Research Paper 1

Socio-economic trajectories, European integration and regional development in the EC

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In the EC inequalities are very wide as the figures for GDP per head in Level II regions set out in Figure 1 show. Inequalities can be measured in two ways. Measurements in European Currency Units (ECU) indicate the value of the output of regional economies and show what their output can be sold for on international markets. This indicator is an index of the 'quality' of its goods and services and of its competitive strength. It is plotted with a small square for each region in the left hand column in the box for each member state in Figure 1. Measurements in Purchasing Power Standards (PPS) make allowance for differences in the prices of goods and services in different areas: goods of a given value in ECU will exchange for more in a low cost than in a high cost region. The PPS measure is therefore an index of the volume of goods and services which the output of local economies can command or exchange for in their own area and an indicator of differences in living standards. This second measure is plotted in the right-hand columns in Figure 1. In 1988 output per head measured in PPS varied from 182 to 40 per cent of the EC average, while in ECU the extreme values were 215 and 23.

The data on GDP per head provides a relief map of economic development. The variations it indicates are a result of several factors: differences in productivity levels, differences in the share of an area's population that is employed, and, in the case of the ECU measure, differences in the prices an area's output commands on international and interregional markets (and therefore the inequalities in prices and exchange rates built into regional trade structures).

Half of the ten wealthiest regions were in West Germany. West Germany is a country with just under one-fifth of the EC's population, yet in 1985 it accounted for nearly 40 per cent of EC manufacturing output, as it had done for at least 15 years, and it had a current account surplus in trade in manufactured goods with every other member state except Ireland (Cutler, Haslam, Williams and Williams 1989, page 78). Most of the other top 10 regions were metropolitan economies in a 'greater German' co-prosperity sphere made up of a number of areas that neighbour Germany in Denmark, the Netherlands, Belgium and France. Just beneath these metropolitan areas lay a group of large urban and industrial regions clustered around an axis that extended from Greater London through Belgium and the Netherlands along the Rhine and into the north of Italy stretching as far as Emilia Romagna.

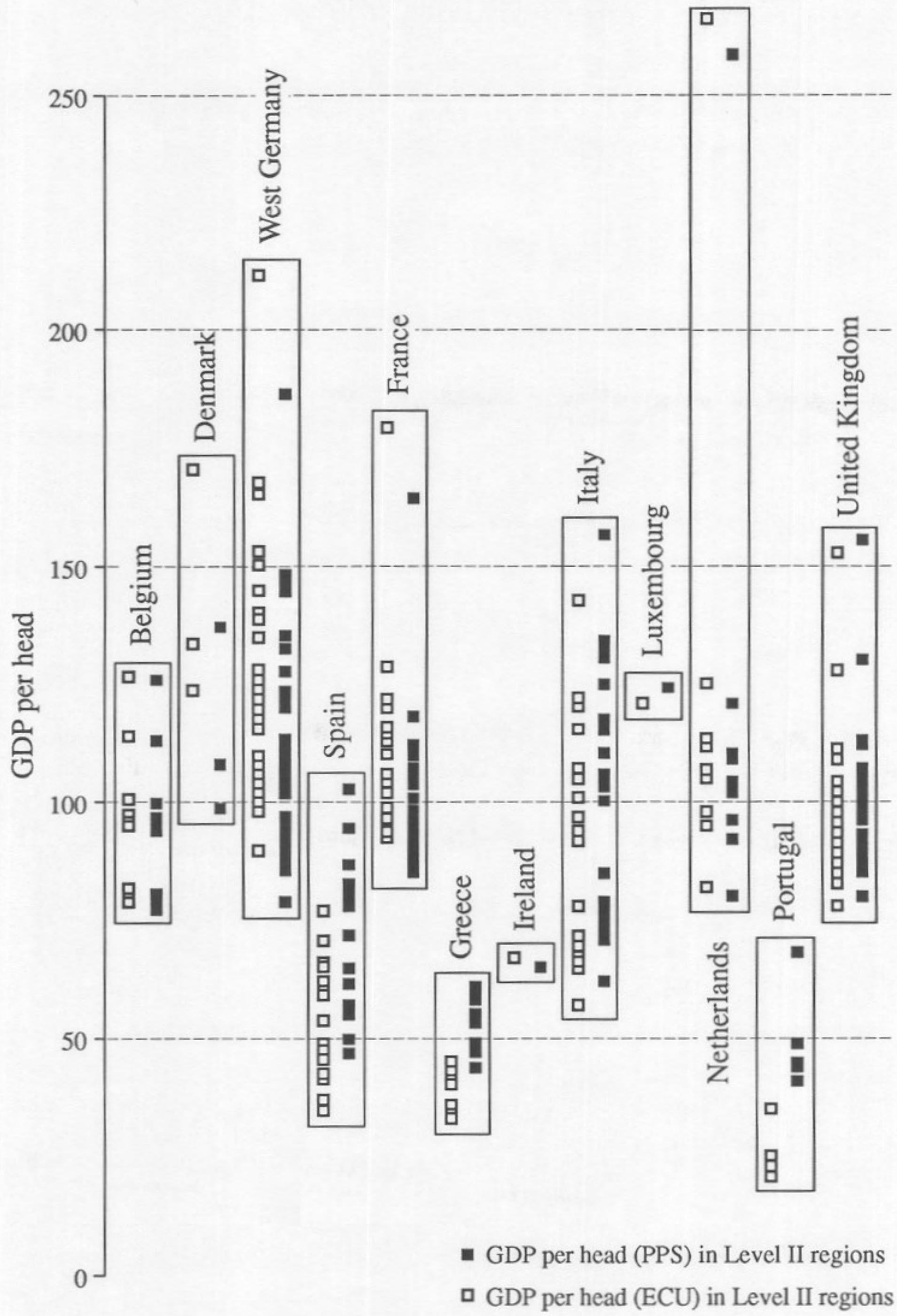


Figure 1 European economic development: gross domestic product per head in Level II regions in ECU and PPS in 1988 (EC=100)

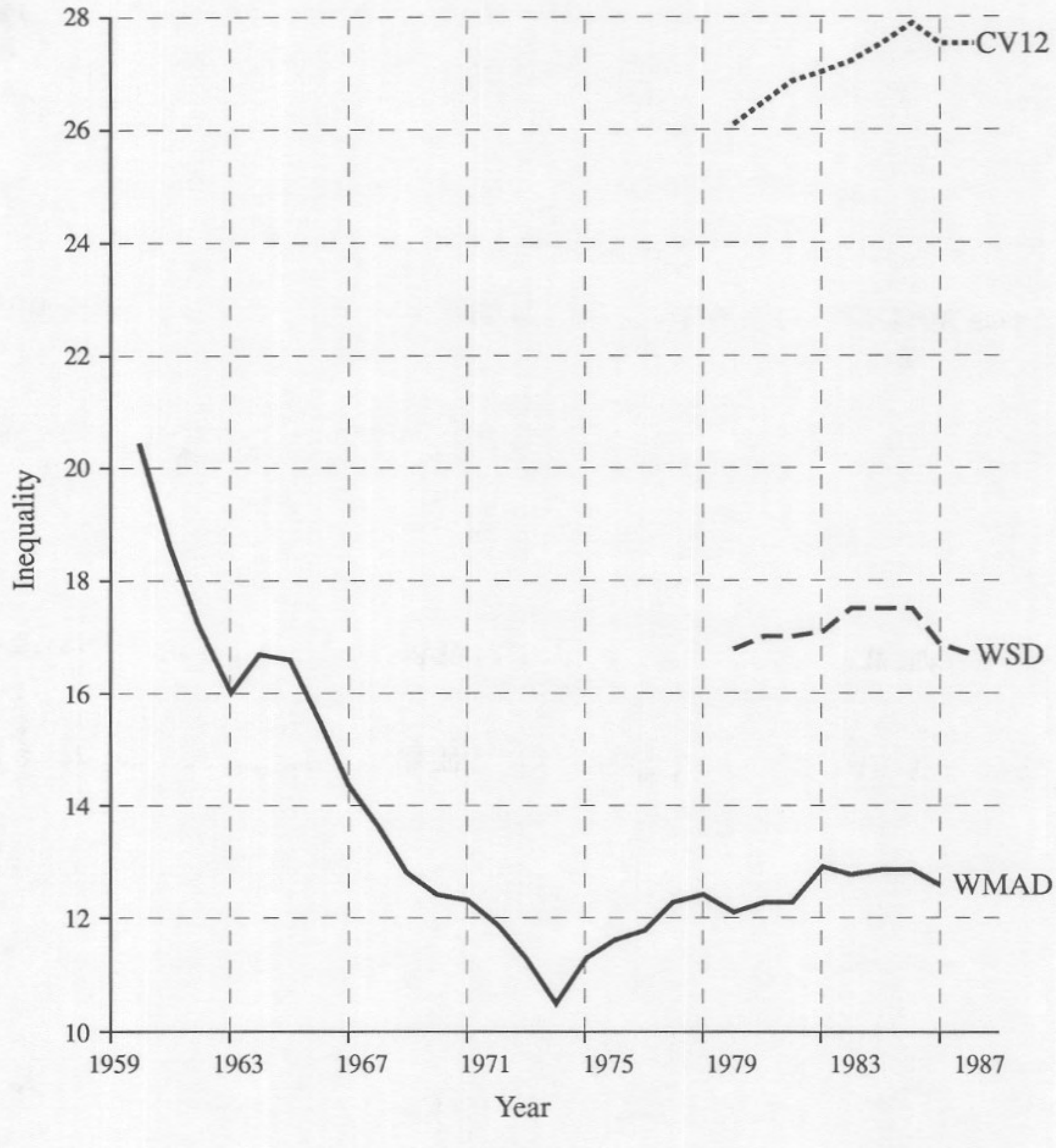
The areas with lower levels of income per head were of two kinds. In northern Europe areas affected by the decline of employment in mining, steel, textiles and shipbuilding had above-average unemployment rates and incomes per head between 75 and 100 per cent of the Community average. In the underdeveloped South of Europe there is a broad swathe of regions where the share of income from low-productivity agricultural sectors was large and unemployment was high. In 1984 in these areas and in Ireland in the extreme west per capita incomes were less than 75 per cent of the Community average (Padoa-Schioppa 1987, pages 162-3).

