit %	Income per capita 1990 \$	GDP (89) billion \$
Montana	12.3	5.9	22.0	- 16.8	+ 3.5	5.8	8 635	13.1
Nebraska	45.1	5.2	38.7	49.4	+ 5.4	5.5	10 823	31.1
Nevada	2.9	5.3	8.3	113.7	- 8.3	5.8	13 833	28.0
New Hampshire	19.6	- 1.4	1.6	205.7	- 10.9	- 0.59	10 697	24.5
New Jersey	23.9	1.5	14.5	114.6	- 1.0	3.8	15 226	203.4
New York	41.3	0.5	5.4	69.4	- 2.7	7.1	15 386	441.0
N. Carolina	8.5	2.9	6.6	31.6	- 3.5	3.3	11 252	130.1
N. Dakota	4.1	5.1	- 6.9	- 2.8	- 4.7	5.7	9 076	11.2
Ohio	11.9	2.1	11.0	21.6	- 1.1	4.3	11 604	211.5
Oklahoma	5.0	3.8	7.5	14.4	- 1.1	3.7	9 492	52.3
Oregon	6.1	4.7	4.9	120.6	- 1.8	5.1	11 162	52.1
Pennsylvania	23.0	2.4	10.8	62.6	- 10.8	3.4	11 877	227.9

**State Performances (USA) (cont.)**

State	Unemployment growth %	Earned income growth %	Export growth %	Business failures growth	New business in-corporation growth %	Small business profit %	Income per capita \$ 1990	GDP (89) billion \$
Rhode Island	18.0	- 2.5	14.1	148.1	- 18.1	0.9	11 900	18.8
S. Carolina	17.9	2.2	20.1	44.1	- 20.4	4.6	10 286	60.2
S. Dakota	- 0.7	7.0	6.1	15.5	- 3.5	5.6	8 697	11.1
New Mexico	1.1	6.0	24.4	21.0	- 4.9	5.4	9 145	25.4
Tennessee	13.8	3.9	16.0	35.1	+ 0.2	4.8	10 902	92.3
Texas	3.3	5.6	21.9	43.7	- 2.7	6.3	11 553	340.1
Utah	20.2	7.1	19.4	37.9	19.9	8.4	9 703	28.1
Vermont	- 6.8	1.0	- 5.4	139.7	- 9.9	1.1	11 226	11.5
Virginia	16.4	2.3	7.2	43.0	- 2.8	2.9	12 924	136.5
Washington	23.4	6.2	10.7	64.9	- 3.6	5.4	12 361	96.2
Wisconsin	13.8	4.5	3.1	35.1	- 4.6	4.9	11 186	94.0
W. Virginia	19.1	2.7	6.9	64.6	- 12.7	4.3	8 268	27.9
Wyoming	- 10.8	5.3	24.5	- 9.6	18.4	5.7	10 793	11.1

## Annex A2

**Share by country of acquisitions and transborder sales  
from 1.1 to 30.6.93**

Countries	Acquisitions (millions of \$)		Sales (millions of \$)	
	1992	1993	1992	1993
<b>European Community</b>				
Germany	2 048	1 264	4 537	487
Belgium	515	64	118	72
Denmark	115	7	38	514
Spain	509	155	183	892
France	8 704	428	5 467	2 443
Greece	0	0	707	0
Ireland	89	112	45	1 426
Italy	4 194	0	918	1 705
Luxemburg	480	102	0	0
Netherlands	409	1 034	4 175	347
Portugal	n.a.	11	519	218
United Kingdom	2 988	9 874	10 624	3 803
EC Joint-ventures	n.a.	n.a.	0	421
<b>Total EC</b>	<b>20 051</b>	<b>13 051</b>	<b>27 331</b>	<b>12 328</b>
<b>North America</b>				
Canada	599	1 982	1 002	445
United States	4 450	6 181	6 442	8 456
<b>Total North America</b>	<b>5 049</b>	<b>8 163</b>	<b>7 444</b>	<b>8 901</b>
<b>Rest of the World</b>				
South Africa	487	15	0	0
Argentina	0	0	239	20
Australia	460	235	551	624
Austria	143	0	0	19
Brasil	2	13	0	220
China	389	217	n.a.	n.a.
South Korea	4	0	31	0
Finland	18	140	6	174
Hong Kong	7 528	1 116	750	157
Hungary	n.a.	n.a.	196	38

**Share by country of acquisitions and transborder sales  
from 1.1 to 30.6.93 (cont.)**

Countries	Acquisitions (millions of \$)		Sales (millions of \$)	
	1992	1993	1992	1993
Japan	2 596	51	191	3
Malaysia	35	4	11	12
Mexico	332	79	529	49
Norway	133	6	59	30
New-Zealand	427	13	367	971
Poland	n.a.	n.a.	2 046	349
Singapour	3	49	3	89
Sweden	319	1 374	876	711
Switzerland	3 356	66	120	139
Taiwan	75	0	0	0
Others	755	615	1 412	373
<b>Total rest of the world</b>	<b>17 062</b>	<b>3 993</b>	<b>7 387</b>	<b>3 978</b>
<b>WORLD TOTAL</b>	<b>42 162</b>	<b>25 207</b>	<b>42 162</b>	<b>25 207</b>

Annex A3

**DEFENCE EXPENSES**

(in millions of dollars, 1991)

	Direct expenses		Direct and indirect expenses	
	Amount	Ranking	Amount	Ranking
California (Pacific)	60.7	1	99.3	1
Virginia (Atlantic Coast)	22.1	2	38.4	3
Texas (Central South-West)	22.0	3	42.8	2
Florida (South Atlantic)	15.0	4	25.2	5
New York (Mid-Atlantic)	14.4	5	25.5	4
Pennsylvania (Mid-Atlantic)	10.0	6	22.0	6
Maryland (South Atlantic)	9.9	7	17.2	9
Washington (Pacific)	9.8	8	16.7	10
Georgia (South Atlantic)	9.5	9	17.7	8
Massachusetts (New England)	9.1	10	16.1	11

Source: Congressionnal Budget Office.

## Annex A4

## European regions: GDP per capita and unemployment rates

European Countries and Regions	GDP per capita 1990 (ECU)	Unemployment rate (April 1992)
<b>EEC</b>	14 485	<b>9.4</b>
<b>Germany</b>	18 530	<b>4.5</b>
Hamburg	29 052	5.4
Bremen	23 394	7.9
Hesse	21 421	3.7
Bade-Wurtemberg	19 550	2.9
Bavaria	18 893	3.0
Berlin (West)	18 315	7.5
Rheinland North Westphalia	17 672	5.7
Sarreland	17 192	6.3
Rheinland-Palatinat	16 350	3.7
Lower-Saxony	15 992	5.5
Schleswig-Holstein	15 600	4.7
<b>France</b>	16 622	<b>9.7</b>
Ile-de France	24 804	8.0
Alsace	17 159	5.5
Champagne-Ardennes	16 709	9.4
Rhône-Alpes	16 320	9.3
Upper-Normandy	15 756	12.
Franche-Comté	15 400	8.0
Centre	15 273	9.5
Provence-Alpes-Côte d'Azur	15 069	12.6
Aquitaine	14 979	11.6
Bourgogne	14 889	9.5
Lorraine	14 564	9.0
Pays-de-la-Loire	14 469	9.9
Lower-Normandy	14 393	8.7
Picardy	14 253	10.1
Brittany	13 789	8.8
Nord-Pas-de-Calais	13 628	12.6
Auvergne	13 622	10.1
Midi-Pyrénées	13 538	8.8

**European regions: GDP per capita and unemployment rates (cont.)**

<b>European Countries and Regions</b>	<b>GDP per capita 1990 (ECU)</b>	<b>Unemployment rate (April 1992)</b>
Poitou-Charentes	13 391	11.7
Limousin	13 028	8.6
Languedoc-Roussillon	12 966	13.6
Corsica	11 756	10.4
<b>Denmark</b>	<b>20 078</b>	<b>9.6</b>
<b>Belgium</b>	<b>15 200</b>	<b>7.6</b>
Brussels Region	23 997	10.2
Flanders	15 394	5.6
Wallony	12 254	10.8
<b>Italy</b>	<b>14 892</b>	<b>10.5</b>
Lombardia	19 617	4.2
Aosta	19 028	-
Emilia-Romagna	18 492	4.5
Frioul-Venetia	17 732	5.6
Piemont	17 540	7.8
Trentin-Upper-Adige	17 477	3.0
Venetia	16 937	4.7
Liguria	16 828	9.5
Latium	16 662	10.3
Toscana	15 937	7.7
Marches	15 189	6.3
Ombria	14 351	8.8
Albruzzes	12 963	11.8
Molise	11 456	14.8
Pouilles	10 804	14.6
Saraigna	10 677	18.7
Campania	10 065	21.3
Sicily	9 637	21.8
Basilicate	9 330	21.8
Calabra	8 806	18.3
<b>Netherlands</b>	<b>14 705</b>	<b>6.6</b>
West	16 064	6.3
North	14 880	8.5
East	12 466	6.7

**European regions: GDP per capita and unemployment rates (cont.)**

<b>European Countries and Regions</b>	<b>GDP per capita 1990 (ECU)</b>	<b>Unemployment rate (April 1992)</b>
<b>United Kingdom</b>	<b>13 400</b>	<b>10.6</b>
South-East	16 148	10.3
East Anglia	13 628	8.3
East Midlands	12 876	9.4
South-West	12 795	9.8
Scotland	12 334	10.8
West Midlands	12 259	11.2
Yorkshire and Humberside	12 198	10.6
North-West	12 075	11.5
North	11 566	11.8
Wales	11 147	10.3
Northern Ireland	9 892	16.7
<b>Spain</b>	<b>9 939</b>	<b>17.8</b>
Navarre	12 900	10.5
Balearic Islands	12 489	10.8
Madrid	12 611	12.5
Catalonia	12 092	13.0
Basque Country	11 820	19.0
Rioja	10 899	13.0
Aragon	10 894	10.9
Canary Islands	9 962	24.8
Valencia	9 754	18.7
Cantabria	9 743	16.4
Murcia	9 709	19.3
Asturias	9 215	17.7
Castilla-Leon	8 890	17.3
Ceuta and Melilla	8 395	25.5
Castilla-La Mancha	8 362	15.3
Galicia	7 603	16.2
Andalously	7 491	27.
Extremadura	6 426	26.3
<b>Ireland</b>	<b>9 563</b>	<b>17.6</b>

**European regions: GDP per capita and unemployment rates (cont.)**

<b>European Countries and Regions</b>	<b>GDP per capita 1990 (ECU)</b>	<b>Unemployment rate (April 1992)</b>
<b>Portugal</b>	<b>5 012</b>	<b>4.5</b>
Lisbon and Vale do Tejo	6 748	5.8
Algarve	4 416	3.1
Nord	4 391	3.8
Centre	3 658	2.7
Alentejo	3 112	8.7
Acores	-	4.
Madera	-	3.7
<b>Greece</b>	<b>5 127</b>	<b>9.2</b>
Central Greece	6 349	-
South Egean	5 718	-
Western Macedonia	5 622	-
Attica	5 483	-
Central Macedonia	5 193	-
Crete	4 871	-
Peloponnese	4 803	-
Thessalia	4 692	-
Ionian Islands	4 669	-
Central Macedonia-Thrace	4 640	-
Western Greece	4 238	-
Epire	3 822	-
North Egean	3 675	-

**ANNEX B**

**SUMMARY OF MEMBER COUNTRIES' REGIONAL POLICIES**

**AUSTRALIA**  
**AUSTRIA**  
**BELGIUM (Flanders)**  
**CANADA**  
**DENMARK**  
**FINLAND**  
**GERMANY**  
**GREECE**  
**ITALY**  
**NORWAY**  
**PORTUGAL**  
**SPAIN**  
**SWEDEN**  
**SWITZERLAND**  
**UNITED KINGDOM**

## AUSTRALIA

In order to facilitate the Government's support for, and consideration of regional development policy, the Government has re-named the Industry, Technology and Commerce portfolio as the Industry, Technology and Regional Development portfolio. An Office of Regional Development was established within the Department.

