Richard M. Bird

REGIONAL POLICIES IN THE EUROPEAN ECONOMIC COMMUNITY

THE MAJOR AIM of the six countries joined together in the European Economic Community (EEC), as stated in the Preamble to the Treaty of Rome, is "to ensure the economic and social progress of their countries by common action in eliminating the barriers which divide Europe." The principal means to this end is freer play for market forces within the entire Community. But to this general precept there is a conspicuous exception—policies for regional development are to be strengthened rather than weakened, for, as the Preamble goes on to state, the Six are also "anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and by mitigating the backwardness of the less favoured." This same qualification is found throughout writings on the Common Market. Thus, in the field of tax and expenditure policy, the Neumark Committee stated: "the objective must above all be to establish conditions of taxation and public expenditure similar to those that would exist within a unified economy, with the reservation of certain measures of regional policy (in part of a provisional nature) which could be taken in such an economic area".

The Rome Treaty thus contains a number of exceptions permitting various forms of aid to regions within member countries, even at the cost of distortion in the Community-wide pattern of trade and investment. Such distortions are permissible not only as temporary aids to relieve the pain of adaptation for regions in distress as a result of integration, but also as long-term measures to close the gap in income levels between the richer and the poorer regions of member countries.

This attitude in the Treaty has clearly carried over into the work of the Commission of the EEC. The first annual report of the Commission, for example, stated that "One of the major policy tasks of the Common Market and one of the touchstones of its success will be to make a success not only of the integration of the economies themselves, but also of the integration of their regions by a faster development of those that are less favored within the limits of the national economies."

Similar sentiments pervade the two-volume proceedings of the conference on Regional Economies held by the EEC in 1961. It might be said that there are two major components in the Community's welfare function: real income and equity, with the second being understood to mean equity as between different regions. The EEC therefore aims not only at maximizing production within its boundaries but also at a balanced geographic distribution of that product. In strictly economic terms a conflict between these two ends seems quite likely. As A. D. Scott says, " it may well be that the maximisation of the real gross national product and the equalization of regional standards of living are incompatible."[1] This possibility is hardly ever mentioned in the European discussion.

One reason for the omission may be that the rationale for regional policy is not economic at all, but social and political. Every regional policy clearly has both a social and an economic aspect, though economists do need to stress the issue of economic efficiency in the narrow sense, for if they do not, no one will. But concern with regional problems is essentially non-economic in its origins, just as the concept of a "region" is often really a social and political concept. Economic arguments will nevertheless prevail in this paper, as they do in other writings, both as justifications for what we want to do for some less explicable reason, and as the means by which we can attain our ends, whatever precisely they may be.

One of the most striking things, despite the considerable differences both in the nature of the regional problems faced by the different countries and in the approaches followed, is the similarity of the measures employed, especially in their focus on aiding industry. In recent years regional income disparities within the different member states of the EEC do not seem to have widened. This might be taken to indicate some success for the policies pursued, but any such inference is dangerous. Almost nothing has been done up to now to harmonize national regional policies, but it seems likely that something must be done soon.

National Policies of Regional Aid

The EEC country with the longest history both of regional difficulties and of efforts to do something about them is undoubtedly Italy. Italy typifies the semi-developed country where the strain of regional disparity is likely to be greatest, as has been noted by J. R. Hicks.[2] For decades the backwardness of Italy's southern half has been used as an instance of the dangers of economic integration. Even before unification, however, the North was far ahead of the South and well on its way to a substantial level of growth. Nevertheless, Italy indicates a possible danger, one which must be met by greater willingness to make inter-regional transfers than was evident there until recently. Immediate economic losses to poor regions as a result of unification are almost certain: tariff unity and trade creation will probably hurt the Italians' existing industry, and increased capital mobility may make it more difficult to build up the necessary complex of supporting activities. Of course there may also be gains for the pre-union population of the poor area through trade diversion and increased labour mobility, though the latter may also hurt those who remain, owing to the drain on skills. But in general the greatest benefit of economic integration can be a wider financial basis of support for development efforts. (It is assumed here, as always in Europe, that there is something worth developing. As Scott once said, "the misfortune (not the foolishness)" of people living in resource-poor areas is always stressed.[3])

