REGIONAL POLICY DEVELOPMENTS
IN OECD COUNTRIES

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
Paris 1992

Copyright OECD, 1992
Prefatory note

This report has been prepared 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 developments from 1989 to autumn 1991. It has been made public on the responsibility of the Secretary-General of the OECD.
Table of contents

• •••• •• Page
I. Introduction••• •• 4
II. Developments in the regional policy context•• 6
III. Developments in regional problems• •• 11
IV. Developments in regional policy objectives, instruments and measures•••• •• 17
V. The impact of geo-political changes on regional policy• 25
VI. Conclusions••• •• 32
I
Introduction

The preceding report on regional policy developments in OECD countries drew attention to the reorientation of regional policies that took place in the latter part of the eighties as a consequence of major structural adjustment that took place in the OECD economies. This gave rise to similar regional policy trends in most countries. In a number of countries regional policy was directly affected by reductions in public expenditure. In the new situation regional policies were aimed less at the automatic redistribution of purchasing power between regions of unequal development than at promoting the contribution of the less prosperous regions to national growth by focusing on their structural problems. This reorientation in regional policies, has led most Member countries to attach increasing weight to actions aimed at improving competitiveness and the business environment in lagging regions, e.g. infrastructure development, technology transfer, business consultancy, training, assistance for the recruitment of highly qualified personnel, etc., and less to incentives for investment.

These changes -- still underway in some countries -- for the most part took place in the economically favourable context of the second half of the eighties. The 1987 meeting of OECD Ministers responsible for regional policy provided an occasion for Member countries to express their support for these new forms of regional policy.

In relation to the relative linearity of the preceding period, the end of the eighties and the beginning of the nineties can be seen as a turning point, or at least as a period of the inter-penetration of several major trends. The adjustment of regional policy to macro-economic developments continued in an economic context that was more uncertain and less positive, while, at the same time, major world geo-political upheavals pose new questions for regional policy.

Observation of the most recent trends, as discussed in this report, raises the question as to whether another important transformation in regional policies is taking place as a consequence of a new form of structural adjustment but whose causes are less to be found in macro-economic transformation than in the need to adapt to a new geo-political context which takes different forms. In a number of countries east-west border co-operation, as a consequence of the transformation of the European geo-political scene, is growing rapidly and has important repercussions on the development of western border regions, formerly marginalised. Increasing attention is also being given to regional policy in the context of the preparations for the European Single Market on the part of EEC countries but also those preparing for entry or whose economies are closely linked to the EEC. These transformations do not concern Europe only but will affect regional policy elsewhere.
This report first examines developments in the regional policy context (section II), how developments are reflected in regional problems (section III), and the modifications being made to regional policy objectives, instruments and measures in the Member countries in order to adjust to the new conditions (section IV). The impacts of the geo-political changes on regional policy are discussed in section V. The conclusions are set out in section VI.
II
Developments in the regional policy context

This section reviews in turn four aspects of recent tendencies in the economies of Member countries that underlie the present trends of regional policies:

i) the slowing-down of economic growth;

ii) structural changes in the economy;

iii) developments in public finance;

iv) demographic decline; migration.

The Slowing-Down of Economic Growth

The last two years have been marked by a slowing down of growth in the OECD area. The United States, the United Kingdom, Canada, Australia, Finland, Sweden and New Zealand entered a recessionary phase in 1990 while other countries such as France and Italy proved more resistant until the beginning of 1991. Growth was maintained in Japan, Germany, Austria and in Southern Europe countries such as Spain and Portugal. In some countries output fell, in many investments stagnated or declined and unemployment began to rise again in most countries.

Economic growth in the OECD area declined steadily from an annual rate of 4 per cent in the first half of 1989 and 3 per cent in the second half of 1989, and the first half of 1990 to 1.5 per cent in the second half of 1990. Overall OECD output virtually stagnated in the first half of 1991. Currently (autumn 1991) most of the countries in recession are beginning to come out of it while growth is picking up again in those countries where it had slowed down. Growth rates for the OECD area in 1992 should converge around 2.6 to 3 per cent.

The slowing down in economic activity over the past two years has had the greatest impact on the most developed regions. Unemployment in South-East England, for example, is increasing at a faster rate than in all other regions. Similarly in the United States the North-East and Mid-Atlantic regions have higher rates of unemployment than the Southern regions. A form of "negative regional rebalancing" is taking place. On a smaller scale this is a repetition of experience in previous recessionary periods when regional disparities tended to be reduced in many countries because of economic difficulties in the most developed regions.
After eight years of sustained growth in the OECD area, 1990 marked a change and the beginning of a period of uncertainty. In addition to the recessionary conditions optimism was tempered by factors such as uncertainty in the financial sphere, difficulties in the Uruguay Round, the house market crisis in some countries and persisting inflationary tendencies. These factors of uncertainty weigh both on the anticipatory attitudes of enterprises and on the regional economies.

Previous economic growth led to over-heating in some urban regions. For example, in the United Kingdom the industrial and services activities located in the South East of England benefited particularly from demand growth in the 1980s. The rapid increase in real incomes per head in the region was reflected in a substantial increase in car sales and therefore increased traffic congestion and also with a sharp increase in property values. A similar analysis can be made in the case of Japan, France or Norway. The temptation is great in the context of this new form of urban crisis (overheating-congestion plus recession) to develop industrial policies based on the less concentrated regions, although there is no evidence that the upturn will not be generated in the densely populated urban areas. Arbitration between regional policies, on the one hand, and urban policies in the central areas, on the other hand, is still the subject of debate to which public opinion is increasingly sensitive.

Another factor of uncertainty for regional economies is the impact of future reductions in agricultural subsidies. This will necessitate increased attention to problems of rural development on the part of regional policy-makers.

The Working Party on Regional Development Policies is currently undertaking a study on the implementation of regional policy in rural areas.

F.

Structural Changes in the Economies

Process and product innovation continues to be a vector of economic growth. The imperatives of innovation and improved competitiveness of enterprises affect their strategies and, through these, their relationship with regions. The shift to the new firm strategies is still underway and in many countries there are still to be found many long-established industrial firms -- often regionally concentrated -- that have not made the shift. All will not be able to do so and further waves of closures can be expected in the coming years. Moreover, the growing pressure of competition, linked to the liberalisation of international trade, confronts many modern industries with serious problems of restructuring. The eight-year sustained growth in the OECD area that came to an end in 1989/90 has not led to an ending of the need for structural adjustment; on the contrary, structural adjustment is entering into a new phase.

The role of industry in economic growth is being redefined. Deindustrialisation -- more from the point of view of employment than of added value -- which has to a large extent been compensated for by the growth of service activities and SMEs, has led to renewed discussion on the role of large industries. The small service enterprises, which make the largest contribution to employment creation, have been the object of particular attention on the part of public policy and, in particular, regional policy. The concept of endogenous development, formulated during the recessions of the seventies and
the early eighties, synthesises this approach towards regional development from
the base by small flexible production units.

Recently this approach is being modified. It is increasingly apparent
that industry remains the key factor of economic growth, that small service
entreprises are of strategic significance to the extent that they contribute to
the competitiveness of industrial entreprises and that the necessity of
producing on a world scale requires the reinforcement of large entreprises with
major R&D capacities.

The Italian case provides a good example of the limits of regional
development based on a tissue of SMEs in densely populated rural areas. The
slow-down experienced in 1990 and 1991 has brought to the fore structural
causes underlying the conjunctural difficulties. The North-East Centre Model
(NEC) -- "the Third Italy" -- which had major success in the seventies and
eighties and from which was largely derived the concept of endogenous
development, is now running into difficulty. The flexibility of the SME tissue
was an advantage but is weakening at present when the internal capacity for
long-term innovation, the setting up of international networks and global
competition are major determinants in the success of a tissue of entreprises.
This example suggests that large entreprises and their networks bring together
today the determining factors in comparative advantage.

