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M. Jacques Delors,
President,
Commission of the European Communities,
200 Rue de la Loi,
1049 Brussels,
Belgium.

Dear President,

I mentioned to you recently that I was putting together a paper on the regional dimension of EMU which could perhaps be circulated to our Committee as background material to our deliberations.

The attached speech, which draws on the paper, gives the flavour of my thinking on the matter. I hope you find it useful.

With best wishes,

Maurice Doyle

ECONOMIC AND MONETARY UNION: THE REGIONAL DIMENSION

SPEECH DELIVERED BY
MAURICE F. DOYLE
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AT THE

CENTENARY BANQUET OF THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

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Economic and Monetary Union: The Regional Dimension

Mr. President, Ladies and Gentlemen, it is a great honour for me to participate in this celebration of the centenary of the Institute of Chartered Accountants in Ireland. The high standards of education, integrity and judgement demonstrated by the Institute down the years have contributed enormously to the efficient functioning of business and commerce in Ireland. The rapid growth in membership of the Institute from a mere 31 in 1888 to over 6,200 today is convincing testimony to the growing demand for the services of the profession. Chartered Accountants today face new challenges in the areas of information technology and in responding to the rapid changes in the structure of industry and in the regulatory environment. Not least among these challenges are those emanating from EC initiatives to establish the single market and, beyond that, greater economic integration - the subject of my address to you tonight.

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Introduction

The prospect of completing the internal market in the European Community by the end of 1992 has seized the public imagination to an extraordinary degree: not a week passes without a seminar, a conference or at least a speech on the subject. Not since the time preceding our accession to the European Community in 1973 has there been such anxious concern about our preparedness for the rigours of the competitive climate we face. All this is as it should be, but tonight I should like to lift your sights to the likely development of Europe beyond that familiar date. 1992 is not an end in itself, but merely a stage on the road to economic and monetary union. That may seem a long way off, but it is a very live issue just now. The European heads of state at their meeting in Hanover last June restated their commitment to this objective and established a committee, under the chairmanship of the Commission President, to study the concrete stages necessary for the establishment of EMU. EMU has for long featured on the European agenda, but a new impetus has been given by the move to complete the internal market. It is timely, therefore, to turn our attention to the implications of EMU for Ireland, because its effects will be evident and growing long before the formal union takes place.

Economic and Monetary Union: Requirements and Potential Problems

What does EMU involve? It means:

- freedom of movement of goods and services, capital and labour
- a high degree of policy coordination
- the elimination of regional disparities.
- irreversibly fixed exchange rates

Clearly, these requirements go far beyond those of the internal market programme, which does not require the close coordination of fiscal and other economic policies or the fixed exchange rates demanded under economic and monetary union.

How feasible is the goal of EMU? It is crucial that the important preconditions be recognised at the outset. The process of economic integration requires a number of distinct stages, with monetary union, involving irreversibly fixed exchange rates, being the final stage. Before this can be achieved, all Community countries will need to have reached a broadly similar stage of economic development and be committed to broadly similar economic policies. If this is not the situation, disparities within the Community would cause persistent capital and labour flows from the less prosperous to the richer regions, creating both economic and political tensions that could put the whole process in jeopardy.