Only after World War II was a comprehensive attempt made to revitalize the Italian South. Special development funds were set up to aid Sicily and Calabria, though the major agent of the development program was the well-known *Cassa per il Mezzogiorno.* Numerous financial inducements were offered to private industry to settle in the South, but at first more emphasis was placed on a policy of inducement by constructing "excess capacity" of "social overhead capital". This policy was of little immediate benefit to the South. Indeed one careful study indicated that the developed North received more of the increased income generated by this investment policy than did the South.[4] The inhabitants of the South, however, were probably better off a few years later than they were at the end of the war, as a result of the central government's development policy—especially because many of them had moved to the North. But the gap between those still in the South and the rest of the country remained almost as wide as ever, though the main intent of the policy had been to reduce it.

Since about 1955, the Cassa and the other bodies concerned with Southern problems have stressed direct encouragement to private investment through various extensive concessions. Other policies have also been deployed in favour of the South. The huge state industrial enterprises, for example, are required to carry out at least 40% of their net investment in the South. The transport-rate structure also supports southern industrial development. In January, 1962, the EEC Commission officially authorized the continuance of some of this support.

Until recently, however, one could fairly characterize these various regional policies as "intervention without planning". Not until the idea of "*pôles de croissance*" began to influence regional development policy did the Italian concern with the South achieve the requisite focus. The current effort of the state industrial enterprises, with the support of the *Cassa* and the European Investment Bank, to create a growth pole at Taranto is a promising departure from the previous policy of dispersal and should prove an excellent test of the validity of the theory of "growth poles".

An interesting feature of Italian regional policy is the clearly-demonstrated preference of Northern industrialists for financial transfers and general social aid rather than a consistent policy of building up a rival industrial base in the South. This preference appears to have been one reason for the delay in emphasizing aid to private industry and, later, for the delay in developing extensive industrial complexes. This attitude of Northern Italians to Southern Italy is similar to that of rich countries to poor throughout the world: the pressure to move towards a policy of "trade, not aid" tends to come more from the poor than from the rich, who are usually reluctant to contribute to the building up of potential rivals. Similar pressures may perhaps be of some importance within the EEC. Indeed, the first effect of the Common Market on Italian attitudes, according to some observers, has been to strengthen the concern of the Northern industrialists for their own competitive position. The South's problems have thus been made even more difficult by the North's more energetic search for new investment.

The failure of Italian authorities to take any action to restrain further growth in the Northern "industrial triangle", despite much talk about over-congestion and the resultant social and psychological stresses, is also noteworthy. This reluctance probably in part reflects Italy's semi-developed stage. The gains from further agglomeration may well be thought still to exceed the losses, though no refined calculations are possible.

Finally, there are a number of poor areas in Italy outside the South. These pockets of distress in the centre and north of the country, though they may be as badly off as any area in the South, are not eligible for the same battery of relief. Some of the same measures—tax concessions, for example—have been employed as in the South, but in general the policy followed has been more one of sectoral promotion, particularly of agriculture. Policies of sectoral assistance are more clearly in conflict with the aims of a common market than policies aimed at certain geographic areas, though the distinction is often one more of form than of substance.

The immediate impact of the European Common Market on Italy's basic regional problem has probably been beneficial. The increased possibilities of labour migration, on balance, will help the South, though adverse effects from alterations in the skill and age structure are also possible. But the longer-term prospects look bleaker, since the South is now farther from the centre of the market. At least initially, therefore, private capital may well tend to flow out of the area, although in time this flow may tend to reverse.

One reason for a reversal would be present if public transfers into the area are increased, as they almost certainly must be if the Common Market is to hold together. Political considerations argue for such transfers, and the (presumably) increased capacities of Italy and of other member countries will make them more feasible. Up to the present time, as a matter of fact, most of the aid from both the European Social Fund and the European Investment Bank has been going to Italy. If this public capital aid succeeds in setting at least part of the South Italian economy on its feet, the area's attractiveness to private capital should increase.