The transition from a growth model based on the endogenous potential of
SMEs to a new model based on large entreprises and their networks, increasingly
operating in a global context, is nascent and is not clearly discernible in all
OECD countries. It could have important implications for industrial and
regional policies, notably because of possible conflict between the objectives
of short-term employment creation (SMEs) and improvement of the competitiveness
of enterprises. While governments encourage and stimulate the expansion of
small entreprises through a wide range of measures, increasing attention is
being given to medium-sized entreprises (under 500 employees) and to the
promotion of innovation in SMEs by encouraging co-operation amongst themselves
and with large entreprises. This assistance is now less in the form of
employment or investment grants than that of transfer of information in the
widest sense, e.g. training, counselling, data banks, help for marketing and
exports.

Developments in Public Finance

Governments are continuing to pursue policies in favour of freeing
market forces in sectors where they have been constrained. Support for
traditional industrial sectors impacted by international competition has
practically disappeared or is being clarified in the context of international
negotiations. Industrial policy interventions are now more indirect and less
selective: direct assistance to some sectors is giving way to policies for
improving overall competitiveness and business and industry environment, e.g.
reduction in taxes on profits, training, infrastructure, technology transfer,
etc.

Some aspects of the change in the role of the State have and will
continue to have important impacts on the regional economies. Privatisation of
State monopolies such as in transport and in telecommunications, particularly
in Southern European countries, and in Sweden, Turkey or Canada -- all of which have serious regional problems -- will lead to changes in management rules, tarification or location of establishments which can have important impacts on the less favoured regions. The implicit or explicit equalisation and regional transfers which operated through public entreprises will be affected by privatisation. In many countries the authorities have influenced the locational pattern of part of the investments of State-owned enterprises in favour of these regions, e.g. the northern parts of Finland, Norway and Sweden, etc. In Italy there is a legal requirement for the obligatory allocation of at least 60 per cent of investment expenditure by all Public Departments and by the large State entreprises to the South.

Budgetary policies remain marked by a desire to reduce budgetary deficits and the public debt. Some governments have only partially attained these objectives. Some countries, such as Portugal, Spain and Belgium, are managing to control the growth in budgetary deficits, while in others they are still rising. In Italy the public debt in 1990 for the first time overtook GDP. The case of Germany is particular in that it is linked to the financial efforts entailed by unification. In general the reduction of budgetary deficits remains a priority. One way of attaining this is through improved management and higher productivity of public services. Regional policy, marked by a low share of wages and running costs in its expenditures, is one of the categories of public expenditure most exposed to cuts. Consequently, there is a strong incentive to improve its efficiency. The tendency to reduction in the weight of public expenditure and in marginal rates of tax tends to lessen the regional redistributive effects of public budgets. This affects the lagging regions through the reduction in the weight of implicit transfers from the more prosperous regions. One manifestation of this is the reduction in public sector employment in lagging regions which contributes to migration to private sector employment in the more prosperous regions.

Demographic Decline; Migration

Most Member countries continued to register demographic decline and find themselves confronted with the prospect of a medium-term fall in population. (In Japan, for instance, population growth in 1990 was the lowest since the Second World War). Active population, which is still rising is likely to decline in the next decades. The trend towards a reduction in active population and an increase in the older, inactive population, which on average in Member countries is likely to rise from 10 to 20 per cent in the coming thirty years, poses important questions for governments as well as for systems of social protection. Some countries, such as Austria or Norway, where birth rates are rising or where there are important flows of immigrants, recognise that this is more a respite than a solution to future problems of financing retirement.

These demographic developments have regional impacts, in particular economically lagging regions are losing population to the benefit of the more developed regions. The Norwegian authorities, for instance, consider that changes in the age structure will differ considerably between regions, especially between core regions and large cities and the periphery. Some of the latter may experience a fast cumulative thinning out of their demographic base, but without total depopulation. Elsewhere, significant in-migration is
being experienced in locations with a pleasant climate and good amenities. Examples are Bournemouth in the United Kingdom, the Côte d’Azur in France, Genoa in Italy, Miami in the United States and the Gold Coast in Queensland, Australia. Many similar examples abound in Greece, Portugal and Spain.

Migration, especially from Central and Eastern Europe, is having important regional impacts. In Austria in 1990, as a consequence of the high rate of immigration (+30 per cent), the increase in employment (2.3 per cent) was accompanied by a comparatively high increase in unemployment (11 per cent). Unemployment is increasing most in the regions with the highest growth in employment. This is especially the case in the eastern Länder, Burgenland and Lower Austria, and also in Upper Austria. Prior to German unification, 256 000 East Germans migrated to the Federal Republic in 1989 and 238 000 in the first half of 1990. During 1989-90 much of the high level of emigration from eastern Germany originated in the southern regions, particularly Saxony.
III

Developments in regional problems

The preceding report pointed out that with the return to growth in most Member countries in the eighties there was a risk of a widening of regional disparities. Following a long period of reduction in disparities in the preceding decades, the structural adjustment crisis in the mid-seventies favoured, in a first phase, a negative rebalancing in that the most developed regions were the ones most affected by the two major recessions. In most countries where there was a return to growth disparities began to increase again, while in countries where recessionary conditions continued disparities continued to decrease.

The last report also raised the question of a possible reversal in the short-term of the trend to concentration of activities in the central regions. It was suggested that costs of congestion, especially costs of industrial premises and housing, but also improved infrastructure, particularly rapid communication networks, might lead enterprises to locate or establish in the aided areas in significant numbers. No clear picture for the OECD area emerges from recent data. Available statistics show contrasting movements. However some observations of a general nature can be made. The present development in regional disparities in most Member countries is simultaneously impacted by both structural and conjunctural factors.

It is not easy, however, to make a clear-cut distinction between the impacts of structural and conjunctural factors on regional disparities. It is often, but not always the case, that disparities narrow in times of recession and widen during expansionary phases. This thesis is based on the assumption that the most developed regions are the most linked to the world market and that therefore a global recession has the biggest impact on the core regions.

But it can also be the case that because the core regions have a more diversified economic structure, a global recession will have a greater impact on the peripheral regions that have more vulnerable, undiversified economic structures. Northern Sweden, which is confronted with very severe regional problems, is now hard hit by conjunctural factors that have affected the forestry and mining sectors. Recession can also lead to a closure of branch plants in peripheral regions. The Netherlands’ experience is another case in point. There, regional disparities narrowed during the 1984-90 boom and widened during the 1979-84 recession. However, the Netherlands' experience may be atypical in that it is a small country where space is scarce -- particularly in some parts -- and distances between central and peripheral regions are small.
Nevertheless, over the past two years there has been a continuation of the tendency for regional disparities to widen. In a number of countries, however, as discussed in section ii) below, the 1990–91 slowdown affected in the first place the most developed regions, giving rise to negative regional rebalancing. Study of longer-term regional economic trends suggests that this may be transitory and mainly a reflection of cyclical developments rather than a more permanent tendency, although it is premature to draw any definite conclusions.

A Tendency for a Widening of Regional Disparities

In Japan, population has declined in all regions with the exception of the two central regions, Kanto and Tokai. At the level of prefectures there has been a similar development although with some nuances: central areas in the most developed regions (the cities of Tokyo and Osaka) experienced population decline while it increased in adjacent prefectures. This is attributed to the escalation in land prices. The Tokyo Metropolitan Area experienced an increase in population and greater concentration of business management, financial services, R&D, intellectual and cultural services, information, and distribution. This trend is worrying to the Japanese Government because of renewed problems of congestion and because it may hamper the development of peripheral regions. Japan is, nevertheless, one of the few Member countries where regional rebalancing is taking place, but less because of decongestion of the central regions than because of bottlenecks in the labour market.

