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ECONOMIC PROGRAMS FOR  
LABOR SURPLUS AREAS IN SELECTED  
COUNTRIES OF WESTERN EUROPE

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## LETTERS OF TRANSMITTAL

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DECEMBER 27, 1960.

*To Members of the Joint Economic Committee:*

Submitted herewith is a report of "Economic Programs for Labor Surplus Areas in Selected Countries of Western Europe," which has been assembled by the staff of the Joint Economic Committee with the assistance of the Office of Area Development of the Department of Commerce and the Legislative Reference Service of the Library of Congress.

I believe the committee and others will find this compilation and evaluation helpful in considering recommendations for policy action in this important economic sector.

PAUL H. DOUGLAS,  
*Chairman, Joint Economic Committee.*

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DECEMBER 20, 1960.

HON. PAUL H. DOUGLAS,  
*Chairman, Joint Economic Committee,  
U.S. Senate, Washington, D.C.*

DEAR SENATOR DOUGLAS: In accordance with your authorization, James Knowles and I of the Joint Economic Committee staff visited England, Scotland, Northern Ireland, Belgium, Denmark, and Sweden during the period July 25-August 11, 1960, for the purpose of discussing programs aiding areas of surplus labor, with members of the embassy staffs and individuals from government, industry, labor, and the colleges in those countries. We were accompanied on this trip by Victor Roterus, Director, Office of Area Development, U.S. Department of Commerce.

Similar discussions were held in Germany and Italy in October 1960 by Sar A. Levitan of the Legislative Reference Service, Library of Congress, who carried out these conferences on behalf of the Joint Economic Committee staff.

The following report presents a summary of the results of the conferences that were held and the materials obtained in these eight countries.

The staff of the Joint Economic Committee is greatly indebted to Victor Roterus and Donald Patton of the Office of Area Development, who compiled the mass of materials and notes obtained during the European visits and prepared the basic drafts of both the report and the summary table. The sections on Germany and Italy draw heavily on summaries of programs in those countries prepared by Sar Levitan.

We wish to acknowledge the great courtesy extended us by the officials and private citizens with whom we conferred and who conducted us on inspection tours in labor surplus areas. They were

extremely generous with their time and frank in their discussion of the possibilities and limitations of the programs in their various countries. We hope that the interest and cooperation they demonstrated will in some measure be repaid by a gain in ideas and information from our exchange of facts and by the knowledge that persons who use this report will have increased understanding of their programs.

We are indebted, too, to the staffs of the respective American embassies and consulates who made all arrangements for these conferences and provided us with additional counsel and materials.

JOHN W. LEHMAN,  
*Clerk and Acting Executive Director.*

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## ECONOMIC PROGRAMS FOR LABOR SURPLUS AREAS IN SELECTED COUNTRIES OF WESTERN EUROPE

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The Federal Government has become increasingly concerned with the economic problems of communities and local areas in the United States that have been afflicted with relatively high rates of unemployment over a long time. For the last 6 years this concern has expressed itself in the form of various legislative proposals, and on two occasions bills to assist local areas have been passed by the Congress but vetoed by the President, who has expressed agreement with the intent of these bills but disagreed on particulars. Even more recently, in most cases, the central governments of a number of European countries have adopted programs to alleviate and remedy longstanding unemployment problems in certain depressed areas within their borders. Although the experience of the British Government in attempting to assist local areas with positive measures traces back to the early thirties, it was as recently as March 22, 1960, that Her Majesty's Government combined various, separate measures into a consolidated program under the Board of Trade through the Local Employment Act of 1960. Legislation to assist local economic development was adopted in France in 1955, Denmark in 1958, and Belgium in July 1959, although Italy's and West Germany's basic laws date back to the early 1950's.

In view of the concern in the United States with the problem of persistent unemployment and underemployment in certain areas, it is appropriate to review the measures adopted by European countries for coping with generally similar problems, and to review, insofar as practicable in view of the recency of some of the European programs, accomplishments under those programs.

It should be noted that the Western European programs of special assistance to redevelopment areas sometimes overlap or are closely related with other governmental programs addressed to different objectives. In Great Britain, the new towns program (act of 1946) is designed to remove overspill population, together with industry, from the big cities such as London and to create new self-contained communities in which not only housing and employment but also education, shopping and services, and amenities of all kinds are planned together. In the Glasgow area, for example, both the new towns program and the program of the Local Employment Act (1960) are operative—the one to relieve congestion ("overspill") and the other to provide new job opportunities. Thus, for example, the new town of East Kilbride, just south of Glasgow, is contributing to both objectives.

In Belgium also the special area assistance program is a subordinate part of a larger national effort to accelerate the country's growth and to enable Belgian industry to hold its own in the Common

Market. Thus, to secure growth and to modernize industry for competition, a number of substantial advantages are offered anyone investing in industrial assets in Belgium. One advantage is a subsidized rate of interest, which is further reduced for investments made in development areas and for investments carried out during periods of depression. Thus the latter provision brings in an additional governmental objective, a built-in measure for ameliorating recessions.

It should be noted also that several countries supplement their area development programs with special promotional efforts aimed at attracting foreign capital. Foreign capital projects as well as local industries are eligible to take advantage of government-provided inducements for investment in development areas. Belgium (Belgian Industrial Information Service) and Scotland (Scottish Council), for example, maintain offices in New York for promotional purposes, and periodically sales missions from some of the other Western European countries contact manufacturers in the United States with reference to locating branch plants in Europe.