Increased competition resulting from the Common Market might also make more attractive the extensive financial concessions available to firms locating in poor areas. The relative cheapness and availability of labour in these areas might also make them more attractive to private capital. There are few strictly labour-oriented industries and even fewer "tax-oriented" ones, but cheap labour and tax concessions should play a more important role in location decisions in a more competitive and fully-employed European economy than is now true.

France ranks next to Italy among the EEC countries in the importance of its regional problems. Like Southern Italy, large portions of southern and western France now find themselves even farther away from the centre of the market than before, with little immediate gain to offset this disadvantage. French thought on the regional problem has long been conditioned by the view —often too strongly held—that the country consists essentially of *"Paris et le* *desert français*." Chronologically too, the first order of French regional policy has been to limit the growth of Paris. Special taxes have been levied on firms in the Paris region, and building licenses have been granted selectively. The obverse of this concern has been constant reiteration of the dangers of rural depopulation, and an almost complete failure to develop any policy toward labour migration.

France has the usual array of regional policy instruments: loans, grants, tax concessions, building permits, direct public investments, pricing policy of public enterprises, including favourable transport rates for Brittany and elsewhere, and so on. Some of these measures are intended primarily to correct what are considered excessive tendencies towards centralization, others for more positive ends. They are implemented through a bewildering array of institutions, such as the *Sociétés de Développement Régional*. Lack of coördination has, indeed, been a serious problem in France and has hindered the development of a coherent system of regional planning. Not until the Fourth Plan of 1962 were the regional implications of national policies really taken into account in the formulation of national economic plans. Since then, however, France has begun to develop a more consistent policy of regional development planning, stimulated in part by the growing importance of the Common Market. This new policy tends to focus on the development of growth points, an example being the industrial complex based on the natural gas fields in the southwest. The failure of French policy to be as advanced as French thought on regional affairs may reflect in part the traditional centralism of the country.

German regional policy is as yet in a relatively unformed stage, despite increasing concern about problems of agglomeration and about the relative underdevelopment of some peripheral regions—both being problems that will be aggravated by the centralizing tendencies of the Common Market. One reason for Germany's lag behind some other members of the Common Market is a general opposition to all planning, including spatial planning. Another reason, probably more important, is that Germany is a federal state, the only one in the EEC. The *Lander* (states) are sufficiently autonomous to counteract federal attempts at regional planning, if they so desire, and they apparently often do. This autonomy, to which must be added the greater freedom of German municipalities to disagree with both federal and state governments, is one reason why so little has been done to check increasing conglomeration.

One aspect of German federalism that works against an effective regional policy is the tendency of the *Lander* to compete among themselves in offering tax and other concessions to private investors. Elements of a "tax war" could be discovered in Germany at one time, and a dangerous tendency towards setting tax and other policies at the level of the lowest common denominator may still ensue. Possibly a common agreement like that among the Swiss cantons might turn the trick. Coördination between Germany's decentralized regional policy and that in other Common Market members might be difficult to achieve.

Apart from special tax concessions for the eastern frontier regions (severed from their natural markets by the partition of the country) and the special treatment of Berlin, there appears to have been little explicit federal aid to depressed areas in Germany until recently. Federal government investment is supposedly placed in the light of regional needs, and some preference is given to bidders from depressed areas in placing government contracts. The efforts of the *Lander* also receive some federal support. The extensive aid to dwelling construction, a notable feature of federal economic policy, has probably aided migration, though little attempt has been made to cut down the flow to the most crowded areas. Germany has received a tremendous inflow of migrants since the war, a flow which has been bolstered a little in recent years by the formation of the EEC (including the association with it of Greece and Turkey). One side effect of this huge immigration has perhaps been a lesser need to be concerned about internal mobility of labour or tapping labour reserves in depressed areas.