The Office of Regional Development has been given the tasks of:

- supporting a Taskforce across the whole range of its activities;
- gathering and analysing information from regions, industry, trade unions, community groups and individuals;
- providing advice to the Minister on issues relevant to regional development;
- delivering a set of programmes designed to:
  - encourage economic growth in centres affected by rationalisation of national railways;
  - identify potential for more co-ordinated and effective delivery of economic development and employment programmes among Federal Government agencies and across the three levels of government.

The Federal Government has had little role in regional development policy since 1975. However, the Government has recently announced a series of major, inter-linking studies into factors affecting regional development. They are:

- a Regional Development Taskforce, which has travelled widely throughout Australia and taken submissions from interested parties: the Taskforce is studying the prospects for regional development on a region-by-region basis, and is due to report to the Minister for Industry, Technology and Regional Development by December 1993;
- an inquiry by the Industry Commission into factors affecting regional industry adjustment, due to report to the Treasurer by December 1993;
- a major consultancy by McKinsey & Co into factors affecting regional investment, due to report to the Department of Industry, Technology and Regional Development by early 1994.

In order to facilitate the process of developing regional policy at the Federal level, the Government has established a high level interdepartmental Committee, chaired by the Department of Industry, Technology and Regional Development and drawing its membership from a wide range of other Federal Departments. This Committee will:

- encourage and co-ordinate inputs from other Departments to the Taskforce;
- review the delivery of Federal economic and employment programmes;
- examine other improvements that might be made to foster regional development.

The Federal and State/Territory Governments have agreed to restructure the existing Federal/State Ministerial Council as the Australian Industry, Technology and Regional Development Council. They have also established a Federal-State working group, again chaired by the Federal Department, which draws its membership from State and Territory departments with responsibility for regional development. These latter two initiatives are designed to provide an inter-governmental focus on regional development, and facilitate the development of regional policy in a co-ordinated way among governments.

The Federal Government plans to consider the outcomes of the various studies in the first months of 1994, perhaps in conjunction with the outcomes of another Taskforce looking at employment opportunities. An announcement of Federal regional development policy is expected in March to April 1994.

## **1. Important Regional Programs and Schemes and their cost**

There are some 20 projects or programs which target particular regions, having a combined budget of \$108m. However, economic development may not necessarily be the prime focus of these programs. For example, the largest is the Murray-Darling Basin Initiative (\$62m), which is a joint Commonwealth/State Government program addressing land, water and environmental issues within the region drained by these two rivers (one-seventh the land areas of mainland Australia).

A further 30 (approximately) projects or programs do not target specific geographic regions, but are designed to benefit areas outside the capital cities. These projects generally have an economic development focus, with funding of the order of \$240m.

The largest program is the Rural Adjustment Scheme (\$157m) designed to develop the farm sector in a deregulated financial and market environment.

A third set of programs not designed with a regional focus, but which nonetheless may have a significant impact on regional economic development, have a combined budget of \$930m. For example, the largest (the Aboriginal and Torres Strait Islander programs) will outlay some \$590m on eight programs designed to facilitate the economic development of indigenous peoples, who are largely located outside Australian capital cities.

## **2. Regional policy budget**

The estimated expenditure for 1993-94 on programs specifically denoted for regional policy initiatives, which are administered by the Department of Industry, Technology and Regional Development, is at \$3 317 000.

### **3. Future policy trends**

As stated above, a major announcement on regional development policy is due in March-April 1994.

## AUSTRIA

### 1. Institutions responsible for regional policies

Regional policies and regional planning, i.e. development measures and regulations, are not completely separable in Austria. Regional planning is the competence of the Lander with the important restriction, however, that gives the federal government the explicit competence for railways, regional and national roadways, forestry and water rights. This means that the federal government and the Lander both are responsible for regional planning tasks. Thus the Lander have issued their own regional planning laws. These oblige the communities to implement regional planning policies at a local level in the form of development concepts, zoning plans and building regulations in observance of the projected aims and accompanying conditions of the regional plans (of the Lander).

Regional policy in the form of public investment measures is usually oriented according to the jurisdiction for specialized fields and is thus usually the task of the federal government. Private business investments that are specifically excluded from its competence (such as investment promotion) are made by the federal government as well as by the Lander. In the case of financial aid for regions, this is partly organised in the form of co-operations.

The federal instrument for the co-ordination of the territorial bodies is the Austrian Conference on Regional Planning (OROK) which is an organ of consultation that in principle depends on consensus. The OROK has elaborated the Regional Planning Concept 1991.

### 2. General orientation of regional policies

The regional planning concept 1991 provides a framework for orientation on a national level and deserves attention as a guideline for spatial development in relation to regional policy measures by the federal, Lander and local authorities. It takes the changed international overall situation into account and its consequences for regional development in Austria.

The targets aimed at are based on realistic expectations confined to what can be achieved within the given framework. For regional policies the goals are therefore based on actively preserving existing values and encouragement of structural change and measures strengthening economically disadvantaged regions, communities and persons.

### 3. Main problems and policy responses

In the field of regional economy the patterns have remained stable for quite a long period: Problems are the poor prospects for making a living in peripheral agricultural areas (mostly in the north and south-east of Austria) and the unfavorable development of the old industrial areas. The requirement to restructure the regional economies is enforced by the European integration and -- to a much higher extent -- by the opening of the eastern borders.

The concept contains a number of measures providing for information transfer to the regions, for sites capable of supporting the improvement of infrastructural facilities, for the selective and targeted implementation of promotional activities and better co-ordination of activities.

A particularly important problem is the development of the settlements and the loss of open space. The uneconomical use of space for building and traffic facilities, the excessive dedication of land for building, and the inelasticity of the land market, lead to consequences for nature and the environment, and for residential building policy (i.e. meeting the demand for a "first home" in the face of rising land prices and a lack of available sites) as well as for the public authorities (i.e. increased costs of infrastructure).

The Austrian Regional Planning concept proposes giving preference to forms of settlement economical in their use of space, better utilisation of building land, and limitations on the construction of second homes and holiday homes. The current legal instruments of regional planning should be employed more cogently, and linked with other measures (e.g. housing subsidies, business subsidies, expansion of public transport facilities) and tightened up as necessary.

#### **4. Major programmes**

Regional planning and regional policies are presently not related at the level of programs. The federal authorities and the Lander in general implement regional policy that is not based on regional development programmes. Starting from pure investment promotion, a series of instruments were created in the past years to promote endogenous development on the one hand, and regional innovation potential on the other. The successful Waldviertel Plan is exemplary. In the beginning of the 80s an overall programme was developed for regional development in view of the challenge of structural changes and the problems arising therefrom. The extraordinary thing about this programme was the fact that those involved, namely federal authorities and Lander, worked in institutionalised co-operation with one another from the planning to the implementation of the individual projects (for example health tourism).

The most important regional policy instrument is the "regional innovation premium: that was accorded between the Lander and the federal authorities. It is oriented towards a stimulation of restructuring in old industrialised areas and economic growth in peripheral regions. Among other issues product and process innovation are promoted. The financial aid consists of an investment premium covering not more than 10 per cent of the ascribed costs, in case of especially "valuable" projects (in terms of improving the regional structure) even up to 20 per cent. Furthermore a premium for the creation of jobs, that contribute to the improvement of the regional labour market of 10 per cent (but not more than AS 50 000) is provided. The promotion has the character of a "premium for valuable investments".

In addition to this a series of measures for the promotion of endogenous potential exist in the form of financial help, regional counselling and regional management. Regional technology policy is implemented mainly by the Lander and encompasses, in particular, the promotion of technology centers.

#### **5. Total budget for regional policies**

Regional policies consist of the promotion information and technology transfer and investment incentives. Only for the latter it is possible to provide data about a budget.

The actual value of all regional incentives provided by the federal state in the year amounted to 425 Mio AS. By that 129 projects with a total investment of 5 695 Mio AS have been promoted.

## **6. Future tendencies**

The Austrian integration into the EC provides new challenges for the regional policy. The planning of programs over years in co-operation with the Commission requires a functioning co-operation between federal authorities and the Lander. Subject of this co-operation will be mid-term programs with measures affecting different sectors and different levels (investments and investment incentives). The development policy measures within the framework of a common regional policy must also be harmonised with the preventive measures for land use at a national regional planning level.

In addition we are also faced with the need to co-ordinate concepts and strategies in regional development planning across borders such as for the area of Vienna - Bratislava, the future EC outer frontier. Furthermore, the problems of transit traffic and the protection of the Alps, which are a substantial part of Austria, is one of the main issues that have to be solved in co-operation between the European community, the federal state, the Lander and the local authorities (concerning their responsibility for physical planning).

## **BELGIUM (FLANDERS)**

### **1. Institutions in charge of the design and implementation of regional policies**

In Belgium, the regions are responsible for the regional economic policy.

The Flemish government and the Flemish minister for Economy are in charge of the design of the regional economic policy. The social partners are being consulted. Development programmes come about in partnership, i.e. after consultation of the local authorities.

The regional economic policy is implemented by:

- For the regional development programmes: the regional development agencies, in co-operation with the Flemish administration and the competent Flemish minister.

A special co-ordination team has been set up for the reconversion in the Province of Limburg.

- For the regional investment support to enterprises: the Flemish minister for Economy and his administration.

### **2. Main regional policy orientations**

- Promotion of the endogenous development capacity and attraction of new projects:
  - Efforts are concentrated on the strengthening of the applied industrial research and the co-operation between industry, education and research institutions.
  - Special attention is spent on the intensive guidance of SMEs with regard to the setting up and the development of applied research.
  - A great importance is also attached to the development of the research activities in co-operation with the existing research centres and the enterprises.
  - In addition to the development of the endogenous potential, efforts are made to attract investments from outside the region. Investment prospectors are permanently active in and outside Europe.
  - Special attention is paid to the promotion of the development zones as location for new projects.
- Promotion and support of labour-intensive investments by:
  - selective aid to investments in the framework of the economic expansion laws (financial and fiscal incentives);

- a specific policy concerning public investments, taking into account the needs of the development areas with regard to infrastructure and spatial planning, tourism and recreation, environment, housing, ...;
- export promoting initiatives, mainly concentrated on SMEs;
- support and assistance to starting and developing SMEs, a.o. in the field of management, technology transfer, access to the capital market and the creation of industrial sites.
- better education and training: in order to match job-seekers and vacancies, the following measures are being taken:
  - permanent evaluation of the training programmes;
  - sensitization of study and careers advisers;
  - examination of the co-operation possibilities between training institutions;
  - expansion of the vocational training infrastructure;
  - widening of the training supply, mainly addressed to particular target groups (e.g. migrants and low-skilled persons) and anticipating the demand of the companies (training in new technologies).

Besides, additional incentives are given to the self-employed by strengthening the training supply (expansion of management trainings and perfection training sessions) and by subsidising the necessary equipment in training centres.

### **3. Main policy issues in this field in 1993**

In 1993, special efforts were made by the Flemish government to pursue an adjusted regional policy, favourable to the creation of new employment:

- the economic incentives are being concentrated on durable and job creating investments;
- the development of the public infrastructure, with a particular attention for roads, waterways, ports, industrial sites and telecommunication networks;
- the promotion of scientific research.

There has been a shift of the financial means. Direct subsidies for companies have been reduced in favour of the public infrastructural works and industrial sites.

- Particular initiatives for the guidance of starting enterprises were set up for SMEs. Additional financial means were also put at the disposal of enterprises being forced to relocate industrial sites due to environmental reasons.
- An other priority in the policy towards SMEs are the profound efforts for simplification and uniformisation of administrative procedures.
- The continuation of development programmes being realised with the cofinancing of the European Community in the different eligible regions.