#### BACKGROUND OF EUROPEAN AREA DEVELOPMENT PROGRAMS

Review and appraisal of various European area development programs are most meaningful in terms of the particular problems which these programs have attempted to solve. In addition, the history, geography, political structure, and administrative organization of Western Europe, as well as its current economic conditions, are quite different from conditions in the United States. Accordingly, while there are areas of relatively high unemployment in Western Europe, the general economic characteristics of these areas and underlying causes of unemployment within them often may differ from areas in the United States also having unemployment problems. However, there also are strong similarities in certain basic situations. The legislation that has been adopted in Western Europe with respect to alleviating the economic problems of areas of tenacious unemployment reflects the various broad historical and cultural characteristics peculiar to Western Europe.

The typical administrative organization for the promulgation of area assistance programs in Europe reflects the nonfederal structure of most European nations. Governmental organization of most Western European countries is comparatively highly centralized with powers concentrated primarily at the national level. Political subdivisions are of minor importance, functioning primarily as local administrative units of the central government. The typical European legislation for area assistance programs is, consequently, not only national in origin but also typically national in administrative organization. Only in the United Kingdom and the Federal Republic of Germany are there constituent units with significant powers. Within the particular political structure of the United Kingdom, the special status of Northern Ireland and to a lesser extent that of Scotland are reflected not only in the overall administration of the British area assistance program but also in the actual details of the programs as between Great Britain and Northern Ireland. In the Federal Republic of Germany the constituent States (Länder) perform a major role in the direction of the national program and supplement the Federal program in certain cases with further State legislation. In

other Western European nations, however, a comparatively central approach to area assistance is a logical expression of their nonfederal structures.

In many European countries area assistance programs have become extensive and important precisely at a period of time when employment generally has reached an extremely high level. In those countries where the precursors of the present programs had their inception at a time when high regional unemployment levels prevailed, as in Great Britain in 1934 and in the Federal Republic of Germany in 1951, special area assistance has been maintained in spite of sharp decreases in unemployment in the areas affected. In other countries such as Belgium and Denmark, special area assistance legislation has been enacted only recently—a time of comparatively full employment. At the time of enactment of the Danish legislation, for example, the national overall unemployment rate was less than 2 percent of the total Danish labor force. Basically, the current emphasis on area assistance in Europe reflects to a high degree the viewpoint that particular areas need special aids in order to permit them to contribute their full share to the long-run overall economic progress of the country as a whole. European programs, consequently, should not be viewed narrowly; they are concerned with more than the reduction of the regional incidence of structural unemployment. Their broader objectives are set in terms of national goals of economic growth. For this reason most European programs attempting to alleviate local or regional unemployment emphasize the movement of industry to the area, rather than the movement of surplus labor away from the area. Sweden, with its battery of labor migration aids, represents the one significant exception.

While diverse factors underlie the regional and local economic problems that have promoted area assistance legislation in virtually all Western European nations, four general types of area problems are particularly important. Recognition of the general backgrounds of these regional problems helps to illuminate the kinds of action stressed in current European area assistance programs. European areas qualifying for area assistance as problem areas generally fall into one of the following four categories: (1) Areas, formerly dependent to a considerable extent on mining activity, where the former employment base has declined owing to mineral depletion or to mine closures as a result of national or even international efforts to rationalize mining activity. (2) Rural areas where the employment base has remained primarily nonindustrial and income relatively low. (3) Industrialized areas where for many years a significant proportion of regional industrial output was exported out of the country, but where curtailment of export markets has reduced the need for production workers. (4) Areas where the pre-1939 industrial base was badly disturbed by wartime destruction or by boundary changes ensuing from the war. In some areas, a combination of these general causes of unemployment accounts for the economic distress.

The first type of regional or areal problem is essentially one of a declining resource base. In Europe, where mineral deposits have usually been exploited intensively for many decades and longer, mineral resource depletion is common. It has afflicted old coal-mining areas in Great Britain and areas of high cost nonferrous minerals in



Belgium and Germany. National attempts to increase worker productivity and obtain higher returns per unit of investment capital may also result in the closing of older, smaller, or less efficient mines. In either case the support from mining declines, and regional or local unemployment may result. In this respect an important difference may be noted between most European coal-mining areas characterized by relatively high unemployment and some of the coal-mining areas in the United States where unemployment problems also prevail. In Europe, local unemployment is not the result of an overall decline in the coal market.

A second basic type of European area which often qualifies for special area assistance is the predominantly rural district. Such areas have little employment to offer other than in agriculture and forestry but still provide housing and scarce community capital. These regions are not characterized so much by unemployment as by persistent underemployment and lower per capita incomes compared to the more industrialized areas. European farm areas, for the most part, have high productivity per unit area, but rural population densities are comparatively high and per capita productivity tends to be low.

Many factors contribute to low rural labor productivity and low rural per capita incomes. First, much of Western Europe is on the threshold of the kinds of changes in agricultural inputs—including the application of new agricultural technology—which doubled and further multiplied the yields on the better farming lands of the United States during the last generation. In Europe, however, the benefits from such changes have only begun to affect per capita income levels in most rural areas. Secondly, both the structure of land tenure and the pattern of settlement in much of Western Europe contribute greatly to production inefficiencies. Not only are individual holdings often too small to support proper farm mechanization, but the individual ownership unit is often scattered into a number of disparate, odd-shaped units, widely separated from each other. Furthermore, in many parts of Western Europe, where village settlement is the rule, unproductive time is spent daily in movement to and from village and outlying farmlands. Unless these special characteristics and problems of European rural areas are kept in mind, the attention which European special areas programs give to regions and districts not characterized by declining industries as such may seem anomalous. Such areas are usually not marginal in an agricultural sense—a characteristic true of many American areas to which public attention is being given—but the marginal productivity of labor is low and per capita incomes are below national averages. These latter characteristics are shared by problem rural areas of the United States. The transition to mechanization and more productive land tenure arrangements can proceed with fewer social problems, it is believed in Europe, if the rural economic base is diversified through industrial development.