In the 1960s and early 1970s the general trend was for these regional and national inequalities to diminish. However 15 years ago this earlier trend came to an end and was if anything reversed. In Figure 2 indicators of inequalities between the twelve members of the EC measured in PPS show how convergence gave way to divergence. The regional series covers a shorter period but the data that does exist for individual countries also shows a clear reversal of trends in the early 1970s.

At the root of this reversal is, I shall argue, a change in the model of development. In particular there was a crisis in the model of development called Fordism which was at the root of western growth in the post-war golden age: rates of growth slowed down, and unemployment increased, as did inflation rates. At this point two of the mechanisms which had underpinned convergence ceased to operate: an earlier wave of productive investments in less developed areas came to an end, while the rise in unemployment in developed areas closed off the the opportunities for emigration.

In the face of this crisis there was secondly a disengagement of the state from intervention in economic life. There was a switch to an emphasis on endogenous market-led development strategies and responsibilities for their elaboration and implementation were transferred to the local level. At the same time resource transfers from rich to poor areas (mechanisms of solidarity) at least for productive activities diminished, and there was an increase in the reliance of local and regional economies on their own resources. In these conditions different economies chose divergent development and adjustment strategies.

To justify these changes the development models of the 1950s and 1960s were criticised, and alternative models of local endogenous development and of development from below were defended. The importance of these ideas lies in the emphasis they give to the development of local strategies for the use and mobilisation of local and regional resources. In this chapter I shall argue however that it is not a matter of a choice between endogenous and exogenous development. The exogenous development strategies addressed the issues of resource redistribution and of controls over the actions of multi-regional firms. With increased internationalisation these issues remain as important as ever. To address them however action is required at supranational levels.



WMAD - Weighted mean absolute deviation of national GDP per head (PPS)
WSD - Weighted standard deviation of national GDP per head (PPS)
CV12 - Coeficient of variation of regional GDP per head (PPS)

Figure 2 National and regional inequalities in the EC, 1960-90

What is more there is no simple relationship between the speed and quality of development and its endogenous or exogenous character: there is, for example, little to recommend endogenous development processes controlled by political patron-client relations or Mafia entrepreneurs.The end of Fordism coincided with an increase in the influence of neo-liberalism and an acceleration of the integration of the economies of Europe. In the past processes of economic and political integration have sometimes corresponded with a reduction, sometimes with a stabilisation, and sometimes with an amplification of inequalities in living standards among regions and nations. At present the view that is perhaps most influential is the one embodied in the Cecchini Report which argues that 'recent developments in trade theory and past experience with the removal of intra-EC tariff barriers indicate that redistributive effects in the wake of freer trade need not be excessive' (Cecchini 1988, page 105). There are however two sets of reasons for doubting this conclusion. One is that the historical evidence of the last fifteen years indicates divergence rather than convergence (see Cutler, Haslam, Williams and Williams 1989, pages 76-7). The other is that in an important semi-official report entitled Efficiency, Stability and Equity quite different conclusions were reached. (This report was the result of the work of a group chaired by Tommaso Padoa-Schioppa charged by the Commission to investigate 'the economic consequences of the decision taken in 1985 to enlarge the Community to include Spain and Portugal and to create a market without internal frontiers by the year 1992' (Padoa-Schioppa 1987, page 5). The conclusions of the Padoa-Schioppa Report were far more pessimistic than Cecchini's: 'There are serious risks of aggravated regional imbalance in the course of market liberalization' (ibid, page 5). To cope with these risks the Padoa-Schioppa Report envisaged a much more important role for regional policies: 'in a larger and more differentiated Community redistributive functions performed through the budget and the lending instruments of the Community should be considerably developed in size and made more effective in their purpose and design' (ibid, page x).

What I shall suggest is that the model of integration envisaged is one of liberal market integration. In the past this model of integration has widened inequalities. At present there are grounds for thinking that the development of a larger market will favour strong firms located in major metropolitan areas and strong regions, while moves in the direction of monetary union and a permanent fixed exchange rates mechanism could damage the national and regional economies of countries as the sacrifice of monetary adjustment as a means of increasing exports or controlling imports will force weak economies to select an adjustment path involving greater unemployment, more underused resources and an enforced fall in real wages and incomes.

In this chapter I shall argue that what happens in Europe will depend on whether this model of liberal market integration gives way to another centred around social and fiscal harmonisation, the assumption of fiscal functions and of responsibilities for the transfer of resources from rich to poor regions at an EC level, and interventionist development strategies for less developed areas. Development is however not just a question of resources but of the ways in which resources are used and of the ways in which economies and societies are organised. The divergent development of regional economies reflects differences in their adaptation to the technological and social challenges of a new era. These differences in the 'success' of regional economies offer evidence of the types of adjustment and the institutional structures required for a more cohesive and balanced development of the regions of Europe and show how essential it is to develop local and regional development programmes.

The implications of the model of development: the Fordist model and its crisis.

The model of development of the post-war golden age was centred on Taylorism and mechanisation. The word Taylorism is used to refer to the practices of scientific management first proposed by F.W. Taylor. These practices rested on two innovations. The first was the separation of the conception and design of work from its execution, and the transfer of mental work to the Organisation and Methods (O&M) Office. The second was the development of time and motion studies so as to split a process of production into a sequence of simplified individual jobs. The 'one best way' and the time required to perform each task was identified, while the simplification of tasks allowed the development of new specialised machines - operated by what the French call specialised (unskilled) workers. With Ford's development of the semi-automatic assembly line the simplification of tasks was accelerated, and the norms set in the O&M office were incorporated into the automatic machine system itself: the movement of the machines determined the task a worker had to do, while the speed of work was determined by the speed of movement of the line. These developments laid the foundations for rapid productivity growth which was redistributed to the wage-earning class via collective bargaining and the transfers embodied in the welfare state (for a survey see Dunford 1990). Growth was led therefore by domestic demand.

At the same time there was a very specific global configuration of advanced economies. In the first place in the advanced countries domestic production was first and foremost for domestic markets. The volume of manufactured goods traded internationally did of course increase. As a share of gross domestic product, however, the industrial exports of EC countries reached a minimum in the 1960s. The second characteristic was the integration of the more advanced western half of Europe into a hierarchical order under the leadership of the United States. With the defeat of fascism and as a result of America's uncontested economic dominance -at the end of the war the United States accounted on its own for three-quarters of the world's invested capital and two-thirds of its industrial potential (Horowitz 1967, p. 74)- the United States emerged as the hegemonic world power, and Fordism or the 'American way' was the technological and social paradigm that other nations in the West adopted and adapted. (In Eastern Europe on the other hand a series of countries that were at lower levels of development and were devastated by the war followed another path: Stalinism).