The principal weapon of German regional policy has traditionally been transport-rate differentiation. Article 82 of the Rome Treaty enshrines this system in the EEC forever (if desired) for the frontier areas and Berlin. But the differentiation in the German system extends beyond benefiting these areas, and various degrees of subsidization for this or that "domestic purpose" are found throughout the system. Clearly these "domestic purpose" subsidies might have an influence on trade patterns. At least, as noted below, this was the opinion of some members of the European Coal and Steel Community.

The development of Belgian regional policy has also been hindered by political and sectional conflicts. Apart from the coal-mining subsidies mentioned later in connection with the European Coal and Steel Community (ECSC), Belgian policy contains relatively little of interest to us. Belgian labourers are perhaps rather more mobile than those in other EEC countries (though not between linguistic areas), a tendency encouraged by government subsidization of daily commuting to the great industrial centres. As this policy indicates, little attention has been paid to problems of congestion in Belgium. Such regional policies as there are tend, like those of the United Kingdom until recently, to focus on pockets of unemployment, not too surprising an emphasis in view of a relatively high rate (by European standards) of unemployment. The various aids and inducements offered for favoured locations have been criticized as offering relatively little advantage over the general favouritism in the tax system to investment irrespective of location.

Dutch regional policy, on the other hand, appears to be well thought-out and consistent. The Netherlands is the only country in the EEC to offer extensive aid to migrants. Since 1958 this aid has been given only to those migrants moving to areas other than the so-called "Rimstadt" in western Holland. The government meets moving costs and carries out an extensive programme of worker training, including wage-loss compensation and paid expenses. The usual tax and loan concessions are also given in the more backward areas, along with certain special premium payments. Since its beginning, regional policy has been aimed at the development of growth centres, especially through the placing of public investments. This well-developed complex of policies appears to have been little affected by the Common Market.

In the United Kingdom the most outstanding feature about aid to depressed areas has been its consistent, almost exclusive, emphasis on bringing "work to the workers" and its consequent narrow focus on small pockets of unemployment rather than on broader sectional problems. As the oldest industrial nation, Britain finds that most of her problems are those of bringing revival to areas of declining industries. Perhaps the most severe instance is in Northern Ireland, where for a number of years special *regional* aid programmes (such as subsidies on power costs) have been in operation, though with only holding success. A recent report noted that the current problem in Northern Ireland is to maintain the necessary "incentive gap" over the other regions to which British policy is being increasingly directed, especially since 1963.[5]

British policy has been characterized by extensive use of building licences and of industrial estates and advance factories. In this last respect Britain might serve as a model for other countries. Very little use has been made of public investment in general as an instrument of regional policy, largely because of the small-area focus of this policy. A partial exception is the "New Towns" programme, started after the war mainly to relieve urban congestion. Some of these towns are now being thought of as possible nuclei for regional development schemes, but as yet little appears to have been done with the idea. The New Towns programme has at times conflicted with the development areas programme, as in the issue of building licences, and, up to now, building licences have always taken precedence consistently with the usual emphasis on unemployment.

Until 1963, when extensive special tax depreciation privileges were granted to firms locating in certain areas, there were no regionally differentiated tax concessions in the United Kingdom. In this as in other respects, British policy is becoming more like that in the Continental countries. Whether or not Britain joins the Common Market, the expansion which has so far characterized the EEC is likely to accentuate the pull to the south-east, which is already the major regional problem.

On the whole, the regional policies pursued in the various countries considered are becoming more alike every year. Regrettably, every country appears to think it necessary to dream up some new incentive device every year (almost always without examining experience with the existing ones), and this proliferation of instruments is doubtless one reason for the increasing similarity. But a more important reason is that regional policy is becoming more consistent in its focus on *regional* problems, growth centres, and the like. On the whole, this emphasis is a good thing. Unfortunately, no one yet appears willing to think through the purposes of these policies and the possible conflicts of these ends with other goals.