A third cause for special area assistance in Europe is the familiar case of structural unemployment associated with declining markets for regional specialties. The decline is usually absolute, not just relative compared to national levels. This type of regional problem has occurred with most marked incidence in the United Kingdom, where the economies of major regions such as south Wales, south Lancashire, and the northeast coast have been based on industries for which the formerly important export component has dwindled. In Belgium,

the National Government has a program to close a substantial number of marginal coal mines in the Mons (southern) area to accelerate a transition to more economic enterprises. This, in turn, has occasioned special assistance to accelerate the development of replacement industries.

The fourth major factor giving rise to special area problems in Europe relates to severe local destruction during World War II or to special problems occasioned by political boundary changes following the war. While the claims for special assistance on the basis of wartime destruction have become steadily less significant with the passage of time, problems incidental to boundary changes promise to be more persistent.

Finally, it should be stressed that in one nation selected for inclusion in this study—Italy—depressed area problems exist in a peculiarly aggravated form throughout the southern half of the country. The problems of this area, more deep-rooted than in most other parts of Western Europe, stem in part from difficulties inherent in the climate and terrain of southern Italy, as well as from the historical legacy of that area. In many respects, regional development problems confronting southern Italy are comparable to those facing other lands adjacent to the Mediterranean Sea.

#### CRITERIA FOR REGIONAL ELIGIBILITY TO RECEIVE ASSISTANCE UNDER THE CURRENT EUROPEAN AREA ASSISTANCE PROGRAMS

Almost all European areas that qualify for various forms of public area assistance have regional unemployment levels higher than national averages. However, actual eligibility for regional assistance is usually determined through the application of a fairly broad set of economic criteria.

Great Britain is the only nation in which regional assistance eligibility is related exclusively to employment levels. In the Federal Republic of Germany, where by statute regional assistance may be related to unemployment levels, actual unemployment has now been well below the stipulated levels in all parts of the country for some years, and the allocation of assistance funds is accomplished through more general considerations, such as regional income levels and extent of industrial diversification. In Belgium, excessive commuting to other areas for employment is given equal standing with the factors of unemployment, industrial decline, and outmigration in defining development areas.

In Europe, the more heavily rural, less extensively industrialized, areas are generally favored for regional assistance. These are areas characterized by low ratios of industrial to agricultural employment and by per capita income levels below national averages. Within the Federal Republic of Germany, the State of Bavaria—the least industrialized of all the States—receives the largest single Federal allocation, and within Bavaria aid is expended primarily in the more rural sectors of the State. It should be noted, however, that within the Federal Republic of Germany all areas within 40 kilometers (24.8 miles) of the East German boundary are eligible for certain types of assistance regardless of the degree of industrialization—a reflection of war disruption. In Great Britain, where the criterion of relative unemployment is basic in the recognition of areas eligible for assistance, the law in effect permits regional aids only to the less-congested

sections of the country, although these areas may be highly urban. Also the mine areas are customarily singled out for public attention.

Some countries impose specific limits on the proportion of the total national area or population that can be included in special assistance areas at any one time. In Denmark, however, essentially the entire area of the country apart from a few cities is eligible, and in Northern Ireland the entire area is eligible for assistance, although with a bias toward areas outside the Belfast metropolitan area.

Reference has already been made to the somewhat special example of Italy among the nations selected for review in this report. This fact is seen with respect to the size of the Italian special assistance areas. The southern half of Italy is so clearly behind the central and northern parts of the country in virtually all indicators of economic status, and economic stagnation has persisted for so long that this large area (including Sicily and Sardinia) has been made eligible in its entirety for special public assistance. The broad development program here, relative to the total national product of the country, is probably the most extensive regional assistance program attempted in Europe.

There is still another significant general characteristic relating to the recognition of areas eligible for assistance in Europe. The approach to the delineation of areas for assistance tends to be a flexible one, and provision is made for the actual determination of the location and boundaries of such areas through administrative processes rather than through precise legislative definitions. Italy is the most significant exception. In its earlier area assistance programs, Great Britain specified legislatively the specific areas eligible for assistance, but the current (1960) enactment has moved away from this rigid approach toward a more flexible, administrative-type approach exercised by the Board of Trade (corresponding approximately to the U.S. Department of Commerce). Commonly two or more departments or ministries within the central government are responsible for the delineation of areas, and in the Federal Republic of Germany the actual area decisions are made by the governments of the States (Länder) within the overall framework of policy formulated by the Federal Government.

#### REGIONAL ASSISTANCE PROGRAMS

European regional assistance programs attempt to encourage regional economic growth primarily through four basic types of incentives. These are loans, grants, tax incentives, and government assistance or initiative in site improvement and individual plant construction. Other types of incentives also are employed, such as governmental aids in materials procurement for industries locating in development areas and transportation rebates on government-owned railroads. In the aggregate, however, such incentives are quite minor in importance compared to the four major devices. Not all four of the major regional development incentives are operative in each country. In general, tax incentives and site improvement and building construction are less common and of less total importance than loans and grants.

Loans and grants were the only two devices present in every European country reviewed in this study. In the broadest terms the typical European area assistance program places heavy emphasis on loans and grants (with somewhat greater emphasis being given

to the former, with interest rates receiving special attention), but tends to buttress the program with further incentives including either tax concessions or direct government participation in the preparation of industrial sites and buildings, though normally not both.