In Italy, there has been an acceleration in the rate of growth in the Mezzogiorno and a notable slowing down in the North. Nevertheless the disparity in per capita output has widened. In the Mezzogiorno in 1989 it was 56 per cent of that of the centre-north. The gap is imputable, in the same proportions, to lower productivity and to lower rates of employment in the Mezzogiorno. A determining factor in the global negative development of the Mezzogiorno is its much lower share of transformation industries. This is a key element for expansion of a non-parasitical service sector. GDP in the Mezzogiorno is systematically inflated by an important flow of net imports whose contribution to total resources was 17.4 per cent in 1989. There have been some positive signs on the employment front in the Mezzogiorno. Employment is now increasing faster than manpower which has led to the unemployment level falling from 21.6 per cent in January 1989 to 20.1 per cent) in January 1991.

In France, the results of the 1990 census showed that the demographic decline of Ile de France has come to a halt. By itself the region, which accommodates 19 per cent of the national population, accounted for 35 per cent of the population increase since the 1980 Census. In terms of job creation the region performs significantly better than the rest of the country.

In Spain, the tendency for concentration along the coast line, in the archipelagos and in Madrid continued. Differences in income and output per capita generally mirror spatial imbalances in population distribution. In Spain this no longer holds true. The industrial crisis in the Basque country, Cantabria and the Asturias has led to a decline of these regions in the
hierarchy of regional per capita income, while the less densely populated areas on the axis of the Ebro valley have moved up to the first places. While disparities in output per km² remained unchanged during the eighties, disparities in output per capita tended to decrease during the period of industrial crisis (1980-85) and to increase during the subsequent period of growth. From the point of view of employment the upturn after 1988 benefited all regions, except Galicia. Between 1985-89 there was a growth of 15.2 per cent in employment in the country as a whole. This growth was strongest in the Mediterranean coastal regions and weak in the regions that had been impacted by the industrial crisis as well as in the Ebro valley axis and in the central regions. Between 1985 and 1990 the Spanish regions experienced the sharpest falls in unemployment in the whole of the EEC. The fall was greatest in the most developed regions, but nevertheless the national unemployment rate was 16.1 per cent in 1990. Regional unemployment disparities have thus had a tendency to increase since the mid-eighties because unemployment fell more strongly in the most developed regions.

In Portugal, the good economic performance has mainly been due to developments in the coastal regions. While Lisbon’s share in national employment declined this was due to the industrial restructuring that took place in the first half of the eighties. The largest employment gains took place in the northern coastal areas. A new regional development space is building up in the Leiria area, north of Lisbon, (porcelain, stoneware and metal products). The structural tendency for a widening of regional disparities in Portugal is being attenuated in terms of disparities in living conditions by urbanisation in peripheral areas.

In Sweden, demographic developments and the employment situation are least favourable in the interior of northern Sweden. Population and enterprises in this region have greater obstacles to contend with, e.g. longer distances, scattered settlements, than other parts of the country. Long-term problems mainly of a structural nature also exist in parts of Bergslagen and Värmland.

In Norway, while regional imbalances narrowed during the seventies, the peripheral regions, especially in Northern Norway, suffered significant net migration losses during the mid-eighties. In general, peripheral areas without large and medium sized cities experienced considerable migration losses. The reduction in regional disparities in the seventies was essentially due to expansion of the public sector (improved public services and improved employment opportunities) and expansion or relocation of manufacturing activities in rural areas. The vast increase of women in the labour force was another factor reducing centre-periphery disparities. The public sector continued to expand in the eighties but with a more centralised pattern. Urban based activities progressed rapidly until 1987, thus contributing to a widening of disparities.

In Belgium, in the Walloon region the fall in unemployment which was most significant in 1988 slowed down strongly in 1990. The reduction in unemployment was not sufficient to enable the gap between the development zones and the rest of the region to be reduced. In the development zones in the Flanders region, there has been steady improvement over the past five years.
In the European Community, as shown in Table 1, disparities in GDP per capita between the richest and the poorest regions increased between 1980 and 1988. Amongst the poorest regions of the Community there has been clear improvement in the poorest regions in Spain, while those in Southern Italy and Greece have in relative terms declined further.

Two mechanisms are at work: disparities between EEC countries are tending to narrow (convergence) while disparities between regions tend to widen (divergence) at Community level as well as in most of the Member States.

The situation in Denmark, Finland and the Netherlands stands apart from the general trend.

In Denmark, mainly because of good economic performance in recent years, regional policy is being switched from supporting the poorer regions to strengthening the better-off ones that have growth potential.

In the Netherlands, areas of high unemployment, limited job opportunities and under-investment have made a reasonable recovery. However, parts of the north of the country have not yet managed to achieve the same degree of success.

In Finland, where, most notably, immigration to Southern Finland, particularly the Helsinki area, has decreased and internal migration is in balance, regional disparities in unemployment slightly narrowed towards the end of the eighties although considerable disparities still exist (in 1990 the highest regional rate of unemployment was 7.5 per cent and the lowest 1.3 per cent). From the end of 1990 unemployment has increased across the country. The distribution of the gross regional product did not undergo any major changes during the latter half of the eighties.

Negative Regional Rebalancing

The 1990–1991 slowdown had immediate impacts on regional disparities by affecting in the first place the most developed regions, giving rise to negative regional rebalancing. This development is clearly perceptible in some countries, notably in the United Kingdom where there has been a significant contraction in regional disparities in unemployment rates among regions, the United States, Canada, Greece, Italy and Norway. If some countries such as Spain, Austria, Germany or Japan have not experienced similar impacts it is because growth has been maintained. The same process may be at work in other countries but may be too recent to be detected in the statistics.

The situation in the United Kingdom, the United States and Canada is particularly striking. It is noteworthy that rebalancing occurred suddenly after several years of growth in the central regions.
Table 1. Disparities in GDP per inhabitant between the regions (1) of the community, 1980-88
(in pps, eur 12 = 100)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10 weakest regions</td>
<td>47</td>
<td>46</td>
<td>46</td>
<td>45</td>
<td>45</td>
<td>45</td>
<td>45</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>10 strongest regions</td>
<td>145</td>
<td>146</td>
<td>147</td>
<td>149</td>
<td>149</td>
<td>150</td>
<td>151</td>
<td>151</td>
<td>151</td>
</tr>
<tr>
<td>25 weakest regions</td>
<td>57</td>
<td>57</td>
<td>56</td>
<td>56</td>
<td>55</td>
<td>56</td>
<td>55</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>25 strongest regions</td>
<td>135</td>
<td>136</td>
<td>136</td>
<td>136</td>
<td>137</td>
<td>138</td>
<td>138</td>
<td>137</td>
<td>137</td>
</tr>
<tr>
<td>Disparity (2)</td>
<td>26.1</td>
<td>26.5</td>
<td>26.8</td>
<td>27</td>
<td>27.2</td>
<td>27.5</td>
<td>27.9</td>
<td>27.5</td>
<td>27.5</td>
</tr>
</tbody>
</table>

(1) NUTS 2; French overseas territories, Azores and Madeira not included for data reasons.
(2) Weighted standard deviation.

In the second half of the eighties and until 1989 economic growth in the United Kingdom was more rapid in the South and Midlands than in the rest of the country. The largest employment increases were recorded in the most developed regions. Some employment areas in the South had practically full employment in 1989 while areas in the north experienced high rates of unemployment, in some cases above 15 per cent. Rates were even higher in parts of Wales, Scotland and Northern Ireland. In the South East regions GDP per head grew more rapidly than the national average until 1989, the latest year for which complete figures were available. The current recession, however, has affected the south first. Seasonally adjusted unemployment began to rise in the southern regions from June 1990, but it did not begin to rise in the rest of the United Kingdom until the Autumn. This has resulted in a convergence in unemployment rates towards the average. Unemployment is still increasing (autumn 1991) at a faster rate in the South East than in all other regions.