#### **4. Most important programmes, schemes and costs**

- Programmes 1992-93;
- Operational programmes for the Province of Limburg: total cost: 5 billion BF;
- Operational programmes for the Turnhout region: 1.5 billion BF;
- Operational Renaval programme: 0.5 billion BF;
- Operational agricultural reconversion programme: 1 billion BF;
- "Impulse" areas: 1.3 billion BF;
- Incentives scheme for companies (law of 30/12/1970); budget 1992-1993: 4 billion BF.

#### **5. Future policy trends**

During 1993-1994, post-evaluations of the various development and reconversion programmes will be carried out.

The consequences of the further reform of the European Structural Funds (definition of objective areas) and of any redefinition of the Flemish development areas will have to be taken into account to a large extent.

The results of these evaluations will make up the basis for a global revision of the regional policy to be pursued in Flanders during the years to come.

Stronger and weaker regions have to develop, not as each others competitors, but on the basis of a well-balanced co-operation. The development of this co-operation and the development of a strategic view for the regions are the two key principles for the Flemish regional policy. The elaboration of these strategic regional views have to fit in with the Flemish social-economic policy, which in turn fits in with the general social project "Flanders-Europe 2002" of the Flemish government.

## CANADA

### 1. Introduction

Canada has a land area of nearly 10 millions square kilometers, and a population of 29 million inhabitants (1993). Besides the low density, uneven geographic distribution of the population live in central Canada, consisting of the provinces of Quebec and Ontario; the four Atlantic provinces account for just over 8 per cent, and western Canada, together with the two northern Territories, account for the rest (about 29 per cent). There are also major differences between the regions as regards the level of urbanization.

The Canadian economy exhibits wide variety across provinces and regions -- in terms of: resource endowment, climatic conditions, levels of infrastructure, population size, proximity to markets -- both national and international, and capacity to attract industry and investment capital. Over time, these have translated themselves into significant and persistent interregional differences in income and employment opportunities. The underutilization of economic potential and the socio-economic deprivation resulting from it served as the substantive bases for regional development initiatives in Canada over the years.

Regional development policy in Canada has been evolving for some three decades. The initial impetus for a specific strategy in this regard came from the 1957-60 recession and the accompanying unemployment which not only emphasized the existence of interregional disparities in income levels and employment opportunities, but also helped generate an increasing awareness of the long-term persistence of regional imbalances and their serious economic, social and political implications.

In retrospect, the approach to the problems of regional development in the 1960s amounted to an attempt to deal with them on an ad hoc basis, in response to the strongest needs and pressures of the time. This led to the establishment of a variety of programs, each one dealing with a specific problem or set of problems, each one with somewhat different objectives, and each one administered by a different agency. The result was that effective coordination on an overall basis was difficult to achieve, and the regional disparity problem remained substantially intact.

On the other hand, the experience of the 1960s did help present the problem of regional disparities in a clearer perspective. The experience also stressed the need for a more coordinated set of special initiatives which would serve as effective complements to the broader national economic and social policies. The fundamental premise of such a policy thrust was that major structural changes in the economy and society of low-income areas and regions will be required if they were to realize their development capabilities and aspirations. Such changes can be brought about only by sustained efforts over a relatively long period of time -- perhaps 10-15 years or more.

Despite this attempt at a more coordinated strategy, the intended complementarity among the three program components fell short of the mark. Furthermore, the effectiveness of an administratively centralized approach to promoting regional development was coming under increasing scrutiny. As a result, regional development strategy in Canada through the bulk of the 1970s and early 1980s, though differed in actual program content as it evolved, reflected progressive degrees of decentralization (at both the federal and federal-provincial levels) in program implementation and, more significantly, a growing recognition that regional development is essentially a "horizontal" issue (affecting many sectors simultaneously), and that it needs to be addressed accordingly.

There was also growing recognition in the 1980s that, despite a variety of efforts over nearly a quarter-of-a-century, unacceptable levels and manifestations of regional disparity continued to exist in Canada. New approaches thus needed to be considered which reflected not only more effective and efficient use of resources, but also greater sensitivity to local conditions and development opportunities and aspirations. This meant not only more regionally "tailored" approaches, but also more active participation of the regional populations in the development process. This is the main thrust of current policy, formally launched in 1986-87.

## **2. Institutions Responsible for Regional Policy**

The present "tailored" ("differentiated") approach to regional development reflects the priorities and development objectives in broad regions, and it builds on the human and resource strengths of the regions. Four distinct federal organizations provide the structure for implementing the strategy. These are:

*Atlantic Canada Opportunities Agency (ACOA):* Created in 1987, ACOA provides a framework for coordinating the responsibilities of all federal departments and programs associated with economic and regional development in the four Atlantic provinces (Newfoundland, Prince Edward Island, Nova Scotia, and New Brunswick).

*Federal Office of Regional Development-Quebec (FORD-Q):* Established in June 1991, the objectives of this agency are to: define federal objectives pertaining to regional development in Quebec; negotiate and administer economic development agreements with the provincial government; and administer support programs for appropriate initiatives in each region of Quebec.

*Federal Economic Development initiative in Northern Ontario (FedNor):* This agency was established in July 1987. Working through the private sector in program design, administration and decision-making, FedNor's goal is to "encourage economic growth and diversification, job creation, and more income generation in Northern Ontario".

*Department of Western Economic Diversification (WD):* This agency was created in August 1987. Its mandate is "economic diversification" in the region, defined as: "a lessening of an economy's dependence on exports of traditional primary products". An important component of WD's mandate is "to coordinate federal economic development activity in western Canada and to advocate the interests of western Canada in national economic policy development".

In the implementation of their respective mandates, the four organizations operate with the assistance of their branch offices in the provinces, and in close cooperation with the provincial government agencies responsible for regional development and related issues in their respective jurisdictions.

## **3. General Orientation of Regional Development Policy**

As noted above, the present strategy represents a region-specific approach, reflecting the development priorities and objectives of each region, and building on the region's unique strengths.

In **Atlantic Canada**, this means that the region is treated as one broad unit, with emphasis on specific areas/sectors of opportunity wherever they present themselves. In **Quebec**, given the relative importance of resource sectors in certain parts of the province, the approach reflects a combination of disparity-driven and economic diversification objectives. The regional development issue in **Ontario** -- "Northern Ontario" -- is approached essentially through support for resource development, industrial diversification and promotion of tourism in a vast area with a widely dispersed population. The focus in **Western Canada** is on economic diversification, with program emphasis on promotion of new products, new markets and new technologies, with the objective of helping moderate the swings inherent in resource markets by stimulating the development of complementary economic activities.

Through appropriate support for economic diversification and structural adjustment, the overall objective of Canada's current approach to regional development is thus to facilitate a more organic and integrated process for realizing the development potential of all regions.

Specifically, the general orientation of **ACOA** is "to increase opportunity for economic development in Atlantic Canada and, in particular, to enhance the growth of earned incomes and employment opportunities in the region. This goal emphasizes *opportunities*, rather than *disparities*. It is premised on the tenet that the private sector can best generate long-term economic growth, and that the role of government is to provide a proper environment for entrepreneurs".

In Quebec, **FORD-Q** builds on the provisions of the "*Canada-Quebec Subsidiary Agreement on the Economic Development of the Regions of Quebec*", signed in June 1988. The purpose of the Agreement was to establish a program of activities which met the specific needs of the regions of Quebec, and a flexible and effective management and cooperative mechanism to implement it.

The main goal of **FedNor** is to encourage economic growth and diversification, job creation and income generation in Northern Ontario.

The "economic diversification" goal of **WD** consists of: helping traditional industries develop new products and new markets; encouraging the development of new industries to export or replace imports; providing assistance for new technologies which could lead to the growth of new industries or new products; and fostering productivity improvement, particularly industry-wide initiatives.

#### **4. Main Problems and Policy Response in 1993**

Continuing impact of the recession, though tempered by weak signals of recovery, combined with structural adjustments and employment losses in a variety of sectors, set the tone of economic activity in 1993. The repercussions of these were particularly felt in the traditional sectors, and in the regions where such sectors continued to be dominant. The policy response to deal with the situation thus consisted of special efforts under such programmes as unemployment assistance and human resource development, combined with continued activity by the four regional development organizations under their established programmes.

The overall economic performance of most regions continued to be modest in 1993, with the level of activity weaker in traditionally disadvantaged parts of the country than in the others. Unemployment rates remain at high levels. Also, as the following data show, the pattern of interregional differential in this regard showed little change in recent years.

### Unemployment Rates (%) Canada and Provinces, 1990-93

PROVINCE	1990	1991	1992	1993
<i>Atlantic Region</i>				
Newfoundland	17.1	18.4	20.2	20.1
Prince Edward Island	14.9	16.8	17.7	17.8
Nova Scotia	10.5	12.0	13.1	14.5
New Brunswick	12.1	12.7	12.8	13.1
<i>Central Canada</i>				
Quebec	10.1	11.9	12.8	13.1
Ontario	6.3	9.6	10.8	10.6
<i>Western Region</i>				
Manitoba	7.2	8.8	9.6	9.3
Saskatchewan	7.0	7.4	8.2	8.2
Alberta	7.0	8.2	9.5	9.6
British Columbia	8.3	9.9	10.4	9.7
<b>CANADA</b>	8.1	10.3	11.3	11.2

Within the regions: in the Atlantic region, long-term structural problems continued to occupy the centre of attention, particularly as a result of rationalization in such traditional sectors as fishery and mining. In Quebec, the overall climate of financial constraint affecting federal government spending has translated itself into smaller budgets, and thus to more restricted FORD-Q programming, involving more selectivity in project activity and scaling down of level of assistance per project. The comparatively more modest-scale project activity, with focus on the resource sectors, remained the main thrust of FedNor in Northern Ontario. In Western Canada, unemployment rates, while lower than the national average, continued to be a matter of concern. WD's policy responses in the year included identification of cooperative ventures (e.g., with provincial governments, communities, industry and labour associations, and research institutes), and added focus on support for SMEs.

Overall, the critical regional policy issue in 1993 was the need to respond to continuing regional disparity and structural adjustment concerns in an environment of growing budgetary constraints.

## 5. Major Programmes

The programming focus of the four federal regional development agencies continued as in previous years.

ACOA's key initiatives are the **Action Program**, under which direct financial support is offered to SME's, and the **Cooperation Program**, which is the primary vehicle for joint federal-provincial undertakings for improving the environment for economic growth in Atlantic Canada.

In Quebec, in the industrial Central Regions, FORD-Q focuses on manufacturing productivity, regional employment creation, revitalization of disadvantaged areas, and technological research and development. In the northern and eastern Resource Regions, the agency's initiatives promote business development, strengthening of economic infrastructure, development of natural resources, human resources, and research and technology.

In Northern Ontario, the emphasis in FedNor programming is on stimulating new business investment activity and on resource development, with the objective of diversifying the economic base of the region.

In Western Canada, the WD thrust consists of two substantive elements: the **Western Diversification Programme**, which is designed to encourage the development of new products, new technology, new markets and industry-wide productivity improvements in an attempt to moderate the cyclical nature of the region's resource-dependent economy. The second is **Partnership Agreements**, which are federal-provincial cost-shared initiatives for activity in sectors of mutual interest.

## 6. Budget for Regional Development

There is a large number and wide variety of programs which impact on regional development. The federal government's expenditures specifically directed to promoting regional development have been modest, and they have been generally associated with a more narrowly defined set of programs and policies. These programmes typically involved a combination of federally delivered business assistance programs and cost-shared initiatives under long-term federal-provincial regional development agreements. They presently include the activities of the four federal regional development agencies and other federal departments, in cooperation with the provinces, under the joint federal-provincial mechanisms.

Federal regional development expenditures averaged annually about \$300 million in the first three years of DREE (1969-72). Nearly a decade later, regional development funding averaged some \$560 million annually, in the 1979-84 period. In the next five years, spending increased from \$600 million in 1984-85 to \$1.3 billion in 1988-89, the first full year of the current policy and programming launched in 1986-87. Federal regional development expenditures over the 1988-89 to 1993-94 period were projected (in 1989) at \$5.6 billion. At that time, on a year-to-year basis, following a peak of \$1.4 billion in 1989-90, annual regional development funding was expected to stabilize at around the \$1.1 billion mark.