Supranational Policies[6]

The Netherlands and the Belgium-Luxembourg Economic Union (BLEU) began negotiating to form an economic union during World War II. Though the Treaty of Union was not finally signed until 1958, Benelux was thus the first of the post-war economic unions in Europe. In some ways its example is discouraging in view of the length of the negotiations required and the relatively small significance of the results. Like any economic union, Benelux had to cope with the problem of adjustment, of adapting to new competitive conditions by shutting down some lines of production and opening others. In 1953, therefore, arrangements were made to set up a Benelux Fund for Readaptation as a necessary "shock absorber" to ensure the survival of the Union. Each of the two main partners to the Union was to contribute one-half of the capital of the fund, the BLEU share being divided between Belgium and Luxembourg in proportion to population. In addition the readaptation fund was to receive the revenue from any special temporary protective duties authorized to ease the shock of adjustment. This Fund never actually came into existence, and the idea had been dropped by the time of the 1958 Treaty, chiefly because of the emergence of similar bodies in the EEC.

Readaptation efforts in the European Coal and Steel Community have been much more important than in Benelux. One might expect a partial union such as the ECSC to be less concerned with regional problems than a complete union. The nature of the steel and especially of the coal industry is such, however, as to make the regional aspect of adaptation very important. Mining areas tend everywhere to call for special regional treatment, not only because of their political strength but also because of their very real social rigidities.

The transitional provisions setting up the ECSC contained measures for "social" assistance to readaptation. These were carried over into the final treaty, though in fact little outright aid was given under this authority until about 1960. All of this assistance, because of the nature of the ECSC, went to depressed rather than underdeveloped areas—in France, in Italy (Sardinia), but especially to the Belgian coal fields. One author suggested that the appropriate solution in Sardinia was to let the national government subsidize the area if it wanted to, rather than devote supranational funds to the task.[7] The Belgian case is both a political and a real adjustment problem, and in the 1959 crisis the High Authority did in fact authorize the Belgian government to extend additional aid to the affected areas.

A feature of the ECSC is that its common functions were in part financed by a levy on production—possibly the first supranational tax. Funds were transferred from Dutch and German producers mainly to Belgian ones through the High Authority. At first these funds mainly went to subsidize the prices of high-cost producers, but after 1955 they were used more selectively in an attempt to encourage adaptation.

The ECSC did not enjoy unanimity among its members as to what should be done to aid areas in distress as a result of the movement toward economic integration. In fact the main reason why so little was done, especially in the early years, was that (as in the EEC) the initiative in requesting aid was left to the member countries. And they, in turn, were reluctant to request help for fear of outside interference in domestic affairs. (One reason for the United Kingdom's reluctance to join the Coal and Steel Community appears to have been British unwillingness to have outsiders putting people out of work in British mining regions.)

Similar difficulties prevented an easy solution to the major question of harmonization arising in the ECSC, that of transport rates. Transport costs are especially important location factors in the coal and steel industries, but little progress in resolving national differences was made, in large part because of different practices of regional subsidization. German transport subsidies caused particular difficulties. One writer has suggested that standardization of practice might provide a solution: for example, if all countries adopted what he calls a policy of industrial centralization, as by putting low rates on raw materials and high rates on finished goods.[8] Such a rate structure might in some cases actually favour deconcentration and moreover might contribute to the misallocation of resources, but some such common agreement could still be an answer. It is doubtful, however, if full standardization is needed or even possible in view of the varied interests of member states; an agreement to pursue different policies seems more feasible, as suggested earlier, though manipulation of transport rates is not, on the whole, a suitable regional policy within a common market framework.

To sum up, the ECSC experience has not provided much of a test either of a common supranational policy of regional assistance or of the potentials of harmonizing national policies. The relative failure of the few efforts at adaptation that have been undertaken is not surprising, given the scale of the problem in mining areas and the relative lack of knowledge concerning the obstacles to success. Indeed the major contribution of the ECSC to regional policy has doubtless been to enlighten the bureaucrats on the nature of the problem. The High Authority has performed very useful work in spreading this enlightenment through its publications, and this informational function is still being carried on, in part jointly with the EEC Commission.