As far as regional development was concerned there were two important aspects of the Fordist era. On the one hand the mechanisms of redistribution were operated in favour of less developed areas: nation states played a major role in the transfer of resources to less developed areas not just via regional policies but also via all the other aspects of state expenditure and taxation which all have direct and indirect spatial effects. On the other there were attempts to divert investments to less developed areas, while full employment growth in the more developed regions stimulated and presupposed the migration of workers from less developed areas and countries.

The redistribution of resources.

The nation state was the site of a social compromise in all of the mixed economies of the West. An institutional structure was established, as were a set of norms and procedures whose role was to regulate the actions and interactions of social and economic subjects. Included were a set of mechanisms for revenue generation, the definition and implementation of expenditure programmes, and resource redistribution. These mechanisms resulted in a geographical redistribution of resources that was very important but that was seldom treated in an explicit way.

Consider, for example, the French case (see Table 1). In 1976 the mechanisms of the French state budget resulted in a net transfer of FF 2938 per head to département of Corsica and of -FF 7710 from Seine. In Seine the transfers amounted to some 20 per cent of income, and in the two poorest areas the transfers were worth over 10 per cent, but for most départements the impact was limited. As a result of these transfers the gap between the richest and poorest départements was reduced from FF 26400 per head to FF 15800. The départments that financed these transfers remained nonetheless the richest regions (see Davezies, Larrue and Prud'homme 1983, pages 36-68 and especially 66-8).

The social security system whose annual budget was in 1976 close to that of the state budget reinforced its redistributive impact (see Davezies, Larrue and Prud'homme 1983, pages 173-94): the Ile de France made a net contribution of FF 1940 per inhabitant, while the poorest regions were the largest net recipients of funds with Languedoc-Roussillon getting FF 1792 per head.

However these transfers were a result more of differences in taxes and contributions than of expenditures and payments. State expenditure did not work in favour of less developed regions. The aid for regional development which did work in their favour was therefore exceptional. It however was insufficient to offset the regressive impact of other aspects of state expenditure.

Table 1. The regional impact of French taxes and expenditures in 1976 (in French Francs per inhabitant)[1]

	Lowest taxes and highest expenditures and transfers		Highest taxes and lowest expenditures and transfers	
State budget				
Expenditures[2]	Corse	8745	Essonne	6335
Taxes	Haute-Loire	5802	Seine	15888
Net transfers	Corse	2938	Seine	-7710
Social security budget				
Expenditures	Ile-de-France	5705	Franche-Comté	4539
Contributions	Languedoc-Roussillon	3756	Ile-de-France	7646
Net transfers	Languedoc-Roussillon	1792	Ile-de-France	-1940
Regional policies				
Expenditures[3]	Pays de la Loire	9		

1. Columns 2 and 3 list the départements and regions which paid the lowest taxes and received the largest expenditures and transfers per head. Columns 4 and 5 list those with the highest contributions and the lowest expenditures and net transfers.

2. Average = FF 7070.

3. Annual average in 1960-73.

Source: Davezies, Larrue and Prud'homme 1983, pages 36-68, 104-18 and 173-94.

Indeed in comparison the impact of French regional planning was very limited. The aids for regional development discriminated much more among regions than other state transfers. The value of aid per inhabitant was however far less than that of the and social security transfers. In 1960-73 the inhabitants of the Pays de la Loire received the highest regional development aids per head. These aids were worth FF 132.12 per inhabitant or an average of FF 9.44 per inhabitant per year. Yet in 1976 alone the inhabitants of Langeudoc received budget transfers of FF 1224 per head and social security transfers of FF 1792. What this evidence shows is that the value of the net transfers under the state budget and the social security system to the most favoured region were 500 times larger than the value of the regional development aids provided to the most favoured region. (It should be noted however that this analysis of the state budget was not comprehensive, and the expenditures of the public utilities whose actions also played a role in the interdepartmental transfer of resources were not considered. Moreover through multiplier effects the economic impact of state expenditures will be transferred from one department to another: expenditure in one region results in orders, output and employment in others.) A second conclusion concerns the identities of the most favoured areas. In the 1960-73 period the order of regions ranked in accordance with the levels of regional aid and state budget transfer indicators were very similar. The rank orders were not however identical. Some of the areas that were most disadvantaged and that received most aid in the shape of budget transfers (Languedoc, Midi-Pyrénées, and Auvergne) did not do well out of regional development aids which were directed more towards regions in the west (such as the Pays de la Loire) and north-east (Davezies, Larrue and and Prud'homme 1983).

State expenditure remains an important component of capital formation and of current expenditure in advanced capitalist societies. At the end of the next section I shall argue that it should be larger and that it should be used to provide direct services and investments rather than subsidise private actors. The work of Davezies, Larrue and Prud'homme also shows however that redistribution is a product of differences in contributions and not of expenditures (see Table 1). The levels of expenditure per head are not in general higher in the more underdeveloped areas than in richer areas. The transfers that do occur stem more from the fact that per capita taxes and social security contributions are lower in low-income areas. While therefore regional development funds do discriminate in favour of less developed areas, overall expenditure does not. A sensible treatment of spatial imbalances requires that the geographical impact of state expenditures as a whole be given much more explicit attention. Instead of a narrow focus on regional and other explicit spatial policies, a spatial dimension should be added to all state expenditures at national and EC levels.

Interregional investments.

In the era of Fordism there was a significant volume of potential mobile investment that could be diverted to less developed areas in order to help modernize their economic and social structures. (At the same time the existence of near full employment and high rates of growth in developed areas was at the root of high rates of growth of demand for labour and large-scale movements of people from peripheral to central areas).

The interregional redistribution of investments was a major determinant of the map of economic development. It was moreover an important goal of most nation states. To achieve a more equal distribution of development governments used various instruments. Included were the creation of industrial zones, restrictions on development in strong regions, controls over the location of public investments, and in particular financial incentives. Incentives of course do not cause investment decisions to be made: the idea was that the incentives should (1) compensate investors for the higher costs and the absence of external economies in less developed areas, and (2) alter the structure of costs and benefits considered in making investment decisions. (Similar results could be achieved of course if firms were made to pay the higher social costs they create through their location in more developed areas. The choice of most governments was to offer firms incentives rather than make them compensate host communities in overdeveloped areas).

In many parts of Europe powerful critiques of exogenous investment were subsequently advanced. Some of the most striking related to the development of the Italian Mezzogiorno. Of course the evidence of major 'planning disasters' is not hard to find. In Calabria, for example, there are the Saline chemical complex where production of the main product (animal proteins) never started due to health hazards associated with their use, the uncompleted chemical complex at Lamezia Terme, and the Gioia Tauro steelworks. The plain of Gioia Tauro is an area of rich agricultural potential which was specialised in the intensive production of citrus fruits and other Mediterranean tree crops. In 1971 it was designated as the site for Italsider's fifth integrated steel complex. Agricultural and urban land was expropriated, a village was relocated and in 1975 work on an immense and expensive port was started with Mafia entrepreneurs playing a major role as subcontractors in the project.[1] Soon after the plan was dropped. Today an unused port is surrounded by a desert.

While these episodes involved a scandalous waste of resources the question as to why they happened is not as simple as the 'planning disaster' label implies. The actors included not just regional development agencies but also politicians and their clients, criminal organisations, and major public and private groups, while the context of action included political destabilisation, anarchic competition and economic expectations about trends in demand and in profits that proved quite wrong but that were the foundations of similar decisions by many other firms and governments. (In the French and UK cases major steel and petrochemical investments were made in less developed areas in the late 1960s and early 1970s. In the case of the French steel industry, for example, the two major private producers planned the expansion of coastal complexes at Dunkirk and Fos-sur-Mer, while the British Steel Corporation's ambitious 1973 Ten Year Development Programme centred, for example, on major capacity expansion at Llanwern and Port Talbot, Ravenscraig, Scunthorpe and Teeside. It was abandoned de facto in 1976 and de jure in 1978).

The second criticism of the waves of investment in less developed areas in the late 1950s, 1960s and early 1970s is that there was an increase in their dependence on the economies of more advanced areas. In the case of the Mezzogiorno for example there was an increase in the dependence of southern residents on external investment funds, external income transfers, and imported goods. The increase in transfers to residents represented the increase in the difference between the value added in the South and the incomes of southern residents. In their turn the transfers allowed the Italian South to sustain a trade deficit with the rest of the world, which was financed in part through the maintenance of a public sector deficit (see Dunford 1988). (In 1951-73 as in the 1980s the net imports of goods and services into the Italian Mezzogiorno were equal on average to over 21 per cent of the South's gross domestic product).