A similar convergence has been taking place in the United States. While in June 1989 the unemployment rate was 4.3 per cent in the North East and 6.1 per cent in the South, the respective rates were 7.2 per cent and 6.9 per cent in June 1991. Convergence was essentially due to rising unemployment in the North East, particularly New England where the rate rose from 3.8 per cent to 8.1 per cent. The lowest rise took place in the Midwest from 5.5 per cent to 6.5 per cent.
As a consequence of on-going expansion of the labour force and the faltering economy, the (Canadian) unemployment rate started to climb from 7.5 per cent in 1989 to 8.1 per cent in 1990 and to 10.5 per cent by June 1991. The rise in unemployment, although widespread, has not been equal throughout all provinces. Ontario was in 1989 still by far the best-off province, but its unemployment rate has gone up since from 5.1 per cent to 10 per cent, now approaching the national average. Quebec and the Atlantic Provinces continue to be characterised by above-average unemployment figures. Increases in unemployment have remained modest in the Prairie Provinces and in British Columbia. The Atlantic regions and to a lesser extent Quebec continue to show weak records, but the western provinces are among the least affected. The rapid unemployment rise in Ontario may be partly related to the strong presence of the service sector in this province. This sector appears to be more affected by the current cyclical downturn than was the case in previous recessions.

Other forms of negative regional rebalancing of a more structural character may emerge in the coming years in some countries. Attention has already been drawn to the wearing out of the NEC model in Italy, while it may occur elsewhere, because of running down of the defence industries which are mainly located in the most developed regions.
IV

Developments in regional policy objectives, instruments and measures

Regional policy at the beginning of the nineties is aimed at a reduction of regional disparities while contributing to macro-economic structural adjustment but also, in some countries, contributing to adjustment to geo-political developments. A re-evaluation of the role of space in economic development and national competitiveness is taking place. The spatial dimension is no longer seen, as was the case in the sixties and seventies, as a passive element but as one of the factors acting on national growth as brought out in the OECD Technology/Economy Programme (TEP)F Background Report Concluding the Technology/Economy Programme (TEP), Chapter 9 [C/MIN(91)14].

F. A macro-economic and quantitative management of space is being replaced by qualitative and selective management.

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. This is true of systems of direct assistance, but also increasingly, of the choice of infrastructure. The application of administrative regulations is giving way to policy choice. Increased regional consciousness, decentralisation, regionalisation, the putting in place of mechanisms for collaboration between the central administration, the regional administrations and the private sector, trade liberalisation agreements that can have strong regional impacts, are new features that reinforce the political component of regional policies.

At the same time regional policies themselves are undergoing fundamental change. Until recently their primary objective was to secure a better balance in activity and wealth in the country as a whole. In general this was undertaken by measures to accompany or accelerate the natural movements in national economic development, particularly by supporting private industrial entreprises that chose to relocate their activities to less developed regions in order to benefit from lower production costs. The example of the United States shows that a country which does not have a strong national regional policy can through such mechanisms experience a natural narrowing of regional disparities.

With recent developments in production systems and what has been called the information revolution, the logic of location decisions has been reversed with the natural movement in economic development being towards spatial concentration. The TEP has drawn attention to the competitive advantages that can be derived from geographical location that offers firms specific resources, whose exploitation generates significant externalities in terms of proximity.
The tendency to spatial concentrations makes regional policy-making all the more difficult and necessitates continuous surveying and public reporting on developments, e.g. the annual reports of the Decentralisation Committee in France. The current policy stance in the majority of Member countries is to assist lagging regions to overcome their deficiencies. No country tries to place a brake on private sector location in the most concentrated areas through such means as tax penalties and administrative restrictions, as was the case in the past. Relocation of parts of the national administrations and of some publicly controlled establishments outside the capital city is an option that is being followed in France, e.g. the relocation of the prestigious Ecole Nationale d’Administration (ENA) to Strasbourg. The United Kingdom is considering further relocation of segments of Government Departments and public services away from London where there are net benefits from so doing. In Sweden, systematic discussions take place with large private service entreprises to encourage them to relocate outside the Stockholm area. In Greece) consideration is being given to the relocation from Athens to peripheral regions of government services or public organisations that are not functionally related to the Capital.

In Japan over the past several years there has been a new and substantial influx of people into the Tokyo Metropolitan Area. In these circumstances the strategy of a "multi-polar" pattern of land use has been adopted (Fourth Comprehensive National Development Plan). This strategy has led to two new laws: the Key Facilities Siting Law, and the Multi-Polar Law. The first aims at attracting the "brains" of industry (e.g. R&D, information services, design businesses, products development divisions in corporations, etc.) to locations outside the highly concentrated areas, and the second encourages deconcentration of population, administration, economy and culture by providing assistance for housing and communications. The new legislation is supportive of the 1972 Industrial Relocation Promotion Law. However, the policy instruments under these laws are too indirect to change the tendency and new measures are being mooted such as the relocation of large segments of administration or even of the seat of government.

In the lagging regions in Member countries the tendency is to favour investment rather than immediate job creation. The accent is being placed on investment -- tangible and intangible -- for restructuring operations in the private sector but also in the public sector. The endogenous approach is tending to be eroded by the return to a growth path and the reappearance of considerable numbers of mobile firms, consequent on development in production systems, technology and telecommunications. The basic objective is to "connect" lagging regions with the rest of the world in terms of infrastructure and technology transfer rather than to organise auto-centered development or immediate employment creation.

Recent developments in the Member countries are examined below under four headings:

i) changes in the map of assisted areas;

ii) changes in the amounts of aids;

iii) changes in the kind of aids;

iv) changes in their administration.
Changes in the Map of Assisted Areas

The tendency for a geographical focusing of aids in more restricted parts of the country has continued but the importance of the maps of aided areas is decreasing to the extent that regional policies are increasingly based on indirect actions, notably infrastructure development, whose effects on regional development do not necessarily coincide with the boundaries in the maps.

In addition to the reduction in areas in the western Länder of {Germany} eligible for regional promotion, eligible areas in the northern part of the {Italian Mezzogiorno} are to be progressively reduced. Together with some other changes this will lead to a stronger concentration of aids in the most southern parts of the country. Moving northwards the intensity of aids will progressively diminish as far as the Provinces in the vicinity of Rome which will not be eligible for any regional assistance.

In {Sweden}, as a result of changes in 1990, the aided area represents 59 per cent of the territory and 8 per cent of the population as against 61 per cent and 14 per cent previously. The former classification of municipalities in three aid areas, A, B and C has been superseded by a new classification into two new aid areas, entitled 1 and 2.

In {Denmark}, the five-year delimitation of aid areas, as approved by the EEC Commission, runs out at the end of 1991. Consideration has been given to reducing the aided areas from 20 per cent of the population to 0 per cent, but to guard against unexpected developments the aid area over the next five years is likely to remain unchanged, although because of the change in regional policy [see iv) below] very little aid is likely to be accorded. (The main incentive in Denmark is a discretionary grant).

In {Greece} the most developed region, Attica, (the Athens Region) has been added to the list of areas needing assistance from the EEC Structural Funds. As a result the whole country is now assisted. In the case of the Athens Region emphasis is being given to environmental amelioration projects since environmental deradation is related to economic recession in the region.

In {Belgium}, the delimitation of aided areas has remained unchanged over the past five years. Regional policy assistance, under the pressure of budgetary constraints, has become much more selective. Assistance is only provided for investments which create new jobs and are environmentally safe.