Even a hasty reading of the Treaty of Rome, as already noted, reveals that the framers of the European Economic Community were well aware of the economic and political problems of regional disparity. They were prepared to modify their concept of a single, unified market considerably in order to cope with these problems, though they were not generally prepared publicly to admit the possibility of conflict between the aims of balanced regional development and efficient allocation of resources for maximum production. The Treaty provisions related to regional problems fall into two categories: the allowance of differing national policies of regional aid; and the creation of certain supranational bodies to aid in the task.

As to the first, the largely permissive character of the Treaty with regard to regional differentials has already been indicated. Indeed, transport-rate subsidization of Germany's eastern regions is specifically provided for in Article 82, and other such differentials are allowed if other member states approve, as they did for certain Italian subsidies. Existing state regional aids are supposed to be examined for consistency with the ends of the Treaty, and the Commission may require their abolition if they are found to be incompatible. Similarly, new state aids must be submitted for approval. This examination procedure seems a sensible one, though as yet it has not really been tested. No community-wide criteria for the examination have yet been set up, as far as is known, and the Commission has been very circumspect in its pronouncements on cases of undue regional discrimination. The Commission's main emphasis up to now has been on continuing and expanding the information work of the ECSC.

More will have to be done in the future to harmonize regional aid policies, if only to avoid such flagrant misallocations of resources as would result, for example, from a "tax war". A more standardized approach to regional development, based on a common agreement, whether exercised through the Commission or not, is likely to emerge in time. Difficult problems in the field of transport and elsewhere will not be solved by this means, but they will become more amenable to solution if clearly placed within the entire complex of policies. The present review machinery in the Treaty seems adequate, provided again that agreed criteria or rules can be laid down to make it operational. In settling on these criteria the greatest advance in Community thinking would be a clearer facing up to the real problem of conflicting aims—of the economic costs of regional favouritism as well as the social need and the possible economic gains. The same policies may still be decided upon, but at least some account would have been taken of the "opportunity costs" of using resources in this way. But there is little reason to expect much sober appraisal along these lines in the immediate future, since this is hardly done now for policies in any field.

The differential approach to harmonizing national policies of regional assistance can doubtless go a long way, if it is permitted to do so, towards the resolution of the real regional problems of Europe. But the EEC Commission itself appears to be stressing common action through supranational agencies, especially in the provision of social overhead capital in peripheral regions, as the main answer. In the light of the greater difficulty of getting agreement on changing existing policies than of setting up new ones, this emphasis is perhaps not surprising. International financial transfers for public investment projects are also favoured by the reluctance of businessmen to contribute directly to strengthening the competitive position of actual or potential rivals. Whatever the reason, two of the common institutions forming part of the European Economic Community are designed to facilitate such transfers: the European Social Fund and the European Investment Bank.[9]

The less important of the two is the Social Fund, whose principal role is to assist labour mobility. Up to the end of 1963, the European Social Fund had extended about thirteen million dollars in aid to retaining programmes and one million dollars to resettlement schemes. The expenses of the Fund are met by financial contributions from member states, though on a different share basis from that of the general EEC budget. The major difference is that Italy, the recipient of the largest share of ESF aid, contributes less to the Social Fund (and has less voting power in regard to its budget). In addition to direct migration and retraining assistance, the Fund has helped to remove such barriers to mobility as those imposed by discrimination against migrants in national social security systems. But in the main, the role of the European Social Fund in helping to move workers to the work is a minor component of EEC regional policy, particularly since the general tenor of policy is in the opposite direction.

The major EEC institution designed to take work to the workers and, indeed, to be the mainstay of the Community's regional policy, is the European Investment Bank. The Bank raises money by selling bond issues, and disburses it in accordance with specified criteria to such projects as that at Taranto in Southern Italy. Apparently the EIB was patterned on the World Bank (IB RD), so that there are unsurprisingly frequent criticisms that its policies are too rigid and limited by notions about "bankability" and the like for it to serve as the "principal lever of re-equilibrium" in the EEC. Up to the present time the Investment Bank has not lent very much money. Most of its loans have gone to Italy, which, also not surprisingly, was the main supporter of the Bank in the first place.