Economic union, which requires the removal of restrictions, the elimination of regional disparities and close policy coordination, is not something which will suddenly begin after 1992 but, rather, is a process already under way which will continue after 1992 for quite some time before the final state of EMU is reached. One important element in this process is that, as integration proceeds, member States will experience an increasing loss of autonomy with increasing coordination of economic and other policies. Without complete political union, member States will, of course, continue to exist, but there will be growing constraints on their freedom of economic action to deal with their own national regional problems. The important point to be grasped here is that at the level of the European Community, it is the theory of regional economics, and not the theory of international trade, which will become increasingly relevant in the future. Regional economic theory, confirmed by Ireland's historical experience, tells us that in the absence of appropriate accompanying policies, market forces will not of themselves be sufficient to eliminate divergences and bring about the required degree of economic cohesion within the Community, but rather the reverse. This is because factors such as better infrastructure, lower transport and distribution costs and proximity to bigger markets would almost certainly favour the growth of the stronger regions and the stagnation, or even contraction, of the weaker. The process is there for all to see even in the existing nation-states of Europe. France south of Lyons, the Mezzogiorno in Italy, the northern regions of Germany - all these regions clearly exhibit, although at different absolute levels of income, the process of relative impoverishment - relative, that is, to the richer regions in these countries - even while the national economy as a whole grows richer. According as the barriers to trade, capital and labour movements come down and the freedom for member States to have independent monetary, fiscal and exchange-rate policies diminishes, exactly the same process will take hold throughout the European Community. The Community as a whole can be expected to fare better in the aggregate from moves towards EMU, but there is a need, already urgent, to tackle the issue of regional imbalances directly; otherwise, the weaker peripheral regions of Europe such as Ireland could suffer, rather than benefit, from the process of economic integration. This can only be achieved through the development of a comprehensive Community regional policy with adequate resources for the task.

I have spoken throughout of regions, regional problems and regional policy in the Community context. There is a real problem here for Ireland: while a convincing case can be made for significant regional support in a more integrated Europe, there is the psychological, not to mention the political, difficulty that, because Ireland is a member State, when the case is made by Ireland it tends to be viewed as a national demand based on national self-interest, rather than a requirement of a sound regional policy framed in the interests of the Community as a whole. The history of the European Regional Development Fund since 1975, with its rigid adherence to national quotas to which each member State was 'entitled', bears this out. The Fund was viewed not so much as a means of dealing with Community regional problems but rather as Community assistance to member States to deal with their own, internal, regional problems. The fact that Ireland was recognised as a single region for the purposes of the Fund was more a reflection of the political process than an acknowledgement that Community problems had to be dealt with on a Community scale. There are signs that these attitudes are changing - the doubling of the Structural Funds by 1992 and the institution of a 'quota free' component of the Regional Fund are obvious examples - but there is a long way to go yet before it is accepted without argument that the backward regions of Europe, whether they are so because of geography, trade patterns or the decline of once-prosperous industries, must get special assistance if they are to remain attractive places in which to live and which have an economic future. We have to convince our European partners that peripheral regions have distinct and special needs and that the type of integration envisaged under EMU would create significant problems for us if we are not able to compete on similar terms with the rest of Europe. Regional policy needs to be seen as an essential element in the policy mix necessary to achieve EMU, but equally all members must recognise that regional policy is not simply a question of financial grants for specific projects, or even for programmes, still less does it comprise subsidies to prop up non-viable but perhaps charming ways of life; rather it is the continuing application of a regional dimension to <u>every</u> European policy.

The Role of Regional Policy in Reducing Disparities

What, then, can Community regional policy achieve? The objective should be to correct imbalances by contributing to the development and the structural adjustment of the regions. Does this mean that regional disparities could or should be totally eliminated? Eliminating regional disparities should not be confused with equalising income per head between regions. Differences in income could, of course, be greatly reduced by some transfer mechanism, but a mechanism based primarily on income subsidies would not contribute to the achievement of sustainable growth. Rather, it could act as a disincentive to effort in the region receiving the transfers, while possibly damaging the dynamism of the stronger regions. It would, at best, merely subsidise the continuation of the problem; it would not help to solve it.

Instead, it is more constructive to think in terms of equalising the conditions needed for the production of goods and services. Here, the main difficulty faced by problem regions is a lack of adequate infrastructure. This is true both of peripheral regions and declining regions. Peripheral regions have inferior infrastructure largely because they are both poorer and less densely populated and the per capita cost of providing the infrastructure becomes prohibitive. Declining regions, on the other hand, tend to suffer because decaying infrastructure is not being replaced. The lack of good infrastructure discourages new firms from locating in either type of region and results in higher costs for existing firms.