#### LOANS

European governments provide expanded credit to assistance areas in one or both of two ways: through government loans and through government guarantees of loans extended by private credit institutions. The amount of credit extended directly by European governments for area assistance programs is in the aggregate substantially larger than the amount of private credit covered by public loan guarantees. The large majority of government loans carry an interest subsidy. Likewise, when credit is extended from private sources, the central governments commonly reimburse the lending institutions for the interest difference between the prevailing market rate and the rate charged the borrower. In Belgium, the subsidized interest rate is fluctuated not only to favor productive investment and modernization in development areas, but also to accord with a national situation of prosperity or recession. Thus, during a recession, interest rates in development areas may go as low as 1 percent (the average of all loans thus far, however, has been subsidized at a level of about 3 percent).

Loans normally can be made for many purposes in the assistance areas. Most important are loans to private industrial enterprises for purchase of land, plant construction and equipment, and loans to public organizations for the expansion or improvement of basic regional or local services, such as transport and utilities. Loans to new industrial enterprises in the development areas cover at least one-half the total cost of plant and equipment. Credit is extended also to existing enterprises in the development areas if these enterprises seek to expand their present facilities. In Belgium, low-interest loans are made to encourage the manufacture of new products by existing firms or the introduction of production techniques of an entirely new character. Less universal but not uncommon are loans extended for working capital and for research and development. Again in Belgium, where there is an additional drive to modernize production and product to prepare for competition in the Common Market, loans for industrial research may be noninterest bearing. Efforts of municipal governments and other public bodies to improve basic services are supported by low-interest loans covering much or all of the cost of the improvement of basic services.

While loans to encourage industrial expansion and improvement of basic services are virtually universal in all European area assistance programs, loans are available for still other purposes in Italy and Germany. In southern Italy, loans may be used for such things as reservoir and electric powerplant construction, for improvement in fishing facilities and equipment, and for construction of tourist hotels. In the Federal Republic of Germany, it is significant that the improvement of tourist facilities is regarded as a *bona fide* purpose for area assistance loans. All types of European area assistance loans carry moderately long repayment schedules, ranging typically from 15 to 20 years.

## GRANTS

The use of grants as an area development incentive closely parallels the use of loans. Essentially the same purposes are covered by both devices. Grants are most commonly used to help new industries in the development areas meet part of the costs of land, buildings, and equipment, or to encourage local public organizations to undertake improvements in basic public services such as access roads, water, and utilities. Total grants to incoming manufacturing enterprises are larger than grants for improvements in basic services. Purposes for which grants can be made are broadly interpreted and may even include costs of transferring machinery from another area and costs of training labor. On the average, however, grants are made for a smaller percentage of the total anticipated outlay required than are loans. In most countries industrial grants range from 33½ percent of total anticipated costs downward, but grants for improvement of basic services may range up to 100 percent of costs. Actual payment of the grant is usually scheduled in terms of stipulated progress in new industrial construction.

The employment grants in European area assistance programs are handled in a flexible manner. Both the amount of individual grants and decisions between the alternate extension of grants or loans are conventionally handled administratively on an *ad hoc* basis, although the upper limit of the level to which a grant application will be considered is set either through legislation or administrative practice in each country. Extension of grants above a certain amount may entail further administrative procedure, such as the specific approval of an additional department or agency. The use of grants rather than loans as a form of assistance tends to prevail particularly in those countries or areas where the problems of economic development have been comparatively difficult, or where concerted and strenuous attempts are being made to augment and diversify the industrial base. For example, Northern Ireland generally offers more liberal terms to industry than England and Scotland because it is more remote from the larger markets of the British Isles and thus is considered by many industries to be a less desirable location than most of England and at least part of Scotland.

## TAX INCENTIVES

The tax incentive at the national level is a distinctly less important device than the grant or the loan in European area development programs as a whole. The United Kingdom particularly eschews national tax incentives. Where no provision is made for national tax incentives, however, there are often tax incentives in existence at the local level. Where national tax incentives do exist, they may take one or more of three forms: (1) provisions for accelerated amortization of new plants constructed in areas designated for special assistance; (2) reduction or revision of capital gains taxes assessable on new industries in the development areas; (3) least commonly, concessions on normal corporate income taxes for a stipulated number of years for new industries in the assistance areas. In Italy, tax incentives are used more widely than in any of the other European countries reviewed, and further tax savings are offered new industries in southern Italy, including payment of a nominal sum in place of the mortgage taxes and registration fees.

## SITE IMPROVEMENT AND PLANT CONSTRUCTION

Preparation of industrial sites or parks and construction of industrial plants through government auspices—the last of the four main devices used in European area development programs—receives prime attention in the United Kingdom and Belgium. Government construction both of individual plants and of industrial parks has been pursued on a large scale in England, Scotland, and Northern Ireland. Government agencies in both Great Britain and Northern Ireland have designed and constructed groups of factories to various standard specifications prior to the location of specific tenants, as well as constructed special plants, both in industrial parks and at isolated sites, in terms of particular tenant specifications. Various alternative arrangements are also made between the government and the enterprise occupying the government-constructed industrial premises. The incoming industry may rent the industrial plant at essentially subsidized rentals, or it may purchase the plant over a period of years on favorable terms negotiated between government and enterprise. In Northern Ireland an industry may have the option of accepting an outright government grant up to 33½ percent of its own plant and equipment investment costs, or, alternatively, of occupying industrial premises provided by the government at low rentals with grants for moving costs, training expenses, and other costs incidental to getting into operation.

The British Government has continued to stress the importance of providing usable sites for industrial development both through the provision of loans and grants to private groups undertaking such improvements and through provisions for the Board of Trade to take the initiative itself in a wide range of activities relating to the improvement of industrial land. Sites are usually developed as a part of a larger tract of land planned in its entirety as an industrial park accommodating a community of industries.