Deteriorating economic circumstances following the 1990-91 recession, and the budgetary constraints flowing from it, as well as the concern over the level and rapid growth of the national debt, have come to have a major impact on all program activity, including federal regional development initiatives in all regions. There have been, for example, expenditure reductions introduced in the Government's **Economic Statement (December 1992)**, followed by additional cuts in the Federal Budget (April 1993); the combined effect of these has been to put federal budgetary resources for regional development programming in 1993-94 (for all regions collectively) at about \$700 million.

## 7. Policy Directions for the Future

There has been a change in Government in Canada in 1993: the Liberal Party was declared the winner in the federal election held on October 25, 1993.

The Liberal Party's pre-election analysis of major issues facing Canada noted that: "Many current industrial assistance and regional development programs are still geared to encouraging large corporations to establish production facilities across the country, with little thought given to their appropriateness to the local economy. A reliance on **granterpreneurship**, as opposed to entrepreneurship, has fostered artificial local competition and created distortions in local markets". "...Concerted action and modernization of resources are necessary to achieve strong regional economies in this age of international competition and change. One of the most important ways of making this happen is to develop forums for economic cooperation, joint action, and integrated development on the regional level". Toward this, there needs to be close cooperation between the federal and provincial governments in the formulation of regional development policy. The focus of the efforts will be on: "infrastructure, commercial application of research and development through local institutions, and aid to small business".

The place of these issues and their relative importance in the new Government's policy agenda were further elaborated in the Speech from the Throne, which opened the first session of the new Parliament on January 17, 1994. The following were among the new initiatives proposed:

- to stimulate economic activity in the short term, a joint federal-provincial-municipal infrastructure program will proceed immediately;
- for longer term job creation, the focus will be on small and medium-sized enterprises; a **Canada Investment Fund** will be created to help innovative leading-edge technology firms to obtain the long-term capital they need; to strengthen research and development, the Government will encourage technology partnerships between Canadian universities, research institutions and the private sector;
- continue to work with the provincial governments to eliminate internal barriers to trade;
- joint initiatives with provincial governments and the private sector to improve job training and literacy skills;
- the first budget of the new Government (in February 1994) will include measures to bring the federal debt and deficit under control in a manner compatible with employment creation and sustained economic growth.

All these initiatives have important implications for regional development, some more direct and immediate than others. For example, in the strategy for managing the infrastructure program, while the lead responsibility for the program itself rests with the Infrastructure Minister, the responsibility for its implementation rests with the Regional Economic Development Ministers.

To sum up: budgetary constraints on regional development programming are likely to be with us for some time yet. While this tends to limit programming flexibility in one direction, it presents opportunities for innovative and more focused action in others. All four federal regional development organizations have already begun to move in this direction.

## FEDERAL SPENDING

1992-93  
(millions of dollars)

### *Regional Agencies (\*)*

#### **Atlantic Canada Opportunities Agency (ACOA)**

Transfer payments	224.9
Operations:	
Program and administration	42.0
Capital	1.5
Enterprise Cape Breton	<u>10.1</u>
Total ACOA	278.4

#### **Federal Office of Regional Development-Québec(FORD-Q)**

Transfer payments	148.0
Operations:	
Program and administration	20.9
Capital	<u>2.1</u>
Total FORD-Q	171.0

#### **Western Economic Diversification Office (WED)**

Transfer payments	166.3
Operations:	
Programs and administration	30.0
Capital	<u>0.6</u>
Total WED	196.9

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Total Regional Agencies	646.3
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(\*) Federal Economic Development  
initiative in Northern Ontario  
(FedNor) not included

Total FedNor amounts annually  
over 10.0 million dollars

## DENMARK

### 1. Institutions in charge of the design and implementation of regional policies

Ministry of Industry  
Slotshomsgade 12  
DK - 1216 Copenhagen K

Danish Agency for Development of Trade and Industry  
Sendergade 25  
DK - 8600 Silkeborg

### 2. Regional policies main orientations

In recent years, Danish regional policy has been conducted in harmony with the EU Fund for Regional Development (FEDER) which means that the majority of the funds allocated for regional purposes on the Budget have been reserved for the joint financing of programmes which are partly FEDER financed.

The original political objective of granting regional aid was to achieve increased growth in the designated areas. Through this positive discrimination the objective was to achieve a higher growth rate in these areas in order that they would gradually become financial equal to the rest of the society.

With the business promotion act which entered into force on 1 January 1991 more importance was attached to promoting growth in the entire society. In a period when the entire society was suffering from increased unemployment etc., it was considered important to promote economic growth in all regions with an unexploited growth potential.

At the present time major governmental investments are being made in Denmark, e.g., the link across the Great Belt, energy supply, telecommunications. These investments all have considerable effects on regional policy, but are not regarded as regional policy as such.

### 3. Main policy issues in this field in 1993

The emphasis within the national regional policy is still closely linked to the FEDER-initiatives.

However, Danish regional policy is to be expected to be concentrated on the areas within objectives 2 and 5b that have been designated in co-operation with the European Commission.

Furthermore, the Danish government has decided that in future the government is to endeavour to further the co-ordination of the initiatives within the development of trade and industry taken by the municipalities.

Denmark has a total of 275 municipalities which are responsible for such initiatives at local level.

The government is encouraging the municipalities to co-operate around the preparation of regional development programmes with a view to strengthening the region and creating increased cohesion and efficiency.

#### **4. Most important programmes and schemes and their cost**

*Renaval Northern Jutland (1990-93)* ECU 38 million distributed with ECU 6 million for infrastructure, ECU 7 million for development projects and ECU 25 million for private capital investments.

*Objective 2 - Northern Jutland (1989-91)* DKK 53,800 million of which DKK 16,8 million relate to social fund projects. The regional fund projects are distributed with DKK 16,5 million for private capital investments, DKK 6,9 million for development projects and DKK 13,2 million for infrastructure.

*Objective 5b* supports measures on 33 islands, namely Bornholm, Mor, Samsø, Læsø, Aero, Langeland and 27 small islands. DKK 70 million have been allocated to these islands for the period 1990-93. The funds are distributed on investments in SMV and tourism DKK 25,2 million, infrastructure DKK 36 450 000 and advisory and consultancy support DKK 8,21 million.

*Renaval Western Lolland (1990-93)* ECU 4 million distributed with ECU 1,5 million for infrastructure. ECU 580 000 for advisory services, ECU 550 000 for joint service functions, ECU 430 000 for renewal of technology and products, ECU 340 000 for sector analyses and ECU 690 000 for investment support.

*Objective 2 - Western Lolland (1989-91)* ECU 1,3 million distributed with ECU 200 000 for productive investments, ECU 700 000 for advice and ECU 400 000 for the improvement of physical surroundings.

*Objective 2 - Western Lolland (1992-93)* ECU 1,12 million distributed with ECU 190 000 for productive investments, ECU 890 000 for advisory services and ECU 40 000 for technical advice.

#### **5. Regional Policy Budget**

The Danish Budget has allocated DKK 30 million for purposes directly involved with regional policy.

#### **6. Future Policy Trends**

In the years from 1994 until the turn of the millennium, Danish regional policy will continue to be closely linked with the EU Fund for Regional Development.

However, it is to be expected that Denmark will try to win approval of other and larger areas than the existing ones as eligible for support under the regional fund. Measured in money terms the main objective of the national effort within regional policy will still be to place such funds at disposal as they are necessary to match the grants from the regional fund.

In addition, the Danish government will make financial contributions to the preparation and implementation of the regional development programmes. The scope of the governmental support has not yet been established.

## **FINLAND**

### **1. Institutions in charge of the design and implementation of regional policies in Finland**

The ministry in charge of coordinating regional development programs and planning is the Ministry of the Interior. It is responsible for determining the regions eligible for regional aid and coordination of development measures of other branches of government.

The Ministry of Trade and Industry is responsible for regional state aid to the enterprises in the form of grants for investments and R&D.

Kera Oy, which is a state-owned financial institution under the supervision of the Ministry of Trade and Industry grants loans with subsidised interest rates to enterprises. It also has a venture-capital subsidiary.

The Ministry of Labour has also certain programs with regional elements for reducing unemployment and vocational training. As the unemployment rate has increased in the last three years, the role of the labour authorities has grown.

The Ministry of Agriculture and Forestry has programs for developing rural SME enterprises and easing the conversion of rural areas from agriculture-based economies to more diversified types of activity.

Even the policy of higher education has some regional aspects. New universities have been established in different parts of the country to promote the development of the surrounding regions. The cooperation between the universities and business has become an important part of regional development. The Ministry of Education is in charge of these developments.

### **2. Regional policies main orientations**

The orientation of the regional policies has been changed from being exclusively a support system for the backward regions towards promoting independent development in all parts of the country.

### **3. Main policy issues in this field in 1993**

The whole regional policy debate in 1993 has been characterised by the importance of full-scale revision of the regional policy legislation. The new legislation which had been under discussion for several years came into force 1st of January 1994. The main aspects are the introduction of program-based regional development EEC-style and the transfer of coordination responsibility on the regional level from the State Provincial Offices to the Regional Councils formed by the municipalities.

#### 4. Most important programmes and schemes and their cost

##### *THE DEVELOPMENT OF MAIN REGIONAL POLICY FUNDING IN 1992-1993*

	1992 final budget, million FIM	1993 final budget, million FIM
<b>Yearly Financing Limits:</b>		
Regional aid to business	475	388
New loans of KERA Ltd carrying state interest subsidy	880	1 900
Government subsidy for investements promoting employment	265	223
Financial aid for promoting rural small business	80	80
Loans carrying state interest subsidy for promoting rural industries	750	700
Small business aid	70	70
<b>State Budget Appropriations:</b>		
Employment appropriations for public works KERA Ltd. (enterprise financing and development)	430	511
Regional transport subsidy	155	250
Appropriations for the development of small and medium size enterprises	53	59
Provincial development funding	40	35
Promotion of domestic trade	17	14
Interest subsidy for industrial investments of SME's	-	15

The intention in 1993 was to target funding to develop regional production structures to promote competitiveness of businesses. One of the main starting points for the budget was to secure the financing for projects that improve competitiveness of SME's in different parts of the country.

## **5. Regional Policy Budget**

The appropriations in the state budget, that can be described as regional development funds are approximately FIM 3 bn in 1993. This includes the regional project funds, the regional aid to enterprises, the regionally directed parts of public infrastructure investments and employment-based funds and the subsidies for maintenance of services and transports in the rural areas.

## **6. Future Policy Trends**

The main trend in Finnish regional policy in the near future will be directed towards the new legislation and the adaptation of existing procedures to the needs of European integration. Furthermore the responsibility for regional development will be further transferred to the Regional Councils (inter-municipal authorities) from the Provincial State Offices.

The goal in switching to program-based regional policy is to involve all the relevant parties including those in the private sector in formulating the regional development programs.

## GERMANY

### **1. Institutions in charge of the design and implementation of regional policies**

As a consequence of the federal structure of Germany, responsibilities for regional policies are shared by the Federal Government and laender governments. The primary responsibility is with the 16 laender. However, for OECD purposes it will not be possible to deal with different assistance schemes of all the laender. The following remarks will be limited to the main instrument of regional policy which is the so-called "Joint Scheme" (Gemeinschaftsaufgabe). Within this scheme the financing of and the decision making on programmes is divided equally between the Federal Government and the laender. There is a Planning Committee which is responsible for the approval of programmes and of assistance and financing modalities, and the Federal Government has the same number of votes on this Committee as all of the laender taken together. Implementation of programmes and the approval of projects within the Joint Scheme is the exclusive responsibility of the laender. They decide on the basis of agreed rules and regulations whether assistance is to be given to an individual project and to what extent.