Doubts whether the mandate of the EIB is broad enough and its scale large enough to serve as the main instrument of the common market's regional policy are not confined to outside academic critics. They crop up, admittedly somewhat obliquely, even in the report of the Neumark Committee on fiscal harmonization in the EEC. Among the final recommendations in this report is one to the effect that customs revenues be paid into a common fund from which international financial transfers can be made for such purposes as regional development aid. The Committee also hinted at the possibility of a future tax levied directly by the Commission to replenish this fund, a possibility foreshadowed in Article 201 of the Rome Treaty.

At the moment the possibility of such a fund being set up in the EEC seems remote. A common fund did exist in the Belgium-Luxembourg Economic Union, into which were paid not only customs duties but also the revenues from those excises levied at unified rates. After deducting administrative expenses, however, the balance of the fund was merely distributed to the two member states in proportion to population. No such common pool was set up in the Benelux union: customs duties simply accrued to the country of entry, and exercises were never unified. J. E. Meade feels there were few problems from this system because in fact most third-country goods entered the country of consumption directly, a situation that is not likely to hold for the EEC. Furthermore, the Benelux union had to maintain some statistical frontier controls in order to ensure that excise revenues went to the country of consumption, and the EEC seems to feel very strongly about the need to remove all such controls eventually. For both these reasons, the Benelux lack of a solution seems unpractical as a long-term answer for the EEC. Something along the lines suggested in the Neumark Report may therefore eventually emerge.

In any event, in unions of underdeveloped countries a revenue pool much more extensive than anything envisaged in Europe may be needed to hold the union together. The forces inducing regional concentration of the gains from integration are likely to be so strong in such a union that only really substantial financial transfers can keep it from breaking up. The prospects that the requisite degree of internal political strength and external sagacity will be forthcoming may well be smaller than in Europe, but, as is true in so many fields, the need is greater.

NOTES

1. A. D. Scott, "The evaluation of federal grants", *Economica* (N.S.), XIX (Nov., 1952), 378.
2. In U. K. Hicks et al., *Federalism and Economic Growth in Underdeveloped Countries* (London: George Allen & Unwin, 1961), p. 79.
3. A. D. Scott, "A Note on grants in federal countries", *Economica* (N.S.), XVII (Nov., 1950), 421.
4. Cited in Walter Isard et al., *Methods of Regional Analysis* (Cambridge, Mass.: The M.I.T. Press, 1960), pp. 358-60. Similar spillover effects have been noted in Britain: see Graham Humphrys, "Growth industries and the regional economies of Britain", *District Bank Review,* No. 144 (Dec., 1962), pp. 55-56, and E. Victor Morgan, "Public investment and full employment", *District Bank Review,* No. 145 (March, 1963), p. 12.
5. Cf. N. Cuthbert and W. Black, "Regional policy re-examined", *Scottish Journal of Political Economy,* XI (Feb., 1964), 1-16.
6. Nothing is said in this paper about regional policies in the European Free Trade Area, largely because there is little to say at the present time. Article 20 of the Stockholm Convention permits members to be relieved temporarily of their obligations in case of adjustment problems (which seems rather sweeping), and a study is under way as to whether further special provisions are needed. In addition, some attention is being paid to the problems of EFTA's less developed members, though nothing much has apparently yet been done about them, apart from discussing plans.
7. William Diebold, *The Schuman Plan* (New York: Frederick A. Praeger, 1959), p. 219.
8. Liesner in J. E. Meade, H. H. Liesner, and S. J. Wells, *Case studies in European Economic Integration* (London: Oxford University Press, 1962), p. 387.
9. Article 39 of the Rome Treaty refers to the need to consider the agricultural problem in its regional context, and some work has been done along these lines. Any program of agricultural aid tends to have a concentrated regional impact, and an agricultural fund to encourage structural transformation has been suggested for the EEC.