Here, one of the key areas is transport. The Confederation of Irish Industry has estimated that Irish industry spends approximately £1 billion annually in transporting materials and distributing finished products. Though geography and a lack of producer goods industries will always mean that transport costs in Ireland will represent a significant proportion of total manufacturing costs, it has been calculated that these costs could be reduced by almost half through significant improvements in the road network. The recent decision to expand the Community regional programme to include infrastructural projects undertaken by the private sector is, therefore, welcome.

Perhaps even more important is access transport to the wider European Community. We are all aware of the enormous growth in air traffic that has taken place between Ireland and the UK since the introduction of cheaper air fares. This has made a considerable contribution to opening up the export market to small Irish businesses, but more fundamental to our future economic prosperity in a barrier-free Europe is cheaper and more accessible surface transport. For example, consider the impact on our existing industries, and on the prospects for locating new industries here, if there were a car-ferry service at hourly or even three-hourly intervals around the clock between here and the UK. Such a service would transform the locational costs and disadvantages of the Irish economy in a way that is hard to imagine at present. Yet the cost of the infrastructure required would be comparable to perhaps twenty miles of modern road.

I would also suggest that we need to think in terms of a broader definition of infrastructure than the conventional one if we are to take a constructive approach to a European regional policy. We all know that there is an enormous improvement needed in our facility in continental languages if we are to prosper in an integrated Europe. Surely this intellectual infrastructure is as important to our economic growth as physical infrastructure? In dealing with clients and generating new activity in continental Europe, Irish business finds itself at a disadvantage because of a general inability to communicate in any language other than English. Apart from the communication problems involved, this effectively reduces the size of the European market open to Irish exporters and is a problem that must be overcome if the potential benefits from economic integration are to be realised in Ireland. Again, consider the effect on our economic, not to say cultural, development if some hundreds, or, dare I say, a thousand teachers of European languages from other member States were enabled to work here.

I mention these examples not because they are self-evidently of a higher priority than others that could be put forward, but rather to illustrate how far we ourselves need to re-interpret our view of Ireland as simply a member State of the Community. In the context of my topic tonight, we are above all a regional space in the Community and we need to frame out policies accordingly.

And if we ourselves need this different perspective, how much more do we need to convince our European partners of this view?

Regional Policy and Labour Mobility

Economic theory tells us that in an economic and monetary union, disparities between regions will produce movements of labour and capital. While such mobility is obviously a requirement of any dynamic economy, large-scale mobility, particularly in the case of labour, would hardly be politically acceptable as a major adjustment factor in an integrated Europe. Indeed, from an Irish point of view, the extent of labour mobility might well be regarded as a measure of regional disparities and of the lack of success in overcoming them. While disparities cannot be totally eliminated, they must be reduced to a level where labour mobility, in particular, is largely voluntary. I am aware that migration and emigration today are complex issues and it can be misleading to classify emigration in simple terms such as voluntary or involuntary, but Ireland has long experience of the effects of large-scale involuntary emigration and we have found it to have very few positive features. In a more integrated Europe, it is essential that the weaker regions do not become mere suppliers of labour. Regional policy must be structured in such a way as to induce enterprises to locate and labour to stay in the peripheral regions. It is worth bearing in mind that the education and training of individuals who, in the event, emigrate to take up employment elsewhere in the Community represents an outright benefit for the receiving region while, for the region of emigration, it is an investment from which it obtains little or no return. This is a non-trivial example of the way in which the richer regions may benefit from integration at the expense of the weaker areas.

Structure of Regional Policy

I mentioned earlier the difficulties posed by the "national quotas" approach to the Regional Fund. In the context of European integration, a basic principle must be that aid should be determined on the basis of regions and not of countries. The adoption of this principle should help to reduce the political friction in regional policy, with aid being allocated to approved programmes within the designated regions, regardless of the country in which they happen to be located. This implies a major increase in funding for programmes with specific objectives in mind, a process already under way. It means a shift of emphasis towards setting overall objectives for infrastructure at Community level and providing funds to achieve them, rather than engaging in piecemeal project financing. The recent Council Regulation on the use of the Structural Funds commits the Community increasingly to concentrate on programme funding, which by end-1987 was targetted to account for only 20 per cent. of regional policy expenditure. This development clearly has much further to go.