In {Turkey}, since 1989, through the use of development indicators, six additional provinces have been designated "less developed regions" bringing the total to 34 out of the 67 Turkish provinces.

In {Japan}, a new Technopolis was designated in 1989 bringing the total to 26. Fifty one regions have been designated under the 1987 Adjustment Law. Sixteen Group-siting Promotion Plans have been approved under the Key Facilities Siting Law.
Changes in Amounts Financial Resources Devoted to Regional Assistance

The previous report noted a reduction in the volume of aid in the first half of the eighties which continued until 1988. Since then, if account is taken of the more global actions in favour of lagging regions, a more contrasted picture of developments in Member countries emerges.

In the case of {Germany} there has been a very sharp rise in regional expenditure consequent on unification. The 1991 budgetary provisions of the Joint Scheme amount to 4 090 million DM of which 2 766 million DM is earmarked for the five new Länder and 234 million DM for Berlin. In addition 1 200 million DM is set aside for the Special Programme New Länder. (Total gross expenditure in the FRG in 1986 amounted to 2 630 million DM (investment allowances, investment grant and special depreciation allowance).

In {Sweden} the regional policy allocation has increased from 1 900 million SEK in 1989/90 to 2 400 million SEK in 1990/91. It may be noted that regional policy expenditure is not being affected by the important reductions in government expenditure.

In the {Netherlands} the Ministry of Economic Affairs intends to allocate funds available during the 1991-1994 period, in million guilders, as follows: 1991: 338; 1992: 413; 1993: 341; 1994: 381. The previous trend showed an increase until 1985 followed by a sharp reduction.

In {Finland} loans and grants provided by the Regional Development Fund Ltd. (KERA) totalled Fmk 1 220 million in 1990, and guarantees to Fmk 45 million. Compared with 1982 there has been a moderate increase in grants and a steep increase in loans.

In {Switzerland} aid for mountain regions is to be considerably increased in the coming years.

In {Turkey} the sixth Five-Year Development Plan running from 1990 to 1994 provides for development of the incentive system in order to attract private sector investments. Differentiated rates of incentives will continue to be provided in the less developed regions. The Department of Less Developed Regions in the State Planning Organisation has been given the additional task and function of regional planning for the whole country. Its name has been altered to "General Directorate for Regional Development and Areas with a Priority in Development."

In the {United States} the Economic Development Administration, whose focus is on providing assistance to economically distressed areas and to stimulate private sector investment, has been funded at approximately the same level for the past three years, i.e. approximately $200 million per annum.

In the {United Kingdom} government expenditure on Regional Preferential Assistance has fallen substantially. The fall reflects the switch in emphasis from automatic aids (Regional Development Grants) to discretionary aids (particularly Regional Selective Assistance). Recent expenditure on regional policy F, in million pounds, has been: 1987-88: 557.2; 1988-89: 617.3; 1989-90: 540.8.
In Japan a new system for financing regional development has been developed: interest free loans since 1987, and low interest loans for social infrastructure since 1991 financed by revenue raised through the privatisation of Nippon Telegraph and Telephone Company (NTT).

Changes in the Kinds of Aids

Assistance measures have continued along the path of greater selectivity, improved targeting, and the promotion of the competitiveness of enterprises through infrastructure development and promotion of services to industry. Some of the outstanding developments are recorded below.

In Norway there has been a shift in selective regional policy from supporting physical investments to supporting development activities, particularly more emphasis is placed on increasing local competence and other measures which enhance industry's ability to restructure and innovate: technological skills, financial control or marketing competences. Equally important is the development and support of local R&D centres and technology transfer from central R&D institutions and large companies to SMEs in peripheral areas being undertaken under various programmes. Sectoral criteria for the granting of aid is being gradually abandoned and replaced by selection on the basis of the "quality" of the projects.

In Sweden the new regional policy which came into force on 1 July 1990 emphasises the change from direct entreprise support towards infrastructure development. The new policy represents a shift from support for investments in buildings and equipment to the support of intangible investments. There are now three main regional policy incentives: location grant, employment grant and a new development grant. The Location Grant is a discretionary project-related capital grant, with rates of award limited by cost-per-job limits. The maximum level of location grant has been reduced after 1 July 1990. In aid area 1 the level of location grant has been reduced from 50 per cent of the costs of an investment to 35 per cent. In aid area 2 the maximum level has been reduced from 35 per cent to 20 per cent. Modifications to the Employment Grant scheme for aid areas 1 and 2 have also been introduced. The employment grant is a fixed sum paid annually for up to five years in respect of additional labour taken on in areas 1 and 2. The maximum assistance in area 1 is SEK 200 000 and in area 2 SEK 120 000 for a five-year period. The Development Grant is a discretionary project-related capital grant. It will provide support for intangible investment in the two aid areas of 50 per cent of eligible investment costs, subject to a maximum of SEK 500 000 per project. Location loans and the previous possibility for the county administration board to provide investment support with a maximum 15 per cent of the cost of an investment outside the aid areas were abolished from 1 July 1990, but are expected to be re-activated as from 1 July 1992. Reduced social security contributions, except for basic industry, now include the whole of aid area 1.

In the Netherlands regional policy instruments are to be applied more selectively. This will enable the investment grant scheme (IPR), primarily aimed at job creation, to be gradually wound up in some regions. The Investment Grant scheme (IPR) will differentiate between two types of area: those granted an IPR for the whole policy term of four years and those granted an IPR for a transitional period lasting until 1993. The new rates are:
-- areas qualifying for an IPR for a further four years: 20 per cent subsidy for establishment and expansion within a term of five years following initial establishment; 15 per cent subsidy for other forms of expansion;

-- areas qualifying for an IPR for a further two years: 15 per cent subsidy for establishment and expansion within a term of five years following initial establishment.

In addition the Grant Scheme for the Economic Stimulation and Development of Lelystad (PSOC) is being maintained over the policy term.

In {Austria} regional aids are shifting from undifferentiated capital grants to the promotion of information transfer and counselling as well as to the selective promotion of technologically advanced projects. The main regional policy measure has been changed from a grant for newly created jobs to a "Regional Innovation Premium". This is aimed at stimulating economic revival in old industrial areas and economic growth in peripheral areas.

In {Finland} the regional policy legislation was amended at the beginning of 1989. The new Act on Regional Subsidies to Business Activities came into force together with a number of amendments to the regulations. The new Act is aimed at activating business developments, raising technical standards of enterprises and improving the industrial structure and employment in weaker areas. In 1991 regional subsidies for business activities were directed in particular to projects involving improvement of the standards of the product or production of an enterprise and to projects that improve the industrial structure, business services or work productivity in the area in question or employment in areas with serious employment problems. The Act on the Regional Development Fund (KERA) was also amended at the beginning of 1989. The eligible business activities have been aligned with those of the new Act on Regional Subsidies. The rules for KERA’s activities have been simplified and its actions focused on risk financing to SMEs.

In {Denmark} a new law on business promotion has come into force and a new Business Development Board has been established. With the coming into force of the new legislation, 12 different business promotion laws were abrogated, including the Regional Development Act. The new legislation is aimed at maximising the growth potential in Denmark, in all sectors and in all regions wherever possible. Formerly, the regional policy objective was to reduce regional disparities by assisting the poorest regions. In the future, regional policy actions will also be undertaken in better off regions where there is a growth potential.

