

Lecture 7b. RELOCE. 2010

An international problem: Regional policy in other major OECD countries.

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Aims:

1. Examine the regional problems experienced by other major OECD countries up to the late 1970s
2. Review the policies employed by governments and other agencies to ameliorate regional disparities
3. Compare and contrast the policy approaches adopted by the major OECD countries.

Introduction

This lecture uses as its source a number of publications from the Organisation for Economic Co-operation and Development (OECD) which were published in the late 70's and early 80's (see reading list later). The OECD was set up by the market orientated western democracies in 1960 with the aim of promoting economic growth in a framework of financial stability and promoting best-practice in economic management to other countries.

The 70's were a period of economic slow-down, restructuring, unemployment, increasing inflation, and evident widening of regional disparities in most OECD countries. The review of regional policies was an attempt to promote best practice and compare and contrast the policies in all the member states. For the purpose of this lecture we will concentrate on the problems and policies in the larger OECD states: Canada, France, West Germany, Italy, Japan, the USA and the UK.

Canada

National situation

With unemployment nationally up to 7%, the labour force participation rate increasing faster than the population growth. Annual average growth in GNP was 8.5%, investment increasing, major trading partner USA. Canada had experienced major structural change, primary sectors declining.

Regional problems

Uneven distribution of economic assets, which is a feature of Canada's historical development means that vast regions have very low population densities and that activity is concentrated along the boarder with the USA. Disparities in income, investment and unemployment are apparent.

Regional policy measures employed

Total costs \$424m (1974/5) 2% of national budget

Industrial incentives

Infrastructure assistance

Social and resource development programmes

Organisation

Canada had a central department (Department of Regional Economic Expansion) to co-ordinate policy but acting through provincial administrations.

France

National situation

Increase in unemployment and labour force participation rate, GDP increased rapidly driven on by productivity increases and an expanding market through membership of the EEC. Structural change; agriculture lost 40% of its employment, whilst the industrial and service sectors of the economy expanded

Regional problems

Fast growth in Paris the South East and North West, slowest in the central areas, the West and parts of the North. There were large reductions in agriculture and coal mining. Paris region suffering from problems of congestion and overheating, older industrial regions bordering Germany and Switzerland structural decline and increased competition.

Regional policy measures employed

Total costs FF. 1bn (0.5% of total government budget)

Employment guidance

Urban Towns Policy.

Infrastructure development

Organisation

Centralised with regional co-ordination and participation.

Federal Republic of Germany

National situation

Unemployment and labour force participation rate was increasing, fuelled by migrant workers, highest level of GDP in the EEC, high levels of gross fixed investment. Structural change; primary sector losing jobs, Secondary and Tertiary gaining.

Regional problems

There was a shift of population from rural to urban areas and disparities in employment growth. Germany does not exhibit the large regional disparities that countries such as Italy do, nor does it have the problem of a dominant capital city like London or Paris. The distressed areas tend to be smaller with weak industrial structures and below average incomes these are generally in rural areas alongside the border and in areas with mono industrial structures.

Regional policy measures employed

Total costs DM 850m (0.13% of national income)

Infrastructure development

Incentives to industry

Organisation

Shared planning of regional policy and allocation of resources between Federal and Regional governments.

Italy

National situation

National unemployment rate declined then increased in the mid 70's, increasing population and high levels of emigration. Italy had GDP annual average growth of 5.6% and high levels of fixed investment. Structural change was taking place with the primary sector losing jobs (-5 million) and manufacturing and Tertiary gaining (2.5 and 1.8 million respectively). Average income levels below those of most other European nations. ***Regional problems***

There was what was known as the problem of Dualism, significant economic differences between north and south, which had been a feature for a century. Average annual incomes have increased in the south more slowly than the north but investment levels have been higher and the south has not lost ground in terms of its proportion of national GDP. Industrialisation is less advanced in the south.

Regional policy measures employed

Total costs L 1,567 billion (1973) 10% of central Government spending.

Direct action by the state

Incentives to industry

Operation of the Cassa per il Mezzogiorno

Organisation

Central Government led the co-ordination and was joined by Financial Institutions and Regional Bodies (although these were largely State funded).

Japan

National situation

Japan is a densely populated country with civilian employment increasing rapidly. GDP increased by 2.5 times between 1962 and 1972. However, the pattern of growth was not uniform with increased urbanisation and depopulation of rural areas.

Regional problems

Clear disparities in per capita incomes are apparent with those in the central area considerably above the other two areas. Population was concentrated in large cities on the Pacific Belt problem of over and under concentration with congestion and environmental degradation of the centre and human and social capital depletion in the periphery.

Regional policy measures employed

Total costs Y300 billion (1973-77) About 0.73% of public consumption

Japanese region policy has "evolved" 1962 National Development Plan to promote "balanced" development and constrain growth in the main urban centres - based on nodal development (growth centres) this was rolled forward in 1969 with improved transport and communication linkages, large-scale development programmes and conservation.