Dependence is an indicator of some of the inadequacies of the model of exogenous development. It does not follow however that the situation would have improved in the absence of these investments. Indeed in the subsequent inactive policy period, when external investments did decrease, not only did the volume of transfers not fall, but current transfers were substituted for capital transfers and a more pathological type of dependence was created (see Graziani 1988). In the active policy period the most important element of the transfers were investments which increased the productive potential of the South and narrowed productivity differentials. With the increase in investment, incomes increased and the import into the Mezzogiorno of consumer goods was financed. In the inactive period, on the other hand, the main effect of the transfers was to increase the incomes of consumers and demand. As output in the South fell relative to the rest of Italy, more income was redistributed to southern residents. The maintenance of local demand did not stimulate endogenous investment, and so relative incomes and productivities fell, and the dependence of the South remained.

The identification of a relationship between dependence and the development strategies of the Fordist era is related of course to the resource transfers discussed in the last section and to the measures governments adopted to ensure macroeconomic stabilisation. Within the single economic and monetary spaces of nation states balance of payments disequilibria did not and do not disappear. Surpluses and deficits did exist but adjustments that did not provoke recessions were possible as deficits were covered via interregional investments, fiscal transfers and automatic fiscal stabilisers. Changes in regional adjustment mechanisms in a context of greater economic integration is, as we have already started to see, one of the main factors that differentiate the present from this earlier era.

In evaluations of the impact of exogenous investments some authors have argued that at an aggregate level the efficiency of investment was low: in 1963-73 value added per head in the South of Italy grew no faster than in the North in spite of the higher rate of capital formation (see, for example, Izzo 1990). There were however significant differences between the productivity growth records of the endogenous and exogenous sectors. The exogenous sector was capital-intensive. In addition there was very little spending on research and development in the South. At the end of the wave of exogenous investment in the mid 1970s the South's share of public research spending excluding universities stood at 15 per cent. Without the nuclear sector it stood at 30 per cent. In the case of industrial corporations the South's share stood at 2 cent (Cicciotti 1979). At the same time there were significant disparities in innovativeness in the North and the South.

The explanation for this significant difference in innovativeness is to be found in several factors (see Ciciotti 1979):

- (1) One is the type of firms found in the South. Interregional firms, which employ more than half of the people working in the South and which are in the sectors that at a national level undertake high levels of research and development spending place little of it in the South, while local firms are in sectors in which nationally little is spent. The aggregate situation therefore conceals important differences between interregional investments and local investments. In the modern sector disparities in innovativeness, in the diffusion of innovations, and in the transfer of technologies do exist in the North and the South but are due to the kind of investments extra-regional groups choose to make. The difficulties identified are therefore not arguments against exogenous investment so much as against the division and location of functions within multiregional firms and the absence of a horizontal relationships between research, design, marketing and production within less developed economies.
- (2) A second related factor is the skill composition of the workforces in North and South. In the North there is a high proportion of managers and a low proportion of independent workers and self employed. In the South one finds a high proportion of entrepreneurs and manual workers and a low proportion of managers and clerical workers reflecting the branch plant character of southern industries. Variations in the skill composition of the workforce are a cause and a consequence of the development model.
- (3) Urban structures and urban services are finally relatively weak. These weaknesses were a result of the fact that large groups had their own internal services or drew on suppliers in the North, while southern firms made little use of producer services. There is once again a supply-side problem and a demand-side problem: there is no point in offering producer services if there are no users, and there is no point in requiring firms to use local suppliers if none exist.

It appears therefore that the lack of innovativeness was a result of the types of investment that non-southern groups placed in the South rather than their exogenous character, and of the absence of strategies aimed at the development of synergies between the exogenous and endogenous sectors.

In any case the distinction made between exogenous and endogenous factors is problematic. In underdeveloped industrial environments exogenous investors do internalise functions within industrial establishments. Industrial linkages with the local and regional economies in which externally-controlled plants are located are also limited. Important interdependencies among non-local and local enterprises do nonetheless exist as, for example, Del Monte (1988) showed in some research on the province of Caserta in Campania.

The province of Caserta was industrialised in the 1960s and 1970s through the establishment of branch plants. In 1974-80 2,500 net jobs were created in local firms, while 200 were lost in non-local firms. This evidence led to the identification of a process of endogenous development. In 1980-86, however, the numbers of new local and non-local firms declined, many firms failed, and jobs were lost: 5,000 jobs in non-local and 1,500 in local firms. Del Monte has shown that in Caserta many of the local firms were subcontractors to the non-local establishments. As the non-local firms introduced new technologies and reduced orders for earlier inputs, the local firms that supplied them failed because they were unable to change their output to match the new needs of the exogenous investors. Nor were local firms sufficiently large and independent to compete on extraregional markets: in the shoe sector, for example, firms in Caserta were small, produced shoes for the low end of the market, and did not market their own brands but made shoes for large retailers. The conclusions that Del Monte drew from this study were twofold. On the one hand it is difficult for local firms to grow without exogenous investments. On the other the lack of growth is due more to obstacles to the growth of existing firms than to limited new firm formation. Initiatives for local economic development should focus therefore, argues Del Monte, on the causes of failure and the obstacles to growth.

In Caserta therefore as in other less developed areas the establishment and the growth of local firms depended in part on the exogenous investments, and the decline of externally-controlled firms did have negative effects on the development of local firms. The development prospects of less developed areas do depend in other words on extraregional investments and on the development of linkages between these investments and local initiatives as well, of course, as on local development strategies aimed at the exploitation of local resources to meet local needs.

The identification of the need for interregional investments does not however vindicate the instruments of traditional regional policies. Incentives, which alter the structure of costs of a firm, are in part a cause of the structure of economies of less developed areas and in particular of the capital intensive character of their industrial development. Incentives do not cause investment decisions to be made, and incentives have not secured an adequate development of intraregional linkages. It does therefore make sense to invest in infrastructures and services to remove some of the locational disadvantages of less developed areas. Infrastructures and services cannot be justified however unless users of these services exist. There must therefore be a parallel development of economic activities and a renewed spatial decentralisation of productive investments from more developed to less developed regions. Instead of grants, however, state equity capital contributions, controls over the location of major investments, planning agreements with major groups, state-region plan contracts that include agreements over the decentralisation of major public investments and differential compensation for disinvestment should be used.

The crisis of Fordism and the post-Fordist era?

At the end of the 1960s and in the early 1970s the Fordist model broke down (see Leborgne and Lipietz 1990). The causes were twofold. In the realm of work organisation, Taylorism prevented the active involvement of the mass of workers in the conduct and improvement of production. The rate of productivity growth that engineers and technicians could secure slowed down and involved ever higher investment costs. As a result the rate of profit fell, as did investment. The level of unemployment rose. What followed was a crisis of the welfare state which had been developed to cope with low rates of unemployment and not the mass unemployment of the late 1970s.

To raise productivity firms sought economies of scale via strategies of internationalisation, and to raise profits they sought out lower cost suppliers and lower cost production sites in Third World countries. The 1971 switch to floating exchange rates and the subsequent reduction in controls opened the path for a dramatic growth of international private banking. This growth was given a new impetus after the oil shock due to the increase in the supply of petrodollars. International trade increased faster than domestic markets. The connection between the wages a firm paid and the size of the market was weakened: wages came to appear as a cost and not as an element of demand for national output. In these conditions the link between an internal model of productivity growth and national macroeconomic mechanisms was weakened. With the rise of monetarism internal demand stagnated as, with the internationalisation of the recession, did world demand: in order to reduce its balance of payments deficit each nation sought larger wage reductions than its rivals, and to improve its capital account each nation introduced yet higher interest rates to attract international deposits. To the earlier supply-side problems were accordingly added the demand-side difficulties of the 'double-sided' crisis of Fordism (see Lipietz 1989b).

In these circumstances the operational weakness of state economic intervention increased. Towards the end of the 1970s significant changes in the organisation, character and goals of national states were set in motion. In almost all countries there was an increase in the importance attached to private initiative, a disengagement of the state from the economic sphere, and a growth in economic initiatives at the local level. What resulted was a paradox: a globalization of economic activities existed alongside a localisation of political strategies (see Preteceille 1991). To some the decentralisation and localisation of development strategies was consistent with economic trends. The localisation of welfare action allowed its differentiation. Automatic rights embodied in the Fordist wage/labour relation were dismantled through the establishment of closer (quasi-market) relations between the provision of services and the abilities of users to pay. In addition competition among local authorities was increased (see Preteceille 1991). With these changes the solidarities that had existed at a national level and that had underpinned the distribution and transfers of resources under Fordism were replaced as individuals came to view themselves as part of a localised community and beyond it of a competitive world. On an ethical front it denoted the substitution of increased competition for cooperation and mutual support.