In {Spain} the basic strategy of reduction in regional imbalances (Regional Development and Reconversion Plans prepared in 1989 in agreement with the Autonomous Communities), which is financed by the Inter-Territorial Compensation fund (FCI), the central government, the Autonomous Communities and the EEC structural funds, has four main lines: maintaining and consolidating the dynamic of areas with the best possibilities of adaptation and growth; braking the decline of the Cantabrian area by supporting reconversion operations and eliminating infrastructure bottlenecks; extending the Mediterranean axis to Andalusia; adjusting the productive structures in the less developed areas in the central and western regions by stimulating
endogenous potential and improving infrastructure. In agreement with the Autonomous Communities, and, as approved by Parliament, the FCI is being oriented to the reduction of regional disparities and its resources concentrated in the poorest areas. Assistance is being primarily oriented to employment creation and to support technology application.

Particular account in the award of Spanish regional investment grants, the legal basis of which is Law 50/1985, is taken of the likely dynamic effects of a project on the area’s economy and whether it is located in a priority area. Regional investment assistance is particularly directed to medium and large enterprises since small projects lead to the creation of less qualified jobs and have little investment generation impact. Assistance to small firms will be limited to rural areas where they can have dynamic effects.

(Portuguese) regional policy places a strong emphasis on infrastructure and upgrading of human resources. It is strongly tied in with EEC regional policy. A new Regional Development Plan for the period 1989-93 has been drawn up and negotiated with the Commission under the name of the Community Support Framework (CCA). The former project oriented approach has been replaced in this medium term plan by one based on sectoral and regional development programmes. Total investments supported by the EEC are of the order of 3200 billion escudos which represent over 30 per cent of global investments foreseen in the Portuguese economy in the period 1989-93. Financing from the structural funds and from the Special Programme for the Development of Portuguese Industry (PEDIP) represented in 1989 about 2.2 per cent of Portugal’s GDP and will rise to around 4.5 per cent in 1993. About 50 per cent of the co-financing is intended for modernisation of the economic structure (infrastructure, assistance to productive investments, modernisation of agriculture), 30 per cent for upgrading human resources and 20 per cent for local development.

In (Italy) new emphasis is being given to infrastructure development in the Mezzogiorno. The 1990-92 triennial development programme for the South launched the "strategic projects" which represent a new strategy for intervention aimed at overcoming infrastructure bottlenecks. The Inter-Ministerial Committee for Economic Programming (CIPE) reaffirmed in 1990 the Government’s policy regarding infrastructure development: at least 40 per cent of regular expenses for infrastructure investment must be devoted to the Mezzogiorno.

In (Japan) the main forms of regional assistance in areas delimited by the various legislation are lower rate and interest free loans for investment, special depreciation allowances, and local taxation incentives for investment. Investment grants are not provided.

In the (United Kingdom) on 1 April 1988 Regional Enterprise Grants (REGs) and the Consultancy Initiative (CI) started, while, from that date onwards, no new Regional Development Grants (RDGs) were initiated. This was a shift in policy in that RDGs were automatic and available to firms of all sizes, whereas REGs are available only to firms with less than 25 employees (or full time equivalents). The consultancy initiative subsidises firms with less than 500 employees to hire external consultants in the fields of business planning, design, financial and information systems, manufacturing systems, marketing and quality. Although the program is national, it has a regional twist in that the subsidy is greater in Assisted Areas (two-thirds paid by the DTI, as against one-half).
The EEC’s regional development efforts are mainly concentrated on infrastructure development (60 per cent of ERDF funds in the lagging regions). The reform of the structural funds has led to concentration on a limited number of priority objectives and to participation of the regions in the preparation and implementation of multiannual programmes.

Changes in Aid Administration

The trend towards administrative decentralisation and simplification of procedures has continued.

In Italy administrative simplification in order to accelerate procedures has come into force.

In Spain the Communities are now entirely responsible for the management of their share of the FCI. Co-ordination is ensured in the Committee for Public Investments. The aid system is becoming increasingly discretionary.

In Sweden the administration of the incentive scheme has been rationalised. The county administrations can now decide on location grants awards involving eligible investment of up to SEK 20 million. At the county level a single administration -- the County Administration Board now administers location, development and employment grants. At central government level, responsibility for regional policy has been transferred from the Ministry of Industry to the Ministry of Labour.

In Norway several experimental programmes are underway to improve the management of regional policy. These experiments reflect the trend to decentralisation of responsibility and authority from central to local level. An element of competition between municipalities on the county level has been introduced in that the equity objective is seen as being of less significance than the efficiency objective.

Another new feature in regional policy, essentially deriving from foreseen continued budgetary restraint, is the attention being given to official evaluation of regional policy expenditures. (Academics have long concerned themselves with this aspect of regional policy). Continously undertaken in the United Kingdom and Sweden, recent evaluation studies have been undertaken in countries such as Austria, Finland, Netherlands, and Norway. A conclusion that emerges from the United Kingdom studies which allow comparisons of different instruments suggest that selective assistance is more cost-effective than automatic grants, although with some possible disadvantage in clarity and predictability.

In Portugal an Evaluation Committee has been set up, and in Italy the 1990–92 triennial development programme for the South foresees the setting up of an Observatory to monitor and evaluate the territorial distribution of all public expenditure. In the EEC the question is being discussed of conferring evaluation of its regional programmes to an independent body.
Democratisation and the shift to market economies in Central and Eastern Europe has a number of consequences for regional problems and policies. Firstly, within some of these countries there is an awakening of regional consciousness which is leading to important roles being assigned to regional policies. Regional analyses and policy-making in OECD countries can provide a reference point for these countries. Secondly, these geo-political changes have had two major impacts on the OECD regions and regional policy in 1990-1991:

i) in Germany regional policy has been assigned an important role in supporting the change from a centrally planned to a market economy and in facilitating the economic recovery of the new Länder;

ii) development of transfrontier co-operation between Western and Eastern Europe and impacts on western border areas.

German Unification

With the unification of Germany on 3 October 1990, 16.4 million people, i.e. five Länder and the eastern part of Berlin, entered the OECD area. For this reason this report presents the main economic characteristics of this new territory. Table 2 provides comparison in key indicators with the former territory of western Germany.

The population of eastern Germany declined between 1970 and 1989 in part due to natural factors, and in part to strong emigration, particularly to western Germany. Unification led to a considerable reduction in migration although it remains significant. Another characteristic of the new Länder is the youthfulness of the population (20 per cent under 15 compared with 15 per cent in the rest of the country), the high activity rate (52 per cent against 48 per cent) and a high rate of females in the active population (48 per cent against 37 per cent).

The introduction of a market economy led to a sharp fall in employment. Unemployment has been increasing rapidly and is expected to average 915 000 in 1991 with an additional 1 620 000 short-time workers. The figures are better than expected not only due to the continuation of short-time working but also because of the increased number of people coming to work in the Western Länder. However, unemployment might increase in 1992 because of the foreseen ending of the short-time working scheme.
Table 2. Principal Economic Indicators

<table>
<thead>
<tr>
<th></th>
<th>ex-GDR</th>
<th>former FRG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population 1989 (in 1 000)</td>
<td>16,400</td>
<td>61,700</td>
</tr>
<tr>
<td>Population change 1989/1970</td>
<td>-3.5%</td>
<td>+1.1%</td>
</tr>
<tr>
<td>Territory (km²)</td>
<td>108,300</td>
<td>248,700</td>
</tr>
<tr>
<td>Density (inhabitants/km²)</td>
<td>152</td>
<td>248</td>
</tr>
<tr>
<td>Total employment (in 1 000) 1990</td>
<td>8,700</td>
<td>29,680</td>
</tr>
<tr>
<td>- changes 1990/1989</td>
<td>-9.3%</td>
<td>+1.8%</td>
</tr>
<tr>
<td>Employment by sector (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- agriculture</td>
<td>10.8</td>
<td>4.9</td>
</tr>
<tr>
<td>- industry</td>
<td>47.1</td>
<td>40.1</td>
</tr>
<tr>
<td>- services</td>
<td>42.1</td>
<td>55.0</td>
</tr>
<tr>
<td>Unemployed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 1990</td>
<td>272,000</td>
<td>1,864,000</td>
</tr>
<tr>
<td>rate</td>
<td>3.1%</td>
<td>6.4%</td>
</tr>
<tr>
<td>July 1991</td>
<td>1,068,639</td>
<td>1,693,685</td>
</tr>
<tr>
<td>rate</td>
<td>12.1%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Estimated average for 1991</td>
<td>915,000</td>
<td>1,690,000</td>
</tr>
<tr>
<td>Short-time workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 1990</td>
<td>656,000</td>
<td>30,200</td>
</tr>
<tr>
<td>July 1991</td>
<td>1,610,775</td>
<td>146,205</td>
</tr>
<tr>
<td>Estimated average for 1991</td>
<td>1,620,000</td>
<td>150,000</td>
</tr>
<tr>
<td>Productivity in Industry (index)</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