### **2. Regional policies main orientations**

#### **2.1. Objectives**

Regional policy in the Federal Republic (Regional Strukturpolitik) is part of national economic policy and, as expressed in the annual Framework Plan (Rahmenplan), has three main objectives. First, it aims to mobilise the growth potential of the structurally weak regions in order to improve their contribution to national economic growth in terms of net additional output. Second, regional policy has a "stabilisation" function which is intended to reduce the susceptibility of the problem regions to fluctuations in the economy and structural changes, particularly through the removal of industrial mono-structures. Third, the aim of policy is to reduce inter-regional disparities in relation to the potential for income generation and (to a certain extent) the provision of public and private services; regional policy thereby contributes to the equalisation of living conditions throughout the Federal Republic. This Function is based on the Basic Law of the Federal republic (Grundgesetz).

#### **2.2 Strategy**

Regional policy is considered to be a medium-term to long-term strategy involving the removal of obstacles to regional development and structural change. The nature of the strategy is to provide "favourable conditions" for private investment and to provide assistance for economically-relevant infrastructure. In other words, regional policy is not meant to be short-term intervention but long-term improvement of the regional economic environment in order for market forces to operate efficiently. Regional aid is expected to be an incentive for investment by private firms, not a permanent subsidy. In order to increase income and employment levels in the problem regions. Assistance is limited to investment projects.

### 3. Main policy issues in 1993

#### 3.1 Eastern Germany

Within the "Joint Scheme", much importance continues to be attached to the restructuring of the Eastern laender. They are among the weakest regions of the European Community and, therefore, receive the major part of the funds including assistance from the EC Structural Funds (see below). Also, rates of award are the highest in Eastern Germany: up to 35 per cent for private investment. All areas in Eastern Germany including the Eastern part of Berlin are eligible for promotion.

#### 3.2 Western Germany

In Western Germany, the geographical coverage of areas will, again be reduced. Since 1 January 1994, it is limited to 22 per cent of the population after some 30 per cent in 1993. The regions eligible in the future were chosen on the basis of weighted indicators. The most important indicators are

- unemployment rates;
- gross wages and salaries.

The weight of these two indicators is 40 per cent each. The other indicators with a weight of 10 per cent each relate to infrastructure and future labour market prospects. It should be noted that the Joint Scheme covers rural areas as well as areas where industrial restructuring is needed.

### 4. Programmes and budgets

1993 appropriations for the Joint Scheme Regular Programmes amount to (millions DM):

Schleswig-Holstein	78,4
Niedersachsen	176,4
Bremen	27,3
Norderhin-Westfalen	226,1
Hessen	15,4
Rheinland-Pfalz	44,8
Saarland	43,4
Bayern	88,2
Baden-Wuerttemberg	---
Mecklenburg-Vorpommern	1 059,1
Brandenburg	1 432,9
Sachsen-Anhalt	1 602,0
Thuringen	2 652,2
Sachsen	1 459,6
Berlin	694,2
Total	9 600,0

In addition to the regular programmes, three special programmes are financed from 1993 budgets:

- Special Programme for regions affected by sectoral problems of steel and coal industries (200 m);
- Special Programme for coal mining areas (100 m);
- Special Programme in the region of Wilhelmshaven (12 m).

## **5. Future policy trends**

In order to meet the requirements in Eastern Germany the financial volume of the regional policy programmes in the new laender will have to be maintained at a high level during the years to come. Given budgetary constraints clear priorities will be established in Eastern as well as in Western Germany. Such priorities are needed with respect to the geographical scope while at the same time assistance should be concentrated on the most efficient and effective measures. In Eastern Germany the EC-Structural Funds will play a more important role since the new laender including East Berlin become Objective 1 regions 1 January 1994.

## **GREECE**

### **1. Institutions in charge of the design and implementation of regional policies**

#### ***1.1. Regional Administration***

In 1986 thirteen regional administrations were created in Greece. Their main task is to coordinate planning and implementation of plans in their regions. Each contains 3-5 nomoses (departments) and is headed by a Secretary General appointed by the Ministry of Interior. The Secretariats are made of regional services (offices) of Ministries. Thirteen Regional Councils were also created made out of representatives of collective interests and of the presidents of Local Authority Associations of the nomoses. These regional bodies will acquire extensive powers in the near future.

The immediately lower level regional administration is the nomos, which is to become a second degree local government at next local authority elections.

Furthermore the number of local authorities will be reduced from 6,200 to around 800 by the implementation of a physical plan of creating "open towns" or settlement constellations around a town of proper size and development dynamism. These new local authorities will be assigned with increased responsibilities and will acquire new local fund raising powers in addition to the increased budgets to be allocated to them by the State.

#### ***1.2. Regional planning and policy making***

Development planning and policy making responsibilities for the overall, the intersectoral and interregional development were entrusted by a law decree to the Ministry of National Economy in 1976.

The Ministry is accomplishing the task through the central and regional agencies and through an institutionalised process of horizontal (among sectoral interests) and vertical (among the national, regional, nomos, local level) up-down and bottom-up collaboration.

The Ministry of National Economy is the main development policy making body (incentives policy for Sectors and regions, development policies stemming from Community regulations, etc.) and the only body responsible for public investment budget programming (yearly budgets) and national-regional accounting.

## **2. Regional policies main orientations**

The main orientations of policies in 1993, year of elaboration of the Regional Development Plan 1994-1999, which is partly funded by the Community (Community Support Framework of Target 1 of the new Structure Funds policies) could be summarised as follows:

- to complete and make operational the transportation, energy (natural gas), telecommunication and service (health, education, etc) infrastructure networks within the greek territory. Special effort to be given to facing the problem of geographical and geopolitical isolation of the Country *vis à vis* the integrated transeuropean transportation network;
- to reduce regional disparities mainly through utilisation of comparative advantages and increase of the competitive position of regions and local communities and of the whole country;
- to provide for structural ameliorations in industry and tourism, mobilisation of human resources at the firm level, amelioration of the human capital, enhancement of innovation;
- to improve the quality of life and of the environment in large urban agglomerations and touristic places.

## **3. Main policy issues in this field in 1993**

The main policy issues in 1993 and in 1994 are mostly related to the creation of the proper institutional framework and to action taken for the achievement of the above general orientations.

Towards this direction structural measures and new laws have been elaborated on the development of tourism, on incentives policies, on physical and environmental planning and on control and implementation of plans, on special programme regions (islands, border regions), on public finances, on public and regional administration, etc.

The creation of Industrial and Science Parks and the enhancement of innovation and of its connection with the productive activity, the increase of funds for technical assistance and its use in programmes of amelioration of conditions and functioning of both the private and public sector of the economy are some of the specific measures promoted.

The main north-south and east-west transportation axes and the development of the main sea, air, rail and road gates of the country are top priority issues, as are the major social infrastructure works (health, welfare, education, culture, athletics), the major public utility networks and the treatment of water supply problems in some regions.

The cost of programmes and schemes are on the way to be fixed now by Ministries and regions under the coordination of the Ministry of National Economy, which is responsible for macroeconomic estimations and for the cohesion programme required by the Maastricht Treaty.

#### 4. Regional policy budget

The following table gives allocation in sectors of funds of the Regional Development Plan 1994-1999, including national part, regional part, cohesion fund and total.

Million Ecu ('94)

Sectors	National Part	Regional Part	Cohesion Fund	Total
Transportation	4 383	2 195	1 898	8 476
Telecommunications	89			89
Environment	3 553	256	1 310	5 118
Health/Insurance	610	443		1 053
Culture/Athletics	440	199		638
Human Resources/Public Administration	3 830	1 160		4 889
Primary	2 635	1064		3 699
Secondary	4 879	1 124		6 004
Research/Technology	532	21		593
Tourism	149	979		1 128
Technical Assistance	71			71
Stock capital	532			532
<b>Total</b>	<b>21 703</b>	<b>7 440</b>	<b>3 208</b>	<b>32 351</b>

\* Additional funds from stock capital (last row)

#### 5. Future policy trends

The following are major policy objectives for the future:

- completion of the technological infrastructure and assurance of its proper functioning;
- upgrading of the quality of life in urban regions, facing the serious problems of the urban environments and the shortage in water supply;
- facing social welfare problems, fighting unemployment;
- promotion of the competitive position of the country; of the sectors (especially industry and tourism) and the regions, within the range of their development potentialities and comparative advantages. Increase of productivity, promotion of innovation, creation of linkages between universities and activities, amelioration of the human capital, modernisation;
- continuation and intensification of historic relations with East Mediterranean, Balkan and Central-East European countries and development of relations between interborder regions for harmonisation of development efforts, collaboration in matters of infrastructure networks, environmental protection, R&D, export-import, business and investment;
- implementation of a strict cohesion programme, as required by the Maastricht Treaty.

## ITALY

### 1. Institutions implementing regional policies

Through a series of provisions, introduced in late 1992 and completed in 1993, Italy brought to an end 40 years of special measures for the Mezzogiorno, transforming them into "ordinary" measures, institutional responsibility for which may now be summarised as follows:

- The functions of the Ministry for the Mezzogiorno have been assigned to the Ministry of the Budget, together with responsibility for the co-ordination, programming and monitoring of all regional measures.
- Responsibility for implementing what are now termed "ordinary" measures has been assigned not only to the various regions and other local authorities, in accordance with their respective areas of competence, but also to Ministries. Among the latter, a more significant role has been assigned to the Ministry for Industry, which has now been given powers in respect of allocating industrial grants; to the Ministry of Labour, which has been made responsible for youth employment grants; to the Ministry for Scientific Research, to establish new research centres; and to the Ministry of Public Works, for future infrastructure projects.

### 2. Main new lines of action

The new lines of action may be summarised as follows:

- extension of the territorial framework concerned, formerly confined to the Mezzogiorno, to cover depressed industrial areas and underdeveloped upland farming areas elsewhere in Italy;
- establishment of a close link with the EC organic framework in determining the intervention areas and co-ordinating and implementing action and aid measures;
- formulation of a new industrial incentive scheme applying the EC "Net Subsidy Equivalent" calculation formula, and implementation of measures designed to ensure the most efficient use of public money, as well as transparency in the criteria for choosing beneficiaries and in allocating funds to industrialists.

### 3. Results of the innovations introduced in 1993

For a variety of reasons it is as yet too soon to provide any hard data: in 1994, the competent agencies will be able to provide data for the previous year; innovations are too recent; the government has had to concentrate on identifying the most appropriate transitional solutions for the switch from the old system to the new; intervention areas in central northern Italy have yet to be determined, since agreements with the EC in respect of those areas are still under discussion.

It can already be anticipated that as a result of the innovations measures will be programmed and implemented more rapidly, especially during the closing months of the year.

As regards accentuating or reducing disparities between the different regions over the year, no reliable figures are available yet, but the disparities will probably remain, in the best of cases, at the same levels as in 1992. This also reflects the recession now affecting Italy, like other highly developed countries worldwide.

#### **4. The most significant intervention programmes for 1993**

Pending the definition and implementation of organic regional policy in central northern Italy, scheduled for 1994, measures for the Mezzogiorno pursued in 1993 focused essentially on incentives for industrial projects and on building up infrastructures.

AGENSUD, though due to be abolished, was given provisional responsibility for both industrial incentives and infrastructure projects for the whole of 1993; this made for prompt selection of initiatives deserving government backing and infrastructure projects qualifying for public financial support.

#### **5. Resources for regional policies in 1993**

Appropriations amounting to L146 439 billion were allocated for Mezzogiorno measures during 1993, of which L107 275 billion were assigned to AGENSUD.

Of the latter sum, by 31 July some L90 000 billion had been committed and L42 224.9 billion disbursed.

#### **6. Future thrust of regional measures in Italy**

The EC countries are still negotiating an organic, six-year framework for measures which will cover Italy's depressed Centre North areas. Pending the conclusion of those negotiations, in October 1993 the Italian government introduced a comprehensive regional development plan for the Mezzogiorno, establishing development strategies for each of its regions over the period 1994-1999.

From the financial standpoint, the plan provides for overall expenditure of Ecu 41,048 billion, of which Ecu 12,743 billion will be funded by the private sector and Ecu 28,305 billion by the public sector, which should receive EC support of some L17 billion over the period.