The implications of these developments for the spatial imbalances can be considered in four sections. In the first I shall identify some of the implications of changes in the structure of advanced economies and in the sources of economic growth. Second I shall discuss some of the divergent models of institutional adaptation to new technologies and their implications for the success of regional economies. In the last two sections I shall discuss the implications of the coexistence of areas at very different levels of development within a single economic space and consider whether the development programmes envisaged as part of the integration process are sufficient to counteract those processes which may lead to an increase in economic polarisation.

Structural change and spatial development: metropolitan economies and the network-metropolis.

In the West the 1970s and 1980s were the years of economic crisis and of a new technological revolution.

- (1) Investments made earlier proved unprofitable, whole industries were rationalised, capital was devalued, workers were laid off. With the increase in the the internationalisation of capital and the search for cheaper production sites on the one hand and the concentration of investments in new processes and products concentrated in existing establishments, there was a reduction in the volume of (actual rather than potential) mobile investment. (In the United Kingdom, for example Hart and Harrison (1990) show how the volume of industrial movement declined: in 1966-70 there were 568 moves to peripheral regions, in 1971-75 376, and in 1976-80 211. Actual movement was limited due to the decline in investment and the concentration of investments in new processes and products in existing establishments.)
- (2) There was an acceleration in the development of new technologies, processes and products and, in particular, a rapid development and convergence of electronics, computing and telecommunications. These new technologies are centred on two principles: the principle of integration and real time control, which depends on communication and coordination, and the principle of production flexibility. With these developments went major

changes in work organisation and the structure and location of economic activities.

•(3) There was a change in the relationships and allocation of investment funds between industrial, commercial, financial and land and property development activities. In particular industrial enterprises were subordinated to commercial and marketing functions, producer services and an increasingly independent financial sector.

These developments involved persistent differentials in output and productivity growth rates across sectors. As a consequence the shares of different industries in output and employment changed. Deindustrialisation coexisted with the rise of new growth ensembles (high-technology industries, revitalised craft industries, and producer services). In these circumstances the map of economic development was transformed and inequalities were reinforced.

In the industrial sector these structural changes resulted in a transformation of job structures. In production, direct production jobs fell relative to maintenance, while in industry 'periproductive' jobs in marketing, design, sales and distribution increased relative to production jobs. The growth of internal industrial sector services (which amount to some two-thirds to three-quarters of the services a firm uses) and of marketed services, the high skill content of these jobs, and the concentration of these activities in major cities where there is a large concentration of professional workers are major factors in the polarisation of economic activities.

Consider for example the case of Paris (see Table 2). With over 18 per cent of the French population (a population of 10 million people) the Paris zone of industrial and urban settlement (ZPIU) accounted for 44.6 per cant of all the 'T1' jobs in France yet just 8.8 per cent of the 'S2' jobs. The Paris ZPIU did not just specialise in sectors with a large share of skilled workers. Within each group of industries it accounted for a high proportion of jobs in research and marketing and much lower proportions of production jobs. The car sector epitomizes the contrast: it is, as Beckouche (1991) points out, at one and the same time a high technology sector (concentrated in Paris) and a sector that depends on price-competitiveness and the search for economies in the wage costs of direct production workers (located in the provinces).

Table 2 The share of the Paris ZPIU in national industrial employment by sectors and functions of production (in percentages)

Sector[1]	Design and research	Sales and marketing	Administration and management	Various services	Storage and transport	Manufacture	All sectors
'Technicien' sectors							
T1	54	66	58	48	32	29	44.6
T2	31	56	37	28	18	14	24.0
Vehicles	49	66	54	37	32	24	30.4
Non-'technicien' sectors							
Q1	15	38	22	19	11	12	14.4
Q2	14	31	20	6	6	5	8.0
Unskilled sectors							
S1	10	34	20	12	10	8	10.9
S2	13	27	18	16	8	6	8.8
Construction	37	28	34	30	15	22	23.3

1. The industrial sectors were classified on the basis of the share of very skilled jobs (engineers, executives and technicians) into a number of groups. The 'T1' industries with a high proportion of high-skilled 'techniciens' include defence electronics, telecommunications, computers, automation equipment, aerospace, high power electrical equipment. The 'T2' include basic chemicals, parachemicals, machine tools, industrial equipment, precision instruments and equipment, and consumer electronics. The 'Q' activities are still characterised by the presence of a large share of skilled manual workers: iron and steel, motor and commercial vehicles, rail equipment, Linotype printing, general engineering and metal manufacturing. The 'S' activities have a high proportion of unskilled workers : food processing, textiles, leather goods, shoes, and furniture. The construction of private vehicles and vehicle equipment forms a separate class.

Source: Beckouche 1991

These changes in the structure of jobs are connected not just with differential productivities but also with the increased role of integrative and management functions. Integration is of two kinds:

•(1) Horizontal integration occurs among the different research and development, design, production, and commercial functions. The development of horizontal and less hierarchical relations in large organisations creates possibilities for the disaggregation of some headquarters functions and some central services and the development of small and medium multifunctional units. The decentralisation of these units would depend however on a wider distribution of centres with a critical mass of skilled workers and services and of networks for the integration of the different units.

•(2) Integration occurs along product chains: silicon >> semiconductors >> computers >> factory control systems >> machine tools >> cars. Involved is the development of logistic systems that integrate means of telecommunication with means of physical transport and that cut across the boundaries of firms. Integration occurs upstream with suppliers and downstream with customers and clients and involves the development of stable networks of organised relations that require coordination and cooperation over methods of production, quality control, stock management and the development of management information systems. The consequence is a new world in which the boundaries of firms are less clear, in which planning is extended from intra-firm to inter-firm relations, in which values are created along networks, and in which the the optimal organisation of the network is not a sum of individual optima.

These developments favour locations computer and telecommunications networks and on major road, rail and air transport infrastructures. What results is a new kind of polarisation which depends on the resources of nodes in networks, their connectivity and connectedness, and the scope for the appropriation of rents. The particular geographical shape of these developments will depend on the distribution of major infrastructural investments as these investments are the precondition for the implantation of these integrated activities. Included are planned investments in means of transport and communication required to run organisations at a distance and allow establishments to interact with one another (a national fibre-optic grid) and in support services and cultural and residential facilities.

These logistic considerations along with the skill requirements of control functions and high-level service sector jobs on the one hand and the distribution of high-quality research and educational institutions on the other favour metropolitan areas as it is in these zones that these advantages are concentrated. What results is the establishment of a very close relationship between a world-wide network of global cities and the distribution of the major transnational control functions in large organisations (Smith and Feagin 1987).

In the French case the development of a metropolitan network is at the root of new kinds of spatial polarisation. The opposition between Paris and the 'French desert' has, Veltz (1991) suggests, been superseded by an opposition between the network-metropolis (made up of Paris and a number of second-rank metropolitan zones) and the 'French desert'. Two major cleavages are identified. One is the ever weaker relations between the development of large cities and their hinterlands due to the weakness of spread effects and the diminished importance of economic activities in their hinterlands for the growth of metropolitan centres. The other is the ever closer integration of the leading sectors of second-rank centres with the activities in the Parisian pole on which they depend: examples include electronics in Rennes and aerospace in Toulouse. What results is an immense gap between a metropolitan network headed by Paris and the rest of the provinces. With less than 20 per cent of the French population the Paris region accounts for some 50 per cent of 'abstract' industrial and producer service functions (researchers, designers, engineers, managers and other executives) and over 50 per cent of all the high-tech jobs in France (see Beckouche 1991 and also Table 2). Jobs in production activities are on the other hand underrepresented. What remains of French design and research jobs are located in the other large metropolises: in particular a substantial share of design and research jobs in the sophisticated state-controlled sectors of the French economy are located in the several large southern metropolises (Toulouse, Grenoble and Bordeaux).

There are two lessons that one should draw from this evidence. In the first place the new inequalities are not so much between centres and peripheries as between metropolitan zones well linked to key physical and telecommunications infrastructures on the one hand and the areas around them and the areas remote from these global cities on the other. Spatial inequalities are therefore intraregional and interregional: there are major inequalities within metropolitan areas where wealth and poverty coexist alongside one another, and there are inequalities between the areas with dominant centres and those without. If development is to be evened out, it is therefore these processes of polarisation of economic activities and functions in metropolitan areas that need therefore to be addressed.