The very large industrial sector in ex-GDR is dominated by mechanical engineering, vehicle manufacture, electrical engineering and electronics and the chemical industry. Sectors such as textiles and clothing, which are declining in the advanced countries, also occupy important segments. Industry has a strong regional concentration: shipbuilding in Rostock, the steel industry in Brandenbourg and Frankfurt/Oder, the chemical industry in the area of Halle, textiles and clothing industry near the Czeckoslovakian border and brown coal mining and electric power production around Halle, Chemnitz and in the Niederlausitz in the Southeast of Berlin. The industrial sector is characterised by obsolescence of capital, concentration of R&D in a small number of sectors and a weak tissue of SMEs especially in the sector of services to industry. As a result of these factors productivity in the new Länder is half that of the rest of the country. Concentration of industry has led to very serious problems of air, water and soil pollution. Per capita emissions of sulphur dioxide are five times higher than in the rest of Germany.

The service sector is under-developed, especially in the banking and financial sector. Similarly, tourist services and infrastructures are inadequate to valorize the potential in numerous forest, river and lake areas.
In agriculture the primary political goal of self-sufficiency resulted in a surplus of products of a quality far below the standards required by the EEC. Agriculture was highly subsidised and led to artificial stimulation of production, as a result of which a high proportion of the population was engaged in agriculture. There was a high application of fertilizers and pesticides, cultivation of marginal land, high labour input (16.6 units of labour per 100 hectares) and degradation in the productive capacity of the land.

General transport infrastructure, although in some respects comparable to the rest of the German Länder in quantitative terms, is in large parts rundown and insufficient in quality. Only a quarter of the rail network is electrified and only a third is multi-track. The road network has to be modernised and repaired in many parts. Infrastructure facilities directly linked to production such as industrial sites, communication and technological infrastructure, provision of energy, water supply and waste and sewage disposal facilities have been largely neglected and need to be renewed and extended. In many cases the restructuring of industrial sites can only be started once the question of ownership of the ground and factory premises has been clarified.

Following unification, the situation in the eastern Länder became the most challenging task of economic and regional policy in Germany since the end of the Second World War. But it also impacts on the regional situations in other countries. Within the EEC the arrival of the ex-GDR regions increases the number of development regions. This could have as a consequence either an increase in Community funding for regional development or a tightening of eligibility criteria for aided areas. In the framework of the Common Agriculture Policy ex-GDR with its very large agriculture sector will also benefit from large transfer payments (united Germany remains, nevertheless, a net contributor to the EEC budget).

In order to support the change to a market economy and to facilitate economic recovery a regional policy that gives a clear preferential treatment to the eastern regions was needed. The most important regional policy instrument, the Joint Scheme for the Improvement of Regional Economic Structures, was not changed in substance, but extended to the East giving the most favourable incentives to the new Länder. Incentives available in the former zonal border areas and in Berlin are being phased out.

Except for the following points regional policy instruments in Germany are unchanged as described in the 1989 OECD report Regional Policies in Germany, OECD, 1989.

F.

i) The whole of ex-GDR is eligible for regional aid. Investment grants are higher than elsewhere in Germany (setting-up: 23 per cent, extension: 20 per cent; rationalisation: 15 per cent). These rates may be exceeded by up to 10 per centage points by aid measures outside regional policy, notably tax incentives. Infrastructure projects closely related to economic activities can be financed up to 90 per cent.

ii) Maximum rates to private investors in western Germany have been reduced to 18 per cent (setting-up), 15 per cent (extensions) and 10 per cent (rationalisation).
iii) Preferential treatment of the Zonal Border Area is being abolished. Within the Joint Scheme the rates of award, up to 1991 identical to those now available in eastern Germany, were reduced to the normal level. Only areas meeting the Joint Scheme criteria will continue to be eligible for regional support. Tax incentives for the Zonal Border Area will be abolished as of the end of 1994. Federal assistance to Berlin (transport subsidies, housing, education, private investment) will also progressively be abolished by the end of 1994.

Areas in western Germany eligible for regional promotion decreased from 39 per cent of the total population to 27 per cent in 1991.

Finally, reference should be made to the very important role of technical assistance in the economic recovery of eastern Germany (detachment of officials from Federal and Western Länder Ministries, etc.).

Developments in Central and Eastern Europe, East-West Border Co-operation and Impacts on Western Border Areas

With a few exceptions, economic indicators point to severe problems in the Central and Eastern European countries in transition. Output fell in 1990, and is likely to continue to fall in the region as a whole in 1991. Although exports to the OECD area increased in most countries, this trade flow remained too small to offset the collapse of the Soviet market. At the same time, unemployment increased everywhere and inflation accelerated, except in Poland where inflation had reached already very high levels in the years before. Up to now the highest unemployment has been registered in agricultural regions, but severe unemployment is likely to emerge in highly concentrated industrial areas. Incoming foreign direct investment in these countries has only been significant in CSFR and Hungary. Government policy is directed to systemic economic reforms aiming at macro-economic stabilisation through tight fiscal and monetary policies in combination with price liberalisation and the opening of the trade regime. Privatisation has been initiated and financial markets have been introduced.

Although similar problems can be found throughout the Central and Eastern European countries, their severity differs to quite an extent from region to region. A recent study on Regional Socio-Economic Conditions in Eastern Europe, commissioned by the European Commission, pointed to a West-East gradient of economic development conditions, that could even result in a West-East divide within the Central and Eastern European countries in the next few years. Eastwards, economic, social, and demographic indicators point to deteriorating conditions. As one approaches the ex-Soviet Union, the quality of infrastructure (roads, rail, telecommunications as well as social infrastructure) diminishes equally. More westward, regions are in a much more favourable position, partly due to the potential of developing cross-border links with OECD countries.

The introduction of market reforms has indeed led to a sharp increase in cross-border links. The nature of East-West co-operative agreements has changed as well: next to formal treaties between governments, there is now scope for industrial co-operation at the level of the individual firm.
Co-operation has become principally focused on production, whereas previously it was concentrated on the exports of consumption and investment goods.

There is a considerable potential for East-West border co-operation, speeding up the economic transition of the regions in question, and at the same time stimulating development in Western border areas. Due to geographic proximity to OECD countries, Eastern border regions are likely to benefit more than other areas from cross-boundary trade flows and tourism as well as from technology transfer and incoming foreign investment. Co-operative agreements also contain potential gains for the border regions on the Western side. Many of these border regions are relatively weakly developed, often due to a peripheral location within both national and international entities. The opening of the East-West borders can have promising consequences for these regions, since their location makes them suddenly into outposts of dawning East-West co-operation. Until now, tourism -- especially shopping tourism -- has been the first noticeable cross-border activity, followed by production-related initiatives such as infrastructure development, technology transfer and foreign direct investment in production capacity. There is a more than average concern among the Western partners for environmental problems across their boundary, sometimes directly affecting the quality of life in Western border areas. Several East-West border co-operation programmes have begun to tackle these problems.