As regards the specific measures to be implemented, priority has been given to measures forming part of the industrial support plan and to pan-regional and regional infrastructure projects.

## NORWAY

### 1. Institutions responsible for regional policies

The responsibility for regional policies within the Norwegian Government is divided between two ministries:

- The Ministry of Environment has the responsibility for regional planning and the use of natural resources, especially the use of land.
- The Ministry of Local Government and Labour has the responsibility for regional development policies, including economic measures to promote such development.

This brief will mostly deal with policies and measures in connection with regional development, through the latter ministry.

For a more detailed description of this field of governmental policy, we refer to the Norwegian contribution to recent changes in regional policy 1991-93.

The implementation of regional industrial development policies are conducted through various bodies:

- The Norwegian Industrial and Regional Development Fund (SND) handles investment incentives to private firms within the target area, the form of loans, grants and guarantees, in addition to specific R&D programmes. Within the framework of the SND, the county-municipalities have delegated responsibility for smaller investment and development projects in private enterprises.
- The county-municipalities have delegated responsibility from The Ministry of Local government and Labour for the support of local infrastructure and local employment initiatives.
- The municipalities within the target area for regional development policy received annually local development funds to support minor business projects and local employment initiatives in addition to industrial planning activities.

### 2. Main orientations of regional policy

The overriding aim for the Government's regional policy is to provide equal living conditions in all parts of the country, including the accessibility to labour markets, private service markets, education and other public welfare-services. For the urban areas this means that the state's main object is to make such areas function as education -- R&D -- and communication centres for the nation as a whole. For the peripheral areas the primary object is to maintain the main patterns of settlement through a wide variety of economic measures, mainly directed at private enterprises, infrastructure and local employment initiatives.

The peripheral areas constitute the target area for specific regional development measures, as mentioned above. The target area cover about 32 per cent of the population, and is currently under revision. It is divided into different zones, where Northern Norway in general has a higher support priority than those parts of Southern Norway which are included into the target area.

### 3. Main policy issues in 1993

The objects of regional policy mentioned above were introduced in a White Paper presented to the Storting (the Norwegian parliament) in march 1993. To some extent this meant an extension of regional policy, since the development and functions of larger cities and urban areas were encompassed into the same regional framework as the intermediate and peripheral areas. Up to now, regional development has been totally oriented towards the peripheral and also economically weaker regions.

This change in regional policy is a response to the increasing unemployment in central areas together with specific problems in connection with the restructuring of central industrial areas in decline.

The establishment of the Norwegian Industrial and Regional Development Fund (the SND) has been another big regional policy issue in 1993. The new fund is based on the activities of four state banks and funds, among them the Regional Development Fund which has been the main instrument in implementing regional development policy.

The periodically revision of target area for the use of economic incentives were done in the fall of 1993. On the basis of geographic, demographic and economic indicators, the new target area were implemented from the beginning of 1994. In the analysis, the highest priority were given to the degree of centrality and population density of municipalities.

The target area for investment and development grants to private enterprises were reduced from 32 per cent of the total population to 25 per cent. 69 municipalities in the Southern part of Norway, mostly along the coast, were taken out of this target area, which now consists of 253 municipalities. The target area for regional R&D -- programmes, support of local infrastructure and employment initiatives covers the area mentioned above, and in addition 49 municipalities at the fringe of the area eligible for investment grants. In total, 20 municipalities were completely cut out of the target area.

### 4. Most important programs and schemes and their costs in 1993

The listed programmes and schemes are based on figures from 1993, and refers to the main measures used within the regional target area. The changes in regional policy described above will followed up with economic measures from 1994.

(All figures in million Norwegian kroner)

1. Grants to private business for investment and development projects	1 060 NOK
2. Investment loans and guarantees	1 345 NOK
3. Regional differentiation of employers social security tax	2 600 NOK
4. R&D -- programmes directed at groups of private enterprises and at regional R&D infrastructure	183 NOK
5. Local infrastructure & local employment initiatives, municipal development funds included	448 NOK

Points 4 and 5 above include several specific time-limited programmes of significant importance. The costs in 1993 for the major programmes are listed below:

-- Technology transfer from national R&D	
-- institutions	11 mill. NOK
-- Regional R&D-programmes for regional institutions	23 mill. NOK
-- Innovation and export programmes in North-Norway	13 mill. NOK
-- Technology transfer to small enterprises	7 mill. NOK
-- Intermunicipal industrial co-operation programme	8 mill. NOK
-- Employment programme for women in peripheral areas	15 mill. NOK
-- Innovation programme for environmental products	15 mill. NOK
-- Mobility programme for post graduate candidates to SMB	8 mill. NOK

## 5. Regional policy budget 1993

Points 1 (grants to private enterprises), 4 (R&D-programmes) and 5 (local infrastructure etc.) in the paragraph above are the three main chapters in the annual State budget concerning regional development policies. The budget for regional development policy in 1994 is as follows:

Chap. 2425	Investment & development grants, including rent subsidies and acceptable losses on former and future risk-loans	1 067 mill. NOK
Chap. 550	Local infrastructure and employment initiatives	467 mill. NOK
Chap. 552	Regional R&D initiatives	155 mill. NOK
Chap. 553	Regional pilot projects	15 mill. NOK
In total		1 704 mill. NOK

Several sector policies, especially agriculture, fisheries, education, transport, and communications in addition to general transfers to the municipalities have build in regional priorities and also special schemes and measures in their national policies. It is however impossible to deduce even approximate regional costs of these priorities.

## 6. Future policy trends

The abovementioned White Paper somewhat extends the regional policy in the sense that more urban areas will be more explicitly included in their regional analysis revealing regional problems. This has lead to two minor changes in the incentive system: SME's in all parts of the country will be eligible for investment support, and regions suffering from industrial decline in central parts of the country can get governmental aid in their restructuring processes. Up to now these incentives have been used to the advantage of peripheral areas only.

At the same time there is also strong emphasis on continuity, in the sense that the main developmental efforts and economic measures will be used within a target area dominated by the peripheral regions, to compensate for long distances to markets and low population density. The Norwegian tradition for decentralisation will continue, but with stronger emphasis on creating functional regions from both county and municipal levels of policy implementation.

## PORTUGAL

### 1. Entities directly involved in defining and implementing regional development policy in Portugal

The *Ministry of Planning and Territorial Administration (MPAT)* is in charge of implementing regional development policy in Portugal.

Within the MPAT, the *Secretariat of State for Planning and Regional Development (SEPDR)* is responsible for preparing the Regional Development Plan, in line with the major Plan options.

The *Directorate-General for Regional Development (DGDR)* is in charge of researching and promoting regional development policy, co-ordinating projects underwritten by Community structural Funds and preparing and supervising schemes co-financed by the European Regional Development Fund.

The central government's *Regional Co-ordination Commissions (CCRs)* for the North, Centre, Lisbon & Vale do Tejo, Alentejo and Algarve regions, headquartered respectively in Oporto, Coimbra, Lisbon, Evora and Faro, belong to the MPAT and, among other functions, co-ordinate and carry out regional development activities and undertake projects to ensure co-operation and dialogue between local and central government.

In the Autonomous Regions of the Azores and Madeira, regional development policy is determined and implemented by the respective regional governments.

The Regional Development Plan (PDR), which is heavily subsidised by the EEC structural Funds constituting the Community Support Framework, is implemented by two cross-functional committees:

- an *Administrative Committee*, chaired by the Directorate-General for Regional Development and composed of national entities in charge of administering structural Funds; the Committee is required to co-ordinate all aspects of the Plan's execution;
- a *Supervisory Committee*, chaired by the Directorate-General for Regional Development and composed of Administrative Committee members, representatives of government departments with operational responsibility, regional and local government representatives and representatives of the Commission of the European Communities; the Committee is responsible for the Plan's supervision (including the approval of proposed changes) and evaluation.

A *PDR Observatory*, composed of independent experts reporting to the Secretariat of State for Planning and Regional Development, was also created to assist in evaluating the Plan's execution.

## 2. Main features of regional development policy in Portugal

In Portugal, regional development policy is embodied in the Regional Development Plan (PDR), which covers the entire country and includes three main types of project:

- nationwide sectoral programmes, which vary to some extent in application throughout the country;
- nationwide programmes specifically geared towards supporting less developed inland and Atlantic coastal regions;
- regional development programmes.

Programmes of the first sort combine sectoral and regional objectives; such measures are not determined merely for their territorial benefits -- which may nonetheless be considerable -- but for their value from the point of view of sectoral policy as well as their contribution to overall development objectives.

The other two types of programmes serve exclusively to carry out regional development policy initiatives.

2.1 Sector-based national programmes focus mainly on major components of the economic infrastructure (transport, telecommunications, energy, science, tourism, industry and agriculture), education and vocational training.

These programmes are geared towards widespread enhancement of production efficiency and human resources; sectoral priorities are integrated with regional proposals during the preparation and execution of these programmes by administrative and supervisory bodies created specifically for this purpose.

2.2 National programmes to support less developed regions encompass a set of aid systems, including:

### *Regional Aid System (SIBR)*

This system operates outside the coastal strip -- which is Portugal's most highly developed area -- and covers more than two-thirds of the country's surface area. It consists of direct equity investment in industrial projects that spawn new businesses or that expand, modernise, transform or relocate existing ones.

Under special circumstances, these interests may go as high as 75 per cent if a project:

- is located in a disadvantaged or priority area;
- is important for modernisation or particularly relevant to industrial policy;
- creates jobs.

### *System of Financial Aid for Investment in Tourism (SIFIT)*

This system, which is applied nationwide (although funding levels differ by region), consists of direct equity investment in projects to build and expand tourism enterprises.

Under special circumstances, these interests may go as high as 60 per cent if a project:

- is located in a priority region;
- enhances the growth, diversification or quality of tourism services;
- creates jobs.

#### *System of Aid for Exploiting Local Potential (SIPE)*

This nationwide system consists of direct equity investment to provide research and technical assistance in order to encourage investment in small and medium-sized enterprises (SMEs) in the industrial and tourism sectors.

These interests may go as high as 70 per cent, depending on a project's location.

#### *System of Aid for Business Modernisation (SIMC)*

This nationwide system consists of direct equity investment in projects to modernise or restructure business enterprises, provide them with comprehensive services or assist them with merger procedures.

Under special circumstances, these interests may go as high as 50 per cent, depending on a project's:

- location;
- relevance to sectoral policy;
- types of investment.

2.3 Regional development programmes cover the entire country and are administered by a large number of local authorities, generally at sub-Nuts 2 levels. They are supplemented by special subsidies and are aimed in particular at border areas.

The programmes are intended either to improve the quality of life (by exploiting local potential) in regions whose development is structurally behindhand or to diversify production and reduce unemployment, with special emphasis on areas whose industry is economically endangered.

There are essentially two types of programme:

- on the mainland, they consist mainly of investment programmes that are administered by local authorities and occasionally supplemented by investment supervised by central government, especially when water resources are involved;
- in the Autonomous Regions, they correspond to full-fledged, integrated development programmes that cover a broad spectrum (ranging from infrastructures to human resources) and offer a wide variety of support for productive investment.

Some of these programmes comprise small regional aid systems, including:

- "Vale do Ave's" System of Aid for Industrial Diversification, to assist in establishing alternatives to the textile industry;
- "Setúbal's Scheme" to Aid Small Investment, to help create alternatives to shipbuilding;
- "Border areas' Schemes" to Aid Small Investment, to help create alternatives to activities affected by the elimination of the European Community's internal borders.

### **3. Principal policy measures for 1993**

It is in 1993 that the current PDR expired and that plans for the ensuing period were prepared.

Consequently, the highlight of 1993 was the preparation and negotiation with the Commission of the European Communities of the new PDR, which is outlined under item 6.

### **4. Principal programmes and funding**

The table on the following page presents the programmes included in the 1989-93 PDR/Community Support Framework, along with their respective amounts.

### **5. Financial aspects**

The "dispersion" of the objectives and of the "indirect instruments" of regional development policy for the entire Regional Development Plan, and subsequently the Community Support Framework (CSF), precludes any precise evaluation of the policy's actual cost.