## LABOR MIGRATION ASSISTANCE

Labor migration assistance—moving workers to the job rather than jobs to the workers—is comparatively important as a device in combating regional unemployment problems only in Sweden. Elsewhere in Western Europe, while some legislative provision may exist for financial assistance to labor moving from one area to another, the program receives little active implementation in practice. In Sweden, however, the reduction of unemployment is regarded essentially as a national problem and, as such, takes precedence over the maintenance or establishment of job opportunities in any particular region.

Labor migration assistance in Sweden is built around three types of allowances accorded workers moving from an area of unemployment to other areas where new employment is available. The original basic type of allowance was the travel and expense allowance extended to the worker to cover his travel and removal costs, supplemented further if accompanied by a family. In 1958, the "family allowance" was added to cover the costs of maintaining a separate family establishment at the original place of residence during an interim period of 6 months after a job had begun in a new locality. In 1959 a third type of allowance, designated as a "starting allowance," also was added,

providing for the worker's living expenses until reimbursement in the new employment could begin. To qualify for the several allowances, the worker must be unemployed, he must not have been in a position to be offered another job in his original home area, and he must have received his new job through the public employment service. In addition, the new employment opportunity must be in a field considered by the Royal Labour Board as being important in the national labor market.

#### ASSESSMENT OF THE RESULTS OF EUROPEAN SPECIAL AREA ASSISTANCE PROGRAMS

Practically all the current European special area assistance programs have been initiated so recently that definitive appraisal of results is not yet possible, although in some instances substantial progress is evident.

In Germany, where area assistance legislation has been in existence for 9 years, much longer than that in most countries, the possible effects of the program have been somewhat masked by the dramatic economic changes and the large-scale decline in overall unemployment which have characterized the Federal Republic during the 1950's. Advocates of the area development programs within the Federal Republic have pointed out, however, that the movement of new industries into the assistance areas was facilitated by the improvements in basic community services realized through the aid programs. They suggest that the tax base of the local communities often was too small to have permitted comparable improvements in local facilities without Federal and State (Land) aid. It is also suggested that the area aid measures served to check outward labor migration from the distressed areas which, had it continued, would have aggravated the problem of securing improved area economic conditions and might eventually make such areas unattractive to new industries because of labor shortages.

Some definite results of area assistance may be presented for Scotland, where a series of aid programs have been applicable in much of the principal Scottish industrial area since 1934. By mid-1960 the Government had constructed 21 industrial estates or parks and some 40 other plants on individual sites. Factory area constructed by the Government totaled 16.6 million square feet, and an additional 2 million square feet were under construction. Government-constructed plants housed 370 tenants with a labor force of 72,000. In addition to direct Government construction, 93 new industrial projects with 5.2 million square feet of area were being built by private enterprise in 1959. Many plants in the latter group actually were being financed in part by the Government through loans and grants. These plants were expected to employ about 6,000 people. A further 107 private projects were approved in the six-month period beginning January 1, 1960, and presumably many of these also will receive Government financing. This is expected to increase employment by another 13,000.

Altogether in the last 18 months, there have been constructed or approved for construction a total of some 200 projects involving

19,000 new jobs in Scotland. To indicate the progress that is being made on the unemployment problem, these figures may be compared with the unemployment remaining as of July 1960. As of that date, total unemployment in Scotland was only 69,298 persons (3.2 percent of the labor force) of which 53,186 were in development districts.

Since 1945, 32 American industrial firms have commenced operations in the Scottish assistance areas and now occupy 4.8 million square feet of factory space, financed largely by the Government under area assistance legislation. Current employment at American plants in Scotland is 22,700.

In Belgium, under the July 1959 law, a total of 539 applications for interest reductions (loans) by new and existing enterprises were approved up to July 1, 1960—a period of a year of operation. These projects created a net of 19,381 new jobs and involved a total investment of approximately \$185,049,000 (\$170,730,000 for 509 existing industries and \$14,319,000 for 30 new enterprises). However, these figures are national totals and include loans made for modernization of productive facilities to meet competition in the Common Market regardless of whether the facilities are located in development areas or elsewhere in Belgium. Only a very small part of the loans were made to new or existing enterprises in the development areas. For example, the entire province of Hainaut, which includes the three development areas of Borinage (the mine region), Centre, and Tournais-Ath, was the recipient of 67 loans, totaling an investment of \$26,005,000 that created 1,482 jobs. Both in the Borinage (Mons area) and in the rural development area of Bornem (north of Brussels), the attracting of new industry is based on the planning and development of industrial park areas for which tenants (particularly foreign firms) are negotiated as construction work progresses.

The following table and notes summarize in detail and by countries the various measures and criteria that have been adopted by eight Western European countries for expanding employment and alleviating unfavorable economic conditions in certain disadvantaged areas within these countries.