Several OECD Member countries (Austria, Finland, Germany, Greece, Japan, Norway, and Turkey) are adjacent to Central and Eastern European countries.

Austrian border regions, surrounded by CSFR, Hungary, and Yugoslavia, have until now been considerably less well off than western parts of the country. Border co-operation between CSFR and Hungary on the one hand and Austria on the other hand, now increasing rapidly, could boost the economic performance of these regions, and contribute to a decrease in regional disparities. Most of the ties focus on financial aid for investment and infrastructure planning. For example, the ERP Fund aims at promoting international co-operation at the firm level, while an Environment and Water Resources Fund (ÖKOFONDS) reimburses consultancy costs related to improvement of air and water quality. Improvements in the railway system and creation of a nature reserve in the Danube region are planned. A Business and Innovation Park is planned in the twin-town of Gmünd/Ceske Velenice as well as in Bratislava. In addition, bilateral regional planning commissions have taken up work again. The different schedule of the opening up of Eastern European countries has led to a divergence of impacts on the Austrian border areas. Shopping tourism and increased freight transit are the most notable features. Burgenland, bordering Hungary, seems to be particularly well-placed to benefit from tourism. The effects on other sectors is still unclear, although co-operative agreements between Austrian and Hungarian production firms have become more and more common. The influx of a growing number of (illegal) commuters into the Austrian border regions leads to erosion of the labour market, and could possibly discourage structural change and innovation.

Former West {German} border regions (e.g. The Hartz) have after unification suddenly become much more centrally located, whereas new border regions farther east have come to the fore. A German/Polish governmental Commission on regional and cross-border co-operation has recently been set up, with representatives from federal/state level and national/provincial level in
Germany and Poland respectively. The Commission’s task consists of promoting, mapping and supporting contacts between the two countries among institutions, associations, and enterprises on a regional and local level. Concrete projects (prepared by two committees that are subordinate to the Commission) focus on infrastructural bottlenecks, environmental protection and cultural co-operation. Cross-border regional co-operation with CSFR is somewhat less developed, but making good progress.

(Finland) is co-operating to an increasing extent with the extensive border regions of the Soviet Union, primarily through the Finnish Programme for Eastern Europe, implemented at governmental level. This programme currently emphasises environmental problems of the neighbouring regions. Co-operation between border areas is often implemented by municipalities (or groups of them) that promote trade and tourism as well as other business activities. Examples are the Niirala-Vartius border transit project and a joint venture (Svelma) between the Finnish town of Imatra and the Soviet area of Svetogorsk. In addition, a Finnish-Soviet joint-venture (Imsveto) is establishing an industrial estate in Svetogorsk, close to the border. Initiatives towards the creation of a free trade zone between Leningrad and Vyborg have been taken up by the Finnish town of Lappeenranta that intends to exploit the advantages related to the free trade zone. Infrastructural problems on the Finnish side, however, have still to be tackled, especially for attracting foreign businesses. An East-West Centre, established in the same region, has been specifically set up to promote trade and co-operation with the Soviet Union, and the county of Kymi as a base for this trade. In spite of these numerous projects, effects other than in tourism are only expected to occur in the long term, since the Soviet problems are so severe that foreign investors are still hesitant to invest.

(Greece) is adjacent to Albania, Bulgaria and Yugoslavia. In the case of Albania, Greece faces the problem of a massive inflow of migrants. The Government policy is to respond to this situation by assisting Greek private investment and job creation in the southern region of Albania bordering Greece. In both the cases of Albania and Bulgaria there are bilateral interests in improving transport connections between the three capital cities -- Athens, Tirana and Sofia -- as well as with other regions in the three countries.

(Norway), bordering the Soviet Union in the far north-east, has established an East-Trade Centre in Kirkenes, serving as a springboard for Norwegian companies that try to gain a foothold in the Soviet market.

(Sweden), connected to the Central and Eastern European countries through the Baltic Sea, has set up an initiative towards international co-operation in the business field, aimed specifically at development of the market economy and knowledge transfer to the Baltic Republics.

(Turkey) is equally affected by profound changes in neighbouring Bulgaria and the Soviet Union. The Black Sea Co-operation and Welfare Region Project, proposing an economic alliance between Turkey, the Soviet Union, Bulgaria and Romania (including a customs free zone) could bring economic and social vitality to the Black Sea region of Turkey as well as to less developed regions eastward. Border trade is expected to have the potential of improving economic conditions and living-standards in the regions concerned. For instance,
eastern parts of Turkey are likely to benefit from the opening up of border
gates with the Soviet Union that allow for passenger traffic and trade. The
issuing of shoreline border trade permissions could well lead to higher levels
of economic activity in and around Black Sea harbours.

(Japan), connected to the ex-Soviet Union through the Sea of Japan, is
involved in co-operative projects to develop natural resources and energy in
Siberia. Their purpose is to enable Japan to export the needed equipment to
the Soviet Union and Japan to secure stable long-term imports of natural
resources. Japan participates in investment projects and joint ventures,
especially in the fish products and wood-processing industries.

* * *

More generally, the widening of the world market and the
internationalisation of production are stimulating rapid structural changes in
the economies. Within Europe the completion of the Single Market and the
widening of the Economic Space will lead to increased movement of people,
goods, services, capital and know-how. Improved mobility of production factors
and liberalisation of trade in goods and services tend to increase geographical
concentration which necessitates additional efforts to reduce the gaps between
the levels of prosperity and employment in the different regions. There are
also likely to be effects on the direction of internationally mobile capital
from outside the European area which may tend to shift to lower-wage
destinations.

Looking ahead, the profound geo-political changes taking place may lead
to changes in the centres of economic gravity. Regions which were peripheral
may find themselves centrally placed and vice versa. Likely changes in the
main commercial and industrial concentrations could have profound effects on
the long-term regional situations in Member countries. In some cases these
changes will offer new opportunities to the less developed regions, in others
peripherality might pose difficult regional policy choices, particularly with
regard to transportation infrastructures.
VI
Conclusions

This review of recent trends in regional problems and policies in the OECD area in the period 1989-1991 shows a continuation of previous trends but with some significant new developments.

In a number of countries the earlier trend of a structural widening of regional disparities ceased with the aid of the current recession. It is too early to be sure that the contraction in regional disparities observed in some countries in the present recession represents a change in trend rather than a cyclical variation.

New developments are the more uncertain and less positive macro-economic context, geo-political upheavals, and the preparations for the European Single Market. Impacts of agricultural reform and demographic decline and the ageing of the population are likely to pose new problems for regional policy. These new developments are not yet fully taken into account in regional policies.

Nevertheless, as brought out in section V, significant new features in regional policies in the past two years have been the important role assigned to them in supporting the change to a market economy and to facilitate economic recovery in eastern Germany, and the growth in east-west transfrontier co-operation.

Regional policies are essentially aimed at a long-term reduction of regional disparities. Generally speaking, regional policies should be able to contribute towards macro-economic adjustment by facilitating structural re-adaptation, though policies aimed at shoring up unviable regional activities would have a contrary effect. The previously noted trend for regional policy actions to be increasingly aimed at improving competitiveness and the business environment in lagging areas has continued. These new forms of action involve greater selectivity and policy choice and collaboration in drawing up programmes with sub-national and, in some cases, supra-national authorities. Changes in direction and method make it necessary to extend and deepen evaluation.

The very large body of knowledge and experience which is available in the OECD countries about the objectives, formulation and implementation of regional policies in market economies, particularly regional industrial restructuring, is of great relevance to the countries of Central and Eastern Europe and of the ex-USSR. The Working Party on Regional Development Policies is taking an active role in this transfer of knowledge and experience. The present report will contribute to these efforts.

...