According to the most recent calculations, the CSF's total projected investment --Esc 3 300 billion-- will represent about 6 per cent of Portugal's gross domestic product between 1989 and 1993 and account for nearly 20 per cent of annual GDP growth.

Two-thirds of the investment is earmarked for gross fixed capital formation, of which it will provide almost 21.5 per cent of the country's forecast total for the planning period.

Aggregate CSF investment will entail government expenditure of Esc 2 600 billion, or about 11 per cent of national government outlays (by the public administration sector) over the same period.

About 32 per cent of total CSF investment will be "directly" allocated to regional development policy, i.e. for national programmes to aid less developed regions and for regional development schemes.

Of this portion, 48 per cent will go to outright subsidies to regional aid systems and 52 per cent to infrastructure investments.

The public expenditure associated with these two types of investment will amount to nearly Esc 673 billion, corresponding to approximately 26 per cent of the government's CSF outlays and 3 per cent of the country's entire public expenditure.

**REGIONAL DEVELOPMENT PLAN/CSF FUNDING**

<b>1989-93</b>		(Esc million)
<b>Areas of Development</b>		<b>Total Cost</b>
<b>Area 1 - Creation of economic infrastructures</b>		<b>479 853</b>
1A)	Communications & telecommunications	305 032
	-- Transport	255 234
	-- Telecommunications	49 798
1B)	Energy	116 124
1C)	Science and technology	46 538
1D)	Services	
	-- Tourism/cultural infrastructures (PRODIATEC)	12 159
<b>Area 2 - Support for productive investment and directly related infrastructures</b>		<b>952 597</b>
	-- Industry/PEDIP	505 163
	-- Regional aid schemes PNICIAP	431 508
	-- Business aid schemes SIMC	15 926

<b>Area 3 - Human resource development</b>	<b>502 611</b>
3A) Education	190 610
3B) Improvements to vocational training and job promotion facilities	36 253
3C) Apprenticeships	46 635
3D) Cross-sectoral training-FSE	141 680
Other vocational training measures	87 433
<b>Area 4 - Agricultural and rural development-FEOGA</b>	<b>192 263</b>
-- Agriculture/PEDAP and other measures	192 263
<b>Area 5 - Conversion and industrial restructuring</b>	<b>109 202</b>
-- OID Setúbal	83 272
-- RESIDER (Iron & steel industry conversion)	1 257
-- RENAVAL (Shipbuilding conversion)	8 366
-- Vale do Ave	16 307
<b>Area 6 - Exploiting regional growth potential and local development</b>	<b>335 646</b>
6A) Mainland regions	217 849
North:	
-- Trás-os-Montes and Alto Douro	16 212
-- Oporto metropolitan area	26 426
-- Alto Minho	7 321
-- Região Norte	12 916
Centre:	
-- Raia Central	11 642
-- Pinhal Interior	6 252
-- Região Centro	30 190
Lisbon & Vale do Tejo:	
-- Oeste	12 838
-- Vale do Tejo	20 798
-- Lisboa Norte (Greater Lisbon)	17 458

Alentejo:	
-- OID Norte Alentejano	10 162
-- IP2 - Monforte-Estremoz	1 167
-- Zona Mármore	4 171
-- Litoral Alentejano	2 513
-- Mira e Guadiana	3 362
-- Região Alentejo	7 052
Algarve:	
-- Sotavento	17 305
-- Barlavento	5 312
-- Overall subsidy for local development	4 752
6B) Autonomous Regions	117 797
Azores:	
-- SATA (air transport)	6 772
-- PNIC Açores (tourism)	17 170
-- PEDRA-Açores	42 295
Madeira:	
-- POP/RAM	51 560
Technical assistance and other measures	75 843
<b>Objective 1</b>	2 648 015
<b>Objective 3 - FSE</b>	
Special vocational training measures - Obj. 3	28 949
<b>Objective 4 - FSE</b>	
Special vocational training measures - Obj. 4	87 094
<b>Objective 5 A)</b>	
Special measures for agriculture	384 895
<b>Total CSF</b>	3 150 320

## Community Initiatives

ENVIREG (Environmental protection)	22 363
RECHAR (Coal industry conversion)	763
REGIS (Outlying regions)	12 662
STRIDE (Technological innovation)	13 267
INTERREG (Cross-border co-operation)	44 003
REGEN (Natural gas)	52 673
PRISMA (Support for SMEs)	5 845
TELEMATIQUE (Telecommunications)	11 119
LEADER (Rural development)	9 567
NOW (Vocational training)	4 036
HORIZON (Vocational training)	8 082
EUROFORM (Vocational training)	6 359
Technical assistance NOW, HORIZON, EUROFORM	250

**Total Community Initiatives** 190 989

Innovative vocational training schemes 1 112

**TOTAL CSF+INITIATIVES** 3 342 421

To the above amounts must be added the funding that central government transfers each year from its budget to local administrations (through the Financial Balancing Fund), which for 1989-93 totalled Esc 768 billion; together, the two allocations represent approximately 6 per cent of all government spending.

## 6. Outlook

Regional development policy for the rest of the century is set forth in the 1994-99 Regional Development Plan, which was recently presented to the Commission of the European Communities.

With the positive results of recent years suggesting that existing principles and procedures should be continued, the broad avenues of fine-tuning may be outlined as follows:

- creating a nationwide programme to exploit regional development potential, along three lines:
  - a rural development (aid to small crafts projects that create jobs, village rehabilitation support for development associations);
  - regional aid restricted to less developed areas (encompassing a wide range of sectors and specially geared towards mobilising local potential and creating jobs);
  - special rebalancing measures (regional infrastructure projects with a significant impact on renewing the socio-economic fabric of less favoured regions);

- reducing the number of regional development programmes, enlarging their geographic scope to that of large Nuts 2 regions, expanding their coverage to new sectors and types of investment and introducing stricter project selection criteria, including their supra-municipal impact;
- launching new nationwide programmes in fields having considerable impact on regional development, such as environmental protection and urban renewal;
- further decentralising the administrative procedures of certain nationwide programmes which have the greatest impact on regional potential;
- creating an innovatively managed national/regional interface, with contractually defined terms of co-operation between the public and private sectors and new forms of partnership (e.g. development agencies).

The programmes included in the 1994-99 Regional Development Plan, along with their cost, are listed on the following page.

### ***REGIONAL DEVELOPMENT PLAN -- FUNDING***

**1994-99**

<b>Areas Measures Fields of Activity</b>	<b>(Esc million) Total Cost</b>
<b>Area 1 - Human resource skilling and employment</b>	<b>851 906</b>
-- Bases of knowledge and innovation	454 408
Education	341 741
Science and technology	112 667
-- Vocational training and employment	397 498
Initial skilling. Labour market entry.	164 200
Improving job skills	138 631
Support for human resource training & administration	80 000
Civil service training	14 667
 <b>Area 2 - Strengthening factors of economic competitiveness</b>	 <b>3 972 089</b>
-- Infrastructure to support development	1 472 926
Transport	1 152 859
Telecommunications	120 000
Energy	200 067

-- Modernisation of the economy	2 414 734
Agriculture	736 165
Fisheries	92 547
Industry	1 152 599
Tourism and culture	246 401
Trade and services	187 022
-- The Community's RETEX scheme	84 429
<b>Area 3 - Promoting the quality of life and social cohesion</b>	<b>622 312</b>
-- Environmental protection and urban renewal	419 643
Environmental protection	299 343
Urban renewal	120 300
-- Health care and social integration	202 669
Health care	106 666
Economic & social integration of socially disadvantaged groups	96 003
<b>Area 4 - Strengthening regional economic bases</b>	<b>1 073 838</b>
-- Enhancing regional development potential	306 131
Rural and local development	68 800
Regional aid schemes	124 665
Special measures	112 666
-- North	140 736
-- Centre	95 763
-- Lisbon & Vale do Tejo	101 196
-- Alentejo	48 879
-- Algarve	19 846
-- Azores A.R.	174 180
-- Madeira A.R.	178 007
-- Support for local investment	9 100
-- Technical assistance	60 000
<b>Total</b>	<b>6 580 145</b>

## SPAIN

The Spanish Constitution recognises and safeguards the right to self-government of the nationalities and provinces comprising the Spanish nation; but it also recognises and safeguards the ties of solidarity that bind them together.

Spain has 17 Autonomous Communities, each of them with its own institutions: parliament, government and high court. The 22 matters in which the Communities may assume competence and executive power include land use and building and economic development.

As regards financing, the Autonomous Communities fall into two groups. The first group, "*de regimen foral*", comprises only two Autonomous Communities, the Basque Country and Navarra; the second, "*de regimen común*", contains all the others. The two Communities in the first group levy taxes directly, paying to Spain's central government each year, as their contribution to the national budget, a proportion of the revenue they collect. Those in the second group derive their resources mainly from the share of national revenue allocated to them and, to a lesser extent, from taxes that they raise themselves or that are transferred to them.

Regional policy in Spain relies on two basic instruments, the Interregional Compensation Fund and the Regional Incentives System. The EC may provide additional financing for measures drawing on these funds. The Interregional Compensation Fund is designed to support investment projects and thus temper regional disparities, on the solidarity principle; it accounts for at least 30 per cent of new State investment each year.

Central government grants for regional investment are provided under the 1985 Regional Incentives Act.

Grants in excess of Ptas 1 million are approved by the Economic Committee of the Council of Ministers, on the recommendation of an advisory board. Smaller grants are handled by the Minister for Economic Affairs and Finance; responsibility for them is usually delegated to the State Secretary for Economic Affairs, who is advised by an ad hoc working party.

The amount of the regional investment budget is set by the Ministry for Economic Affairs and Finance. Since the Regional Incentives System was set up in 1988, the sums earmarked have totalled Ptas 107 740 billion (on average, some Ptas 15 200 billion each year since 1988).

Until 1992, three types of zone, defined in the Regional Incentives Act, were eligible for grants: economic renewal zones (ZPE), zones in industrial decline (ZID) and special zones (ZE). Since 1992, however, the zones in industrial decline have been incorporated into the various ZPE.

Grants cover mining, manufacturing and service activities (tourism, services to industry and business).

In awarding grants, the primary aim is to create employment, although there are other criteria too. Chief among them are the use of local materials, technological advances and the advantages for the area concerned. The lion's share of the grants awarded during the period 1988-1993 went to the Autonomous Communities of Andalusia (24.3 per cent), Asturias (16.5 per cent), Castilla-Leon (13.2 per cent) and Murcia (12.1 per cent).

In 1992, Spain received Ptas 521 880 billion from the EC structural Funds. In this connection, it should be noted that 76.1 per cent of Spain's land area and 58.2 per cent of its population are covered by Objective 1 of the funds, while for Objective 2 the corresponding figures are 90 per cent and 21.9 per cent respectively. Objective 5 b) also concerns Spain, though to a lesser extent.

## SWEDEN

### 1. Institutions in charge of the design and implementation of regional policies

In Sweden the central and regional levels are responsible for designing and implementing regional policies. Certain activities at the local level are also of importance.

The central level: Every fourth year the regional policy is revised. The Government then presents a Regional Policy Bill to the Parliament on goals, guidelines, measures etc. All ministries have responsibility to act in order to achieve the goals for the regional policy. In the annual budget the Government gives the economic frames for the following year and sometimes makes changes in the regional policy measures.

The National Board Industrial and Technical Development (NUTEK) is the central authority responsible for regional support to enterprises and Technical Research and technical transfer to the regions and to enterprises.

The Rural Policy Advisory Board has the responsibility to initiate special projects for sparsely populated areas and to evaluate efforts undertaken by others for example The County Administrative Boards or municipalities.

The Expert Group for Regional Development Research (ERU) is responsible for initiating research on regional development.

The regional level: At the regional level the County Administrative Board has the main responsibility for implementation and co-ordination of the regional policy. In Sweden there are 24 counties.

In each county there also is an institution which gives advice and support to enterprises (Regional Development Funds). The funds also have possibilities to give loans to SMEs,s. They are financed by the Government and the County Councils.