**SELECTED EUROPEAN PROGRAMS FOR EXPANDING EMPLOYMENT IN AREAS OF RELATIVELY HIGH UNEMPLOYMENT, 1960**

	Belgium	Denmark	Federal Republic of Germany	France	Great Britain	Italy	Northern Ireland	Sweden
Criteria for area eligibility-----	<p>Assistance for 2 general kinds of areas:</p> <ol style="list-style-type: none"> <li>(1) Industrial areas where industries have been lost.</li> <li>(2) Predominantly agricultural areas where mechanization is replacing farm labor.</li> </ol> <p>Specific areas designated for assistance on basis of 1 or more of 4 criteria:</p> <ol style="list-style-type: none"> <li>(1) Significant permanent unemployment.</li> <li>(2) Exodus of a portion of the population.</li> <li>(3) Actual or threatened loss of major economic activities.</li> <li>(4) Commuting by significant numbers of the labor force under unfavorable circumstances. (See note 1.)</li> </ol>	<p>Areas eligible for assistance are all those areas which are comparatively less developed industrially. Such areas include practically all of Denmark except Copenhagen. Unemployment not major criterion.</p>	<p>Several kinds of areas generally eligible for assistance:</p> <ol style="list-style-type: none"> <li>1. Area within 40 kilometers of Eastern German border.</li> <li>2. Area within 20 kilometers of western border in Saarland.</li> <li>3. Labor markets which had 19 percent or more unemployment in 1953.</li> <li>4. Landkreise (counties) where more than 30 percent of agricultural operating capital was destroyed during World War II.</li> <li>5. Low income agricultural areas, with less than DM 1.250 (about \$300), operating capital per person engaged in agriculture (including family members) and where nonagricultural job opportunities were limited in 1950. (See note 4.)</li> </ol>	<p>Areas eligible for assistance characterized in general by underemployment or relatively low economic development. Areas approved for assistance by an interministerial committee after extended regional economic studies have been undertaken.</p>	<p>Legislation provides for assistance to any area where Board of Trade deems a high rate of unemployment to exist or to be imminent, and likely to persist either seasonally or generally.</p> <p>Areas eligible for assistance recently have had unemployment rate of at least 4 percent (double the national average).</p> <p>Combined labor force of assistance areas not to exceed about 14 percent of total national labor force.</p> <p>Board of Trade may modify specific criteria for area eligibility from time to time. (See note 5.)</p>	<p>All of southern Italy roughly south of Rome together with Sicily, Sardinia, and smaller offshore islands containing about 40 percent of Italy's population.</p>	<p>Program applies to all of Northern Ireland, but rural areas given special attention administratively.</p>	<p>No specific criteria defining area eligibility. A city or area eligible for assistance when provincial Labour Market Board advises national Labour Market Board that some form of aid is needed. Designation of need for assistance depends on local and national employment situation.</p> <p>Areas designated for assistance generally one of the following:</p> <ol style="list-style-type: none"> <li>(1) Area with a single or dominant type of industry subject to fluctuations in business activity.</li> <li>(2) Rural areas experiencing depopulation.</li> <li>(3) Areas where an industry has ceased operation.</li> <li>(4) Areas with restricted employment opportunities for either male or female workers. (See note 12.)</li> </ol>
Loans-----	<p>Government guaranteed low-interest loans from quasi-public and government-approved private lending agencies available for—</p> <ol style="list-style-type: none"> <li>(1) Construction or remodeling of buildings or the purchase of equipment.</li> <li>(2) Financing intangible investments, such as research.</li> <li>(3) Facilitating conversion to new types of production.</li> <li>(4) Reconstitution of working capital depleted by comparable investment at an earlier date.</li> </ol> <p>Government subsidy to lending institutions equivalent to difference between prevailing commercial interest rate and rate charged the borrower, up to maximum of 4 percent. During periods of recession interest rate charged may be reduced to minimum of 1 percent. Reduced rates generally applicable for 5 years, exceptionally for 8 years.</p>	<p>Direct Government loans and private loan guarantees available for construction of plant and installation of machinery; present fund of DKr50,000,000 (\$7,000,000) available.</p> <p>Loans and loan guarantees available up to 90 percent of the cost of permanent installations and machinery; up to 45 percent of the purchase price of machinery used in rented industrial sites.</p> <p>Loans for factory buildings repayable over 15 years; for machinery, over 10 years.</p> <p>Government loans also available for the construction of industrial centers for lease to small enterprises. (See note 2.)</p>	<p>Five types of direct government loans are available:</p> <ol style="list-style-type: none"> <li>(1) For the establishment of new plants at 3½ percent for 15 years provided that at least 1 factory job is established per \$2,300.</li> <li>(2) For expansion and modernization of established plants at 5 percent for 15 years.</li> <li>(3) General measures for promotion of industry including public utilities and roads (municipal and county) and extension of vocational training facilities at 2 percent for 20 years. These loans are limited to nonprofit corporations.</li> <li>(4) For tourism—4 percent for 15 years.</li> <li>(5) For improving agricultural productivity at 2 percent for 20 years.</li> </ol>	<p>Government loans available both for land, plant and equipment, and for working capital requirements. Interest rates are variable, but are generally close to the prevailing open market rate. Repayment period also variable but generally comparable to amortization schedules of investment loans from commercial sources.</p> <p>Government loan guarantees may be available for part or all of a loan contracted from a private source. (See note 3.)</p>	<p>Government loans available to industries. Terms highly variable, including no fixed limit on amount of loans.</p> <p>Loans generally from 50 percent to 100 percent of capital required. May be used for purchase of land, construction of plant, or purchase of equipment. Repayment period averages 10–20 years. Principal, interest, or both may be deferred for several years.</p> <p>Loans also available for improvement of basic services in any development area. Loans made to either public or private organizations. (See note 6.)</p>	<p>Federal Government loans available up to about 70 percent of total capital needed for new plants locating in the development area or expanding facilities. (See note 8.)</p> <p>For small (up to 100 employees) and medium size (100 to 500 employees), rate of interest charged to entrepreneur is 3 percent with the Government paying the difference between actual rate and normal rate of interest. Maximum duration of loan 15 years. Maximum loans 3,000 million lira (\$1 equals approximately 625 liras). (See note 9.)</p>	<p>Government may undertake special plant construction according to specifications of new enterprise. Repayment terms negotiated.</p>	<p>Government loan funds primarily designed for small and medium sized enterprises (up to 50 employees). Do not exceed SKr50,000 (\$10,000). Government loan funds reach private industrial enterprises through provincial industrial associations composed of all businesses in a particular area.</p> <p>Government loans designed to assist small industries in general. Only minority of loans made to industries locating in labor surplus areas.</p> <p>Government funds lent to provincial industrial associations at 3½ percent. Loans made by provincial industrial associations may not exceed 6½ percent; usually 5 percent; repayment period typically 10 years.</p> <p>Larger loans from private sources up to SKr1,000,000 (\$200,000) eligible for Government guarantees after investigation by provincial employers association and if Labour Market Board considers loan desirable.</p> <p>Government housing construction loans available for areas of expanding industry.</p>
Grants-----	<p>Government grants available for part of the cost of plant construction and purchase of equipment. Construction grants limited to 20 percent of costs (30 percent during recessions); equipment grants to 7.5 percent of costs (10 percent during recessions).</p> <p>Grants normally payable after completion of investment, but an advance of up to 50 percent of construction grants may be made after roof raised on new plant.</p>	<p>Grants available for the preparation of industrial sites and construction of industrial centers. Grants cover costs of drainage levelling, road construction, and utility installation.</p> <p>Grants also available for costs of industrial project reviews and analyses, for project preparation, and for other types of consultation.</p> <p>Local governments offer grants in the form of low-cost building sites and reduced utility charges.</p>	<p>Federal grants may be made for improvement of public facilities. Grants may also be made to nonprofit associations established to improve general economic conditions in a development area, including agricultural improvement and vocational or professional training. The Länder and communities benefiting from the grants must participate in accordance with their ability. Normally a grant is limited to 50 percent of total cost of a project.</p> <p>In addition special grants are made to firms located in the border development areas to equalize their freight costs.</p>	<p>Government grants available up to 20 percent of the total investment costs borne by an enterprise. Investment costs for calculating grants may include new plant construction, new machinery, extension or conversion of existing plants, and transfer of equipment.</p> <p>½ of any grant payable in advance; balance semiannually upon receipt of statement of investment completed.</p> <p>Government interest subsidies also available for enterprises anticipating only a comparatively low return on investment and borrowing from private sources.</p>	<p>Government building grants available up to 85 percent of the difference between the actual cost of plant construction and open market value upon completion.</p> <p>Government grants also available for other investment costs. Purposes of grants flexible.</p> <p>Government industrial premises rented to industries at subsidized rates.</p> <p>Grants to county borough or county district councils toward the cost of acquiring and improving derelict land.</p> <p>Grants also available for improving basic services in a development area (water, transportation, etc.).</p>	<p>Federal Government grants may cover up to 20 percent of the capital needed for establishing new plants or expansion of established plants in municipalities with less than 200,000 inhabitants. Amounts of grant related to cost of building plant, machinery, and equipment and installation of public utilities.</p> <p>Grants are also offered to cover 100 percent of costs of public facilities needed for the development of industry and improving productivity in agriculture.</p> <p>Reduction up to 50 percent in the freight rates applied for the transport of raw materials and machinery needed for new or expanding plants. (See note 10.)</p>	<p>Outright Government grants available up to 33½ percent of costs of factory construction. Other Government grants cover machinery and equipment costs.</p> <p>Alternate form of aid includes Government construction of plants and subsequent rental at reduced rates, together with grants to cover costs of moving machinery and equipment from another industrial site.</p> <p>Government grants to local authorities for improvements in basic services in industrial districts.</p> <p>Government grants up to 50 percent of the cost of training labor for new industrial operations. Alternative is Government allowance for worker retraining in Belfast.</p> <p>Government rebates for part of fuel and power costs.</p>	<p>None provided for industry. Special Government grants only to forest owners for extra forest conservation work during seasons of slack employment.</p>