A nation-wide planning system

Grants to local government

Incentives for firms to move

Organisation

Led by Central Government Ministries, partnered by special bodies and local government.

USA

National situation

Largest national economy but external trade is a smaller proportion of total production than in most other major economies. Per capita incomes were 60% above the average for European OECD countries. The USA GNP growth rate was 5.3%, but also experiencing high unemployment. Incomes, employment, investment, growth and decline are not spread evenly across the country.

Regional problems

Post urbanisation phase, major improvements in highways, air routes and communications. General population and industry displacement from the north-east and mid west to the south east and west. Regional problems transcend state boundaries and are common to all states. Wide range of problems from energy, transportation and natural resources, to urban economic distress, unemployment, and underdevelopment.

Regional policy measures employed

Federal measures

Housing and urban development

Departmental action

Economic Development Administration

Organisation

Appears fragmented and ad hoc, but with involvement of all levels of government (Federal, State and local); funding and general policy objectives and criteria at Federal level delivery at local level.

UK

National situation

National unemployment increasing labour force participation rates almost static but a tendency for more females to join the labour force. GNP growth slow, GNP per capita lower than almost all other EU countries. Structural change; decline in primary and manufacturing growth in services.

Regional problems

No massive urbanisation, but industrial contraction concentrated in the north and periphery, with growth in the south and midlands. The outcome of this was labour shortages, inflationary pressures and congestion. Higher unemployment in the periphery and lower per capita income levels led to out migration. There were also problems of stagnation and worn out infrastructure.

Regional policy measures employed

Total costs £ 400m (1974/5) 1.9% of central government budget expenditure

Help to industry

Infrastructure

Relocation

Organisation

Inter ministerial consultation with some ministries having specific responsibilities; DTI, (location and incentives), Environment (physical planning), Treasury (finance), Employment, MAFF, Scottish and Welsh Office. Regional advisory Councils and Development Agencies were also active but there was no national economic development plan.

Conclusions

All major OECD countries have suffered from regional disparities and problems. These range from chronic regional disparities in income and employment in Italy and to a lesser extent Canada, through rapid rural urban drift in France, Germany, Italy and Japan to counter urbanisation the USA and the UK. Whilst Germany has small local hot spots of regional poverty and the USA a particular problem with central metropolitan poverty all of the southern half of Italy, the Atlantic coasts of France, and Canada South western Japan and Northern UK are regarded as lagging regions.

All countries were experiencing rapid structural change, with severe contraction in the primary sectors such as agriculture and fishing in Canada, France, Germany, Japan and Italy and rapid growth in new manufacturing and services and a turndown in the older staple manufacturing and resource based industries such as coal, steel and textiles in the countries which led industrialisation such as UK, Germany and the USA.

A particular feature in all countries apart from Canada and to some extent Germany is the overheating and congestion evident in major cities and the industrial and commercial heartlands.

Whilst it is difficult to estimate a comparative measures of expenditure across all countries, on any consistent basis, it appears that Italy is one of the largest spenders on regional policy with the OECD estimating that it spends 10% of central government spending compared with 1.9% in the UK, 0.5% in France and 2% in Canada.

In policy terms, it is clear that European countries employ far more instruments aimed at directly stimulating industry than those in Japan and the Americas. Typically European nations use over 10 measures and others between 4 and 7. Whilst almost all countries employ loans at subsidies rates or loan guarantees, investment grants and make available industrial sites, very few offer grants towards employment and labour costs, state shareholding or preferential treatment in award of government contracts.

Matrix of Regional Aid late 1970s								
Form of aid	Canada	France	FDR	Italy	Japan	USA	UK	Total
Investment Grants								
Machinery and Equipment	Y	Y	Y	Y			Y	5
Industrial buildings	Y	Y	Y	Y			Y	5
Premises								
Factory Buildings		Y		Y			Y	3
Industrial land and sites		Y	Y	Y	Y		Y	5
Business Loans								
At Mkt. rate		Y			Y		Y	3
At subsidised rate		Y	Y	Y	Y	Y	Y	6
Guaranteed	Y	Y	Y	Y		Y	Y	6
Fiscal concessions								
On investment	Y	Y	Y	Y				4
On profits			Y	Y				2
On investment aid received from state		Y	Y	Y			Y	4
On state charges, local taxes, licence fees etc.		Y		Y	Y		Y	4
Other grants & Concessions								
Grants towards labour costs	Y						Y	2
Grants towards employment costs e.g. social security				Y				1
Assistance towards operating costs				Y		Y	Y	3
Assistance towards moving and settling in (firm)		Y		Y	Y		Y	4
Aids to manpower moving and re-location		Y		Y	Y		Y	4
State shareholding				Y			Y	2
Transport and public service concessions			Y					1
Preferential treatment in award of government contracts			Y				Y	2
Manpower training aids		Y		Y	Y		Y	4
Total	5	13	10	16	7	3	16	

Source: OECD

Reading

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