The Norrland Fund is an agency whose main purpose is to promote industrial development in the four northernmost counties. This fund can provide grants and loans for industrial research, product development and in special cases for industrial expansion.

The local level: At the local level the municipal activities are very important. Through adequate social services in the form of education, social welfare, residential and urban planning, cultural activities etc.. The municipalities actively can create good general opportunities for the industry, which promote desirable development of enterprise. Activities for enterprise development are becoming more and more important, but subsidies to companies are not allowed from local authorities.

## **2. Regional policies main orientations**

The aims of the regional policy in Sweden are to give people access to employment, services and a good environment in whatever part of the country they live. The policy shall promote a fair distribution of welfare between people in different parts of the country, balanced demographic development to facilitate substantial freedom of residential choice, and rational production with a view to good economic growth.

Demographic development and the employment situation are least favourable in the interior of northern Sweden. Population and enterprise in this region have greater obstacles to contend with long distances, scattered settlement etc than other parts of Sweden. Long term problems, both structural and of other kinds, also exists in several other parts of Sweden.

Intra-regional problems of balance with regard to demographic development and the growth of employment exist, to a greater or lesser extent, in all the counties of Sweden, but are especially pronounced in the most sparsely populated regions.

Regional policy-making should be conducted with the aim of promoting positive development of enterprise, employment etc in all parts of Sweden and achieving regional equalisation within counties and between different parts of the country. To achieve this every County Administrative Board receives special resources from the Government for regional development. The amount of money they get differ from 5 to 145 MSEK yearly depending on the gravity of their regional problems. Consequently the northern counties of the country get most of the money.

In the regions, where the regional problems are most serious, it is possible to give aid to enterprise in the form of localisation grants, development grants and employment grants. The aid area is divided into two areas, entitled 1 and 2. The most severe problems are to be found in the area 1 where enterprises can get maximum aid, which means 35 per cent of gross investment costs in buildings and machinery, 50 per cent of investments costs for intangible assets, but not more than 500 000 SEK, and a total of 200 000 SEK during 5 years in employment grant. In this area enterprises also have reduced social security contributions. In aid area 2 maximum aid is lower (20 per cent of gross investment costs for buildings and machinery, 50 per cent of investment costs for intangible assets and maximum 120 000 SEK in employment grant).

The area where support to companies is possible, comprises roughly 60 per cent of the area of Sweden, but only 8 per cent of its population.

In connection with more widespread structural changes, the Government is enabled to extend the aid area with further municipalities on a temporary bases.

Transport aid is available for transportation to and from companies in the northern part of the country.

## **3. Main policy issues in this field in 1993**

During the last years the economic situation in Sweden has changed dramatically. At the end of the 80s, Sweden had a very low unemployment but it has now reached a level comparable with the European average. The gap in unemployment rates between different parts of the country has however slightly diminished.

The Government has decided to increase investments in infrastructure and increase the capacity of the universities, especially in the technical sector. During the next ten years total investments in motorways and railroads will be about 100 billion SEK.

In certain parts of the country the structural problems have become apparent. Therefore the Government has decided that until July 1995 enterprises in further areas -- also in the southern part of Sweden -- can get subsidies for investments. The rules are the same as for localisation grants in aid area 2.

#### **4 & 5. Most important programmes and schemes and their costs and the regional policy budget**

The budget for regional development consists of the following appropriations:

1. Localisation grants	350 MSEK
2. Regional development measures	1 012 MSEK
3. Reduction of social security charges	500 MSEK
4. Employment grants	200 MSEK
5. Special infrastructural measures	180 MSEK
6. The Rural Policy Advisory Board	17 MSEK
7. ERU	6 MSEK
8. West-nordic Development Fund	4 MSEK
9. Transport aid	300 MSEK
Total	2 569 MSEK

The regional policy budget is only a small part of the total contribution to regional development in Sweden. The Expert Group for Regional Development Research has estimated that about 100 billion SEK, i.e. one fifth of the total state budget, is distributed over the country in a regional perspective. In Sweden we call this "the big regional policy" to separate it from the special regional development measures called "the small regional policy".

#### **6. Future policy trends**

In 1994 the Swedish Government is going to present a new strategy for regional development in Sweden. The job is in full progress. A lot of studies and evaluations have been prepared including a proposal for a new strategy. The concept of this strategy is to create growth in the economy in all parts of the country taking into account that all parts of the country contribute to the growth of the economy as a whole.

## SWITZERLAND

### 1. Regional policy bodies and measures

#### *Regional level*

While the existence of Switzerland's 26 cantons already suggests a certain degree of "regionalisation", the Confederation's regional policy is actually based on a network of narrower "micro-regions", small-scale territorial entities able to factor in local and regional particularities having been created to implement intercommunal co-operation. From a legal standpoint, most of these mountain regions constitute private-law intercommunal associations, although some are governed by public law. They have no sovereignty (e.g. no power to tax or enact laws) and therefore do not constitute a fourth level of government.

An important feature of the regions is the administrators (secretaries) they employ, and who additionally act as leaders, promoters and co-ordinators. The Confederation and, in most cases, the cantons also support these secretariats with substantial funding.

#### *Cantonal level*

The regional policy enacted by the Confederation in the early 1970s prompted the cantons to take organisational and legal measures that today, in most cases, provide greater opportunities for support than those of the Confederation. Attracting new industry and promoting enterprises, for example, are essentially matters for the cantons.

#### *Federal level*

Two divisions of the Federal Office for Industry, Crafts and Trades and Labour (OFIAMT) are responsible for carrying out regional policy. In accordance with the Federal Act on Aid to Investment in Mountain Regions and the Federal Order Instituting Financial Aid to Regions Facing Economic Difficulties, the Confederation provides support for infrastructure projects in mountain regions and regions facing economic difficulties and conducts a policy of promoting enterprises and attracting industry. Another federal Act encouraging loans to hotels and resorts, along with a federal Order to strengthen regional economic structures and enhance the appeal of the Swiss market, is applied in mountain regions and implemented by institutions that are not part of the federal government.

### 2. The chief goals of Swiss regional policy

The goals of Switzerland's current regional policy may be summed up as follows:

- to eliminate undesirable regional disparities with respect to living and working conditions;
- to increase economic stability in problem regions;
- to maintain and promote political and socio-cultural autonomy and pluralism;
- to safeguard life-sustaining natural resources and ensure decentralised population patterns;
- to maintain and strengthen federalism.

### 3. Priorities for 1993

The overall context of regional policy has been altered considerably over the past 15 years, and the pace of change can but quicken in the future. Inasmuch as part of the Confederation's regional policy action is based on legislation that is some 20 years old and requires review, the Federal Council has directed OFIAMT to lay the groundwork for a refocusing of regional policy. Assisted by a group of experts, OFIAMT has assessed the entire arsenal of regional policy instruments and supplemented them with new measures to meet the needs of the years ahead. The main aspects of that refocusing are summarised under item 6.

Thanks to a reallocation of appropriations, the Federal Act on Aid to Investment has made additional resources available to private and public sector bodies for additional infrastructure projects in mountain regions. Such schemes help cushion the impact of economic difficulties, which hit these regions harder than other areas.

### 4. Principal programmes and their costs

See items 1 and 5.

### 5. Regional policy budget for 1993

*At Confederation level*

-- Investment subsidies for mountain regions	about SF 47 million (varies from year to year)
-- Devising regional development projects	about SF 4 million
-- Loan guarantees and interest subsidies	about SF 5 million
-- Loans to hotels and resorts	about SF 5 million
-- Measures to assist regions facing economic difficulties	about SF 8 million

*At cantonal level* not available

*At regional level* not available

### 6. Future thrust of regional policy

The following principles must govern regional policy in the future:

*A reactive and proactive policy*

Because its main thrust is to eliminate undesirable regional disparities, current regional policy is theoretically reactive in nature, with an ultimate remedial effect. This traditional approach must be supplemented by a proactive, preventive policy ruling out disparities.

### *Challenges*

Nevertheless, the fact that a reactive policy is to be supplemented by a proactive one means that regional problems do not solve themselves, but rather that regional tasks must be assumed in order to strengthen competitive capabilities and meet future challenges.

### *Rigid and variable territorial boundaries*

Another issue under discussion is how regional boundaries are drawn and how they can vary according to circumstances. This means that in the case of traditional support measures, regional delineations are fixed and relatively invariable over time, whereas other measures may warrant territorial flexibility. The basic premise is that regional policy cannot be conducted more or less unchanged, confined exclusively to areas that are defined once and for all, but that it must be modified and implemented flexibly in response to regional requirements and problems.

### *Nationwide tasks and problems, regional solutions*

A forward-looking regional policy shaped in this manner would be necessary whenever problems are acknowledged to have national significance. Such is currently the case with disparities between mountain and plateau regions, looming structural changes in rural areas, cross-border co-operation and the problems inherent in cities.

## UNITED KINGDOM

### **1. Institutions in charge of the design and implementation of regional policies**

Regional policy in the UK is operated by the Department of Trade and Industry and the Scottish and Welsh Offices. The Department of the Environment has responsibility for urban policy.

### **2. Regional policies: main orientations**

The principal objective of the regional industrial policy in the UK is to even out imbalances in employment opportunities. This governs the delineation of areas where preferential assistance is available. The related economic rationale based on seeking to achieve lower national inflation at any given level of aggregate output, increased productive potential at any given level of inflation, better utilisation of national infrastructure and increased national output given the lack of exchange rates between regions of the UK.

### **3. Main policy issues in this field in 1993**

There have not been any recent major changes to the range of regional policy measures. The rates of assistance to firms under the Consultancy Initiative were reduced in early 1993 to 50 per cent in respect of applicants in the Assisted Areas and Urban Priority Areas and to 33 1/3 per cent elsewhere.

The outcome of the review of the coverage of the Assisted Area map was announced in July 1993. This led certain areas in the South East and East Anglia becoming eligible for regional assistance for the first time and is a reflection of changes in regional economic performance over the last five years. The map which defines areas eligible for EC regional assistance is currently being reviewed.

### **4. Most important programmes and schemes and their cost**

The Department of Trade and Industry and Scottish and Welsh Offices operated a number of schemes aimed at improving the performance of regional economies. The main policy instrument is Regional Selective Assistance which provides support to eligible firms in the Assisted Areas in respect of investment projects. The level of support provided is intended to be the minimum for the project to proceed.

The Regional Enterprise Grants scheme provides support to small firms (under 50 employees) in the Assisted Areas and certain shipbuilding and coal closure areas for investment and innovation projects.

The Consultancy initiatives are available to independent firms or groups employing less than 500 people. The scheme operates throughout Great Britain, although the level of assistance is higher in Assisted and Urban Programme Areas (50 per cent of the cost of using consultants) compared with 33 1/3 per cent in other areas.

Departments are also responsible for EC-funded regional programmes. The DTI's programmes are aimed mainly at providing support for business development in eligible areas. The Department of the Environment and Transport are responsible for much larger programmes involving the provision of improved infrastructure and derelict land clearance.

The following table shows recent trends in the financial resources devoted to regional aids.

*Expenditure under Regional Selective Assistance, Regional Enterprise Grants,  
Consultancy Initiatives and EC-funded Programmes*

<b>m</b>	<b>RSA</b>	<b>REG</b>	<b>CI</b>	<b>EC</b>
1990-91	187	13	4 0	10
1991-92	193	11	5 2	30
1992-93	189	10	4 8	35

**5. Regional policy budget**

Forecast expenditure under the above schemes in 1993-94 is as follows:

	<b>m</b>
<b>RSA</b>	275
<b>REG</b>	16
<b>CI</b>	45
<b>EC</b>	40

**6. Future policy trends**

Future trends in UK regional policy will be influenced by the new UK Assisted Area map and the process currently under way of redrawing of the EC map which defines areas eligible for Structural Funds assistance under Objectives 1, 2 and 5b. The Consultancy Initiatives, which have a differential regional impact, are to be closed to new applications from April 1994.