Tax incentives	Exemption of capital gains tax between 1959 and 1963 provided gains are reinvested in real estate or equipment in regional development areas. Tax exemptions on up to 30 percent of profits earned during first 3 years in a development area. 5-year real estate tax exemption for enterprises receiving grants or loans for purchase or construction of plants. Local tax concessions also possible for enterprises not receiving loans or grants.	None provided at national level. Local governments may use tax exemptions to attract industry.	Accelerated tax depreciation is granted to new industries in border development areas not to exceed \$69,000. The accelerated depreciation applies to 30 percent of the fixed assets and 50 percent of the movable assets.	Exemption of regional development corporations from 50 percent of the tax normally due on investment income. Slightly accelerated amortization on certain forms of plant and equipment acquired after 1950. 50 percent accelerated amortization on plant and equipment acquired for research and development purposes. Deductions may be allowed in certain cases in computing capital gains taxes. Local taxes may be reduced or eliminated.	None provided.	Exemption from payment of customs duties on imported machinery and materials. Reduction in registration fees and mortgage taxes to a nominal charge of Lit200. Normal tax on new or extending investment is 7 to 7½ percent of the value of land and buildings. 50 percent reduction of turnover tax on machinery and materials and consumption tax on power used for industrial purposes. 10-year income-tax exemption on profits earned in new investment and 50 percent exemption in taxes on investments in new and additional facilities. Municipal administrations in southern Italy may grant exemptions from part or all of the taxes they levy.	None provided at national level. Local real estate taxes may be reduced by 75 percent.	None provided for special regional development.
Site improvement and building construction	Development corporations may purchase or build plants in development areas to sell or rent to industries. Stock of development corporations may be held by national, provincial, or local governments, with proviso that at least ½ of total stock must be held by local governments.	None undertaken by national or local governments.	See loans and grants	None undertaken by National Government. Local governments or other organizations may receive governmental aid in the form of loans and interest subsidies for the acquisition and improvement of industrial sites and the construction of plants prior to tenant occupancy.	Board of Trade may acquire land by agreement or condemnation. Unightly land may be acquired and improved to permit industrial use or improve neighboring industrial values. The Industrial Estate Management Corporations acting for the Board of Trade may— (1) Improve basic services, including water, electricity, and roads. (2) Construct plants prior to securing tenants. (3) Construct plants to tenant specifications. Government constructed plants may be sold outright or on deferred terms, or rented to enterprises.	Facilities needed for new or expanding plants may be expropriated. (See note 11.)	Standard factories between 2,000 and 73,000 square feet constructed by Ministry of Commerce in advance of specific tenants. Government also builds nonstandard factories to manufacturer's specifications in some areas. Government construction of industrial parks. Land allowance for 100 percent plant expansion. Industrial park plant extensions made for existing tenants by Ministry of Commerce.	None undertaken by national or local governments.
Administrative organization	Administered by Ministry of Economic Affairs. Ministry of Finance approves loan guarantees. Grant applications through a regional office of the General Economic Inspectorate, a department of the Ministry of Economic Affairs. Applications for loans through lending institutions recognized by the Government. Ministry of Economic Affairs may purchase or construct industrial centers.	Regional Development Board in charge of administering program. Area Development Council responsible for defining areas to receive assistance. Council appointed by Minister of Commerce; consists of 3 members. Council also decides which projects qualify for support.	An interdepartmental Federal committee is charged with overall supervision of the program and the approval of all projects in excess of \$23,000. The funds are allocated to the Länder (States) according to the population located in the respective development areas and the border mileage and population located within 40 kilometers of the border (20 kilometers in the Saar). All proposed projects must receive initial state approval before they are submitted for final approval to the Federal interdepartmental committee.	Ministry of Industry and Commerce in charge of general administration of program as a whole. Administration of loans and grants also by this Ministry. Interministerial Committee coordinates responsibilities of various ministries. Departmental prefects responsible at the local level for administration of program. Prefects call and preside over interdepartmental working conferences.	Administration primarily concentrated in the Board of Trade. Principal administrative functions are— (1) Establishment of specific criteria for the recognition of assistance areas (legislation provides only general criteria). (2) Designation of specific areas to receive assistance. Recommendations by Under Secretary for Distribution of Industry to President of Board of Trade, based on unemployment information received from Ministry of Labour. (3) Making of building grants, other grants, and loans to individual enterprises after consultation with an advisory committee appointed by the Board, and with consent of the Treasury. Advisory Committee acts under general directions given by the Board of Trade. (4) Control over issue of Industrial Development Certificates. (5) Appointment of 5-member Industrial Estate Management Corporation for England, Wales, and Scotland respectively to develop and manage industrial land acquired by the Board. (See note 7.)	Program administered by a special agency, "La Cassa per il Mezzogiorno" (Fund for the South) under the control of a Cabinet Committee of Ministers for the South (Ministers of Agriculture, Public Works, Transport, Treasury, Labor and Social Security, State Participation, and Tourism).	Program administered through Northern Ireland Ministry of Commerce.	(Royal) Labour Market Board the principal administering agency. Ministry of Commerce advises on Parliamentary appropriation of loan funds, however, in consultation with Board of Trade and Labour Market Board. Functions of the Labour Market Board include— (1) Advising investors on suitable locations for new industrial plants (through Board's Industrial Location and Research Division). (2) Control of the public employment service. (3) Planning emergency public works programs to alleviate regional unemployment. (4) Management of vocational guidance and rehabilitation services. Labour Market Board cooperates with regional employers organizations in its research, advising, and information activities relating to industrial location.