The second conclusion that emerges from studies of global cities is that large firms have internationalised and are major determinants of the international division of labour. Internationalisation has however allowed them to escape the control of national governments and, as we shall see, to play one state and one area off against another. The emphasis in much work on new industrial spaces on small and medium-sized firms therefore seems paradoxical. If large corporations and industrial-financial groups are the dominant actors in the world economic system more attention must be paid to their actions and attempts must be made to divert their investments in key control functions towards less developed areas and to influence the strategies of subcontracting/ partnership that they adopt.

Defensive and offensive adaptations to the crisis: the risks of a two-tiers Europe.

The second important fact is that there were major differences in the adaptations of regional economies to the development of Fordism and in particular to its crisis (see Leborgne and Lipietz 1991, Boyer 1988 and also Friedman 1977, pages 48-50). In essence there is a division between areas within countries and whole national economies related to the decision as to whether to compete on low wages and a competitive environment ('defensive' restructuring) or on high wages, high skills, high productivity and partnership ('offensive' restructuring).[2]

Leborgne and Lipietz identify two sets of relations: capital-capital relations where there are choices between strategies of subcontracting (vertical near-integration) and strategies centred on partnership (horizontal near-integration), and capital-labour relations. What Leborgne and Lipietz do not consider are the relations between capital and the state and the developmental role of the state (Dunford 1991).

Two characteristics (see Figure 3) of Fordist industrial relations are identified (Taylorism as a principle of work organisation, and a rigid wage and employment contract) and two ways out of the crisis are defined (a neo-liberal path which identifies wage and employment flexibility as solutions for the full-employment profit squeeze, and non-Taylorist strategies of responsible work involvement which are centred around a reunification of mental and manual work and increases in the skill content of jobs and whose goals are increases in the quality of output, greater productivity, a functionally flexible workforce and improved demand response). In the case of the horizontal axis Leborgne and Lipietz distinguish the level at which the involvement of workers and the concessions of employers are negotiated (if at all): not negotiated (Taylorism), and individual-, firm-, sector- and societal-level negotiation. As the level at which agreements are made increases, more solidaristic, more organised, less hierarchical, less market-oriented and more rigid wage, employment and social security arrangements prevail. And as one moves around the arc from bottom left to top right the share of the population that gains from the social compromise increases and the share of people who comprise the marginalised strata of dual societies diminishes as does the extent of income polarisation (see Leborgne and Lipietz 1990)

In this way several alternative models are identified. Neo-Taylorism is Taylorism without the social advantages of Fordism (secure jobs, regular wage increases, wage-related unemployment compensation and a welfare state), while the combination of rigid wage and employment relations with negotiated involvement is named after the Volvo plant at Kalmar in Sweden where the assembly line was first dispensed with. The situation in any country will be a complex combination of these elements: in the Third Italy, for example, there are systems that depend on low wages, multiple job holding, irregular work, the employment of children, and the evasion of taxes and social security

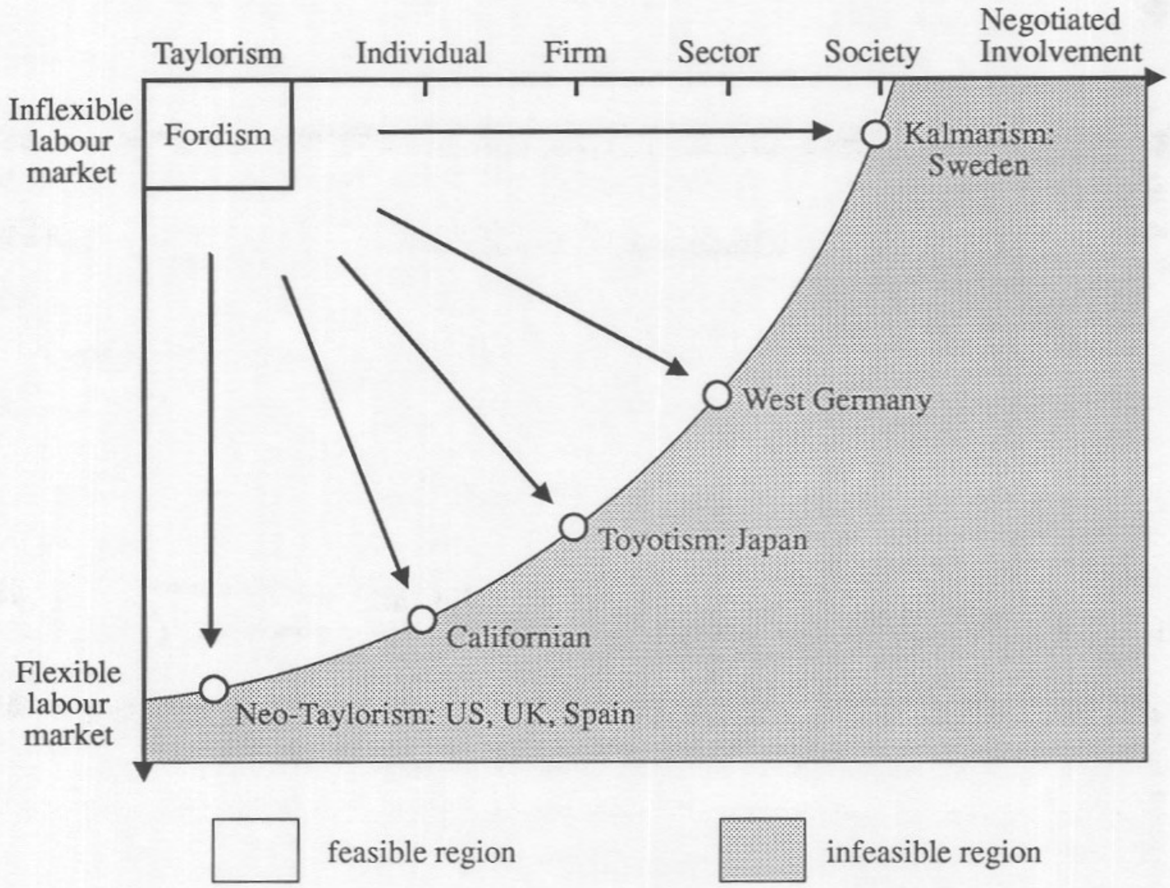


Figure 3 From Fordism to ...? Alternative work and employment relations

Source: adapted from Leborgne and Lipietz 1990.

contributions, and there are others where a significant proportion of the workers are skilled, well-paid and provided with good collective services.In the view of Leborgne and Lipietz the areas that have been most successful are the ones that have chosen strategies of offensive restructuring. At present, however, the differences in productivity and competitiveness are great: areas that chose increased work and employment flexibility and have below average productivities may not therefore have the extra surplus value to pay for more progressive social compromises and can perhaps no longer change course. In this case two consequences follow. On the one hand the scope for social harmonisation in the new Europe will be extremely limited unless there are major transfers of resources among regions. Yet in the absence of some moves towards a harmonisation of social and employment legislation the existence of lower levels of social protection in less developed areas will always pose a threat to more advanced areas as there is always a chance that differentials in wages and wage costs will increase sufficiently to offset the productivity advantage of more developed areas. This threat leads to the adoption of very cautious economic development strategies in richer regions and countries.

Integration and unequal development.

It is these sharp differences in the competitiveness of the regional economies of Europe which in conjunction with the elimination of tariff barriers lie at the root of the increase in regional inequalities. As Cutler, Haslam, Williams and Williams (1989) have shown, the advantages of market integration in the EC have in the past been very unequally divided. In particular in manufactures (SITC categories 5-8) West Germany dominates output. In 1985 West Germany with 19 per cent of EC population produced 38.4 percent of real manufacturing output, while France, Italy and UK with 17-18 per cent each produced 23, 16.4 and 12.8 per cent respectively. In 1987 West Germany accounted for 35.4 per cent of the manufactured exports of the EC, and exported almost one half of domestic production. Within Europe every country except Ireland had a manufactured trade deficit with Germany. The fact that some countries' imports exceed their exports implies however that there is a net transfer of sales and of gross output to the surplus nations. In the 1980s there was an increase in the real value of the German surpluses and therefore in the transfers of output which in 1987 amounted to ECU 34 billion. Transfers of output are however also transfers of jobs: in the case of the 1987 German surplus with the rest of Europe 1.087 million jobs were transferred (ibid, pages 17-20).

In the second place the existence of these deficits establishes a constraint on the economic strategies of deficit countries. If deficits on manufactured trade push the current account into deficit the nation's economic authorities will choose to deflate in the name of a 'price-effect' (lowering unit labour costs) or a 'volume-effect' (reducing domestic demand). In these circumstances employment and income growth will slow down and the deficit with the surplus nation will be kept under control. (If the deficit countries were at or near full employment these constraints would of course not matter. In practice however there were substantial underused resources in Europe.) What therefore prevailed at a structural level was a 'negative-sum game' and war of competitive recessions.