If, however, there is a substantial increase in the Community's structural funds and a broadening in the types of qualifying expenditure to cover wider programme categories, it would only be realistic to recognise our corresponding responsibilities. One could, for example, expect a certain reticence at Community level in extending greatly increased budgetary assistance to countries with regional difficulties unless their macroeconomic strategies were based on sound economic policies.

A truly European regional policy in the context of EMU would not become another open-ended drain on Community resources. As some regions become self-supporting and able to compete without assistance, there could be greater concentration of resources on the remaining problem areas. A point would eventually be reached where the amount of Community resources needed would decline. A properly-framed regional policy would not become an ever-expanding part of the Community budget; a policy that did so would contain the seeds of its own destruction.

Let us not forget that the corollary of a policy for the less-favoured regions is a policy for the more advanced regions. The other side of the coin of a policy that encourages growth where it now lags is a conscious discouragement of growth where it is not merely unnecessary, but brings great social and economic costs in terms of congestion, pollution, social problems and even destruction of the environment. If transfers of much-needed resources to the peripheral areas are acknowledged as necessary for the cohesion of European integration, then it is surely beyond argument that the case for subsidies to industries operating in the richest and most polluted areas in Europe is open to serious question. A subsidy given to industry to locate in developed Europe has an inevitable and negative effect on undeveloped Europe. Indeed, the external costs imposed on society by locating an industry in an already overcrowded and polluted environment would justify the imposition of a tax rather than the granting of a subsidy. It is not only the peripheral regions that need to justify subventions for their development.

Conclusions

I have attempted, in the time available, to outline some of the principles on which future regional policy in the Community needs to be based as economic integration proceeds. In an economic and monetary union, there would be no national policy instruments available to offset the tendency for poorer regions to suffer from the effects of market integration. As a member State which happens also to be a regional economic space in the Community, it is essential for us to be clear on the basic principles that should inform a European regional policy. It must be directed at enabling the peripheral areas to compete, not at subsidising them in continued deprivation; it must be far more than financial transfers, and those transfers should be directed towards reducing costs and raising productivity; it should mean a regional dimension to every European policy, and not simply a fund, however well-spent; and it must encompass the richer regions too - both to discourage undesirable development and to acknowledge that the losses of the poor are often the gains of the rich. EMU involves surrendering a high degree of national autonomy in economic policy-making. We have to be sure that this takes place in an environment in which the interests of the peripheral regions are protected. There can be no desire to share in a Europe in which production as well as decision-making and administration is highly concentrated at the centre, while the peripheral areas become national parks suitable for vacations or suppliers of basic commodities and products, while at the same time they are denuded of enterprises and people. There can be no question of central economies gaining the benefits of integration at the expense of the peripheral economies. Rather, EMU should mean that all share in the decision-making process and in the benefits that accrue. Commitment to EMU must involve a corresponding commitment to ensuring that the integration process is beneficial to all. In particular, the stronger economies in the Community cannot pick and choose the elements of EMU that are favourable and disregard the rest. EMU must be a package representing a sharing of costs and benefits that is equitable and acceptable to all member countries. The achievement of economic and monetary union on these terms would result in a much more cohesive Europe than is the case at present. This would guarantee not only the sustainability of EMU but also a Europe that would have a more decisive influence in its dealings with the other major economic blocs.

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Mr. President, I think I have said enough to indicate to you that the environment in which the Chartered Accountant will operate in the years ahead will present great challenges both to the accounting profession and to the nation as a whole. Given the great tradition established over the past hundred years, I have every confidence that the members of this Institute will respond with a sense of commitment and responsibility that will continue that distinguished record. I therefore have great pleasure in proposing the toast of the Institute of Chartered Accountants in Ireland for its achievements over the last one hundred years and its pivotal role in the years to come.