The way to relax the constraint is for surplus nations to recycle their surpluses in the shape of long-term loans and investments in deficit countries. In 1974-90, however, German surpluses with the rest of the EC were not recycled. German financial institutions provided long-term loans to domestic capital but trade surpluses were translated into growing foreign exchange reserves and sterilised. At the same time German growth was not sufficient to provide for full employment let alone to create new jobs for interregional and international migrants. In these conditions the deficit economies were forced to adopt economic policies whose consequence was slow growth.

There are reasons to think that other things being equal the removal of non-tariff barriers will exacerbate these problems of unbalanced trade flows, job transfer, and the creation of trade constraints. What is more differences in the productive capabilities of producers in different regions will be equalised only slowly in the absence of interregional investments. With the removal of non-tariff barriers, however, one of the incentives to relocate investments disappears as there is no longer a need to relocate production in order to produce inside of tariff walls.

In practice of course other things are never equal and conjunctural factors modify the logic of general mechanisms. In the 1980s, for example, the existence of trade surpluses with the US trading bloc making it easier to absorb the strains that resulted, while in 1990 after German reunification, German surpluses disappeared, and some of the deficit countries secured significant improvements in export volumes to Germany.

There is nonetheless a fundamental problem in that what is envisaged is a model of liberal market integration which will place tighter constraints on national economic authorities without the establishment of the central EC budgets capable of assuming their functions. In the past nation states were able to relax these constraints through their fiscal and monetary policies. In a Single Market and a fortiori with a single currency their freedom to act in this manner will diminish. Yet if incomes fall in the weaker areas of Europe so will demand and investment.

The structural funds: an adequate response?

The standard response to these arguments is that Community financial instruments (European Coal and Steel Community grants and loans, European Investment Bank ...) and in particular the structural funds will be used so as to offset any increase in regional and spatial imbalance. (The structural funds comprise the European Regional

Development Fund (ERDF), the European Social Fund (ESF), and the 'guidance' section of the Agricultural Guidance and Guarantee Fund. All are financed from the EC Budget).

The Commission has concentrated structural fund resources on infrastructural projects and vocational training. In 1975-86 81.6 per cent of the commitments (funds allocated) under the ERDF were for infrastructural projects. (Industrial projects received therefore a small share: 17 per cent in 1985, 12 per cent in 1986, 7 per cent in 1987 and 5 per cent in 1988). In 1986 over 80 per cent of ESF commitments were for vocational training. There is no real attempt to exert direct influence on the location of economic activities. Instead reliance is placed on the indirect method of altering the resource endowments of less developed areas. Whether measures of this kind will prove adequate is however questionable.[3] Investments in skills for example are very likely to reflect the existing profile of jobs within a region rather than the new jobs that are needed in order to close the gap with more developed regions.

Table 3 EC budget commitments by category of expenditure in 1988 and projections for 1992 (million ECU in 1988 prices)

	1988	1992
Agricultural Guarantee	27500	29600
'Structural Funds'	7790	13450
Agricultural Guidance	1201	
ERDF	3648	
ESF	2865	
Repayments and administration	5700	3550
Other policies	3213	5200
Monetary reserve	1000	1000
Total	45303	52800
Appropriations as a per cent of Community GDP	1.1	1.2

Source: Cutler, Haslam, Williams and Williams 1989, pages 90 and 94.

In an earlier section I indicated that state expenditures should be considered as a whole. In the case of the EC the most important part of its budget is absorbed by the price support provisions of the CAP which transfers most resources to farmers in the richer areas of the community. Compared with these expenditures the resources devoted to the regional, social and agricultural guidance funds (less than 20 per cent of the EC budget in 1988) which operate in favour of less developed areas are quite small, while their effects are further offset by the distribution of the framework funds which go to support research and development and innovation in strong regional economies.

What is more the plans for the expansion of the Community budget are quite limited: it is intended to increase from 1.12 to 1.17 per cent of Community GDP (see Table 3). The structural funds are projected to increase in real terms by 70 per cent with an increase of ECU 5.7 billion in ERDF expenditure. These projections depend however on a curtailment of expenditure on agricultural price support which is far from certain. At the same time it is important to bear in mind that Spain and Portugal which contain a high proportion of the poorest regions in Europe only joined in 1986. A major increase would therefore be needed simply to meet the needs of these two countries. It therefore seems questionable whether the funds envisaged are adequate to deal with existing imbalances and the new disequilibria that the removal of non-tariff barriers will generate.4

There is little doubt that moves towards fixed exchange rates or monetary integration would increase these strains: economies and firms with low productivities would collapse, surpluses in strong areas would increase, and incomes in less developed areas would fall due to the loss of employment and the wage reductions required for adjustment. In national economies the alternative is for net resource transfers to deficit regions. With closer integration however national governments would face tighter constraints and would have less freedom to transfer resources to deficit economies, while the national economies would themselves become regions of Europe. In these circumstances the use of a method of adjustment which does not depend on competitive recessions presupposes a major expansion of the responsibilities and resources of the EC itself.

Additional competences and resources are a precondition for increased public investments in less developed areas and welfare transfers. To identify this need does not imply acceptance of the principles of the Fordist welfare state: the deduction of a part of the direct incomes of the employed to provide a pool out of which money incomes could be paid to those who for whatever reason are unable to make a living out of direct wage payments (and who, if in receipt of benefits, are not allowed to do paid work). With the reappearance of high rates of unemployment the cost of this peculiar kind of solidarity increased and large sections of the population were denied the social and self-esteem that useful work confers. It is for these reasons that some (see Lipietz 1989a) have suggested the development (as an alternative to the Fordist welfare state) of a third self-managed sector dedicated to socially-useful work. In less developed areas in particular the establishment of agencies financed out of welfare transfers and placed under the democratic control of contractors (local communities, voluntary agencies, environmental protection agencies) would stop the current waste of human resources, allow the development of social services where none exist, environmental improvements and the creation of a richer cultural life and contribute to the 'humanisation of economic relations'.

The need for investment decentralisation without incentives competition.

The crisis of the welfare state was associated with an increase in the operational weakness of state economic intervention, and at the end of the 1970s significant changes in the organisation, character and goals of national states were set in motion. In the field of spatial policies government measures were, for example, scaled down and modified. As Allen, Yuill and Bachtler (1989) show the objectives, instruments and delivery mechanisms of incentives policies changed in several ways: (1) eligible areas contracted, spending fell and discretionary policies replaced automatic ones, (2) the administration of incentives, decision making and budgets were decentralised, (3) incentives were related more closely to the numbers of jobs created or save, and (4) incentives were extended to services. With these changes in national measures went an explosion of local economic development initiatives. What resulted was, as I indicated earlier, a paradox: a globalization of economic activities existed alongside a localisation of political strategies and the identification of a liberal market agenda for collective action (see Preteceille 1991).

In all countries there was, however, a category of mobile investments for which regional aid continued to play a significant but variable role. In the 1970s and 1980s major US and Japanese multinationals were anxious to establish production platforms in the EC in order to get inside the tariff walls that protected European markets. Investments of this kind would, of course, come to Europe whether or not there were regional aids. Interregional and international competition for these investments nevertheless led to a situation in which national, regional and local governments sought to outbid each other in order to influence the decision as to where in Europe these firms would set up: individual governments set the rate of aid at levels required to outcompete other areas taking into account differences in the attractiveness of different locations for these investors in terms of wages, skill levels, and access to markets. In the case of the United Kingdom, for example, automatic regional aid and discretionary selective assistance played a major role in the attraction of inward investments, and the switch to discretionary rather than automatic incentives not only enabled the government to reduce expenditure and target incentives but gave it the discretion required to cap bids from other countries for major inward investments (see Dunford 1989). In these circumstances aids were bid up as firms played one area off against another.

The amounts of aid involved are often very large. In one of the few detailed microeconomic studies of incentives it was shown, for example, that in the late 1970s Ford's £180 million investment in South Wales in the late 1970s received British government subsidies and offsets worth £150 million (cited in Murray 1991, page 16). In the more recent case of the Ford-VW joint venture to make 190,000 minivans per year in Sétubal near Lisbon Escudos 90 billion (£360 million) of the Escudos 450 billion (£1.8 billion) investment cost were paid by the EC (70 per cent) and the Portuguese government. The Portuguese finance minister was opposed to the deal on the grounds that there was a risk of a budget deficit but was overruled. Another Escudos 14 billion are needed to develop infrastructures, and the overall public share was placed at 30 to 40 per cent.

In the case of a particular area the public funds handed over to large groups may seem warranted as the sum required to stop an investment going somewhere else. At a European level, however, government competition for a limited amount of global international investment is wasteful and irrational. At this aggregate level all that results is a transfer of resources from taxpayers to private companies and a reduction in the net tax the firm concerned pays.

What exacerbates the situation is that in some cases inward investments are in sectors in which there are already excess capacities in Europe. In this case new inward investments will have displacement effects. Where, in the second place, strategic industrial objectives exist decentralised regional incentives can come into conflict with them. Yet the aids given to the new multinational start-ups give them a considerable cost advantage over indigenous rivals. In 1989 for example the European electronics sector recorded a trade deficit of $34 billion. Due to its strategic character it is a sector which receives substantial state aid. At the same time, however, the Italian government paid more than 50 per cent of the American Texas Instruments' $1 billion Avezzano plant. In the words of Jacques Bouyer the president of the Groupement des Industries Electroniques 'no European industrialist has ever received a similar incentive to locate in the United States or in Japan'.

These investments raise finally some of the difficulties identified in the past with branch plant economies but on a larger scale. Competitive strength in the new technologies of the 1990s is rooted not in the existence of production operations but in the control of key technologies that have multiple applications: making laser printers or photocopiers is less important than involvement in imaging technologies. The alternative course of action involves therefore not just agreement and cooperation over incentive levels but strategic intervention designed to develop these new technologies independently or in joint ventures. A course of that kind would also require strong measures and the consensus required to ensure an equitable distribution of those investments throughout the territories that come together to make the political and economic commitment to implement a project of that kind.

Under EC competition policies there is an attempt to rule out state aids. Along with aid for research and development regional incentives are viewed as an exception to these rules yet as 'exceptions' are treated in a strict manner. In relation to regional incentives the EC has intervened to set levels of aid and in the definition of eligible regions. The problem is however that no alternative direct method of diverting investments to less developed areas is envisaged. There is a need to control incentives competition. But there is also a need to find new means of leverage over investment location in order to limit the tendencies to uneven development that the neo-liberal programme will create. The alternative is for governments to cooperate and set targets for investment in different areas which are then implemented in planning agreements made with all major European firms and with inward investors (see Holland 1976a and b).

Concluding remarks.

In the 1970s and 1980s the unevenness of development in Europe has increased with different regions following different courses in the face of the breakdown of Fordism. In a context of liberal market integration these two realities mutually constrain one another: on the one hand the need to maintain a trade balance forces the lower productivity areas in the peripheral zones of Europe to grow more slowly so as to limit imports and to hold down wages so as to increase exports. In the high-wage high productivity zones, on the other hand, economic activities are more competitive outside of the most labour-intensive sectors. However the threat posed by competition from low wage areas limits the extent of income redistribution and leads to over-cautious approaches to growth. At the level of Europe as a whole the consequence is relative stagnation: Euro-sclerosis is in fact EC sclerosis, as the superior growth and unemployment records of non-EC European countries shows.

The alternative is the selection of another development path. It would involve an attempt to relax the balance of payments constraints on deficit countries in part via transfers of resources towards less developed areas, the development of a third sector alongside the market and public service sectors and the transfer of productive activities capable of competing not on the basis of low wages but of high-skill quality production. To achieve this result there would be a need for a progressive increase in the levels of social protection to close off the neo-Taylorist path of 'defensive flexibility' and 'defensive restructuring' (Leborgne and Lipietz 1991). The resource endowment of less developed areas would need to increase via infrastructural projects and training programmes. At the same time however attempts would have to be made to decentralise high-level functions and the economic activities that use new higher-level skills through a decentralisation of public investments and leverage over the location of large groups. In short it would involve the construction of a real social Europe and of a more equal Europe which in the final analysis are preconditions for the expansion of markets on which renewed growth depends.

Notes.

1. Two consortia of prime contractors were responsible for the construction of the industrial port and the infrastructures for the steel works: COGITAU and Timperio Spa. 70 per cent of the subcontracts were won by Mafia entrepreneurs who dominated the construction and haulage sectors, and an 8 per cent levy was imposed on all subcontracts carried out by non-Mafia firms. (Mafia enterprises have several advantages: the cosche can discourage competition, wages are held down, and the Mafia enterprises have access to immense financial resources that flow from illegal activities). COGITAU went so far as to make one of the main Mafia entrepreneurs (Gioacchino Piromalli) an official associate (see Arlacchi, 1988: 93-4).

2. In the 1960s less developed areas were integrated into wider models of development and assumed roles in wider divisions of labour. Until the mid-1970s investment decentralisation and emigration helped reduce inequalities as growth was faster in underdeveloped than in more developed areas. However the modes of integration of different national and regional economies into the world system differed, as did the adaptations to the crisis in the late 1970s and 1980s (see Table 1 which uses the distinction made in the first paragraph between quantitative and qualitative growth).

Table 4 The share of different areas in world output

	The share of world GDP			
	At purchasing power standards		At current exchange rates	
	1967	1986	1967	1986
United States	25.8	21.4	33.8	26.6
Western Europe	26.3	22.9	26.4	26.2
West Germany	5.0	4.2	5.1	5.7
France	3.8	3.4	4.9	4.6
Italy	3.9	3.5	3.6	3.8
Britain	4.8	3.5	4.8	3.6
Southern Europe	3.8	4.2	2.8	2.9
Japan	5.8	7.7	5.2	12.4
Latin America	6.9	7.9	5.1	4.6

Source: CEPII cited in Leborgne and Lipietz 1990, page 19

Table 4 shows that in 1967-80 the share of Western Europe (the EC and EFTA) in world

GDP fell significantly in volume and by a small amount in value. In the case of Japan volume increased, and value increased even more sharply, while in Latin America an increase in volume was associated with a reduction in value. Two modes of integration can be distinguished: one which aims at the production of high-quality and high-value output, and one which aims at quantitative increases in the output of goods and services that command low prices on world markets. In relation to these paths Europe finds itself between Japan and Latin America (see Leborgne and Lipietz 1990, page 5).

The same differences are also found within Western Europe. In volume terms all the economies listed lost shares of world output except Southern Europe (Spain, Portugal and Greece). But just as in the case of Latin America the economies of Southern Europe increase their share more in volume than in value. West Germany and Italy lose in volume but gain in value. What emerges is an image of a northern Europe that is stagnant overall but with some zones whose position was strengthened in value terms, and a southern Europe where growth was rapid but where, with the exception of (northern) Italy, growth depended on increases in the volume of output rather than on increases in the value goods and services could command on global markets.

3. In their study Cutler, Haslam, Williams and Williams suggest that the use of the structural funds may serve to impose liberal market discipline. On the one hand the system of matching grants that is to play a greater role requires governments to contribute to the financing of projects the Commission approves. The volume of investment required to close some of the gaps between rich and poor regions is however immense. In the case of Greece, for example, the Padoa-Schioppa programme for upgrading infrastructure was estimated to cost nearly 3 billion ECU a year. In 1989 Greece received 850 million ECU from the structural funds, so the infrastructural programme would require Greece to invest 2.1 billion ECU a year in infrastructure. 2.1 billion ECU is equivalent to 85 per cent of Greek public sector capital formation in 1988. At the same time however the Padoa-Schioppa report insisted that Greece and other poor countries should reduce their public sector deficits as a condition for the receipt of structural funds. If the taxes received do not increase, the Greek government would therefore have to reduce its overall level of expenditure while increasing its expenditure on infrastructure. In this way the Commission 'could acquire new powers to determine the direction of public spending in poorer member states' (ibid, pages 102-4).

4. The proposals for the reform of the structural funds are nonetheless innovative. The EC proposals adopted in 1988 were for a concentration of resources on five priority objectives, rationalisation of methods of assistance, and a doubling of financial resources. Three of the five objectives were regional in character and two were sectoral: (1) to promote the development and structural adjustment of less developed areas with a GDP per head of less than 75 per cent of the EC average, (2) to reconvert regions whose industries are in serious decline, (3) to combat long-term unemployment, (4) to ease the

occupational integration of young people, and (5) to adjust agricultural structures and promote the development of rural areas. For 1989-93 the Commission allocated ECU 38.3 for Objective 1, ECU 7.2 billion for Objective 2, ECU 7.4 billion for Objectives 3 and 4, and ECU 6.2 for Objective 5 with ECU 1.2 billion for other measures.

In so far as the regional objectives are concerned the reform involves multi-annual programmed finance (Community Support Frameworks) for agreed regional development programmes with perhaps enhanced roles for regional assemblies and direct links between these assemblies and Brussels.

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