NOTES TO TABLE ON SELECTED EUROPEAN PROGRAMS FOR EXPANDING EMPLOYMENT IN AREAS OF RELATIVELY HIGH UNEMPLOYMENT, 1960

NOTE 1.—Benefits under the Belgian area assistance program are not necessarily applicable to all areas meeting one or more of the criteria for area eligibility. It is planned to direct the benefits in the next few years only toward those areas which are most in need of assistance. The extent of the areas which can actually receive assistance at any one time is limited to 15 percent of the total population.

NOTE 2.—Technical assistance may accompany either loans or grants.

NOTE 3.—Loans and grants in France, and generally in other European countries with area assistance programs, are financed by appropriations rather than through revolving funds.

NOTE 4.—Each State (Land) receiving assistance funds from the Federal Government decides which areas within its borders will actually receive the assistance. Areas finally selected for assistance are only a part of the total area in each State eligible for assistance under national legislation. Selection of actual areas is made on the basis of several criteria:

- (1) Net loss of population from the area due to out migration.
- (2) The status of the local tax base.
- (3) Ratio of the unemployed to the employed labor force.
- (4) Ratio of manufacturing jobs to the total population.

NOTE 5.—Recommendations that particular areas should become eligible for assistance are made by the Under Secretary for Distribution of Industry to the president of the Board of Trade. Such recommendations must be based on specific unemployment information received by the Under Secretary from the Ministry of Labour.

The view that the ratio of the labor force in all assistance areas combined should not surpass 10 to 12 percent of the total national labor force reflects a policy of concentrating assistance in fewer areas rather than dissipating it widely and thinly over many areas.

NOTE 6.—The Board of Trade influences industrial location through its control over the issue of industrial development certificates (in effect, a sort of license to permit new plant construction or existing plant expansion) as well as through direct financial incentives. Provision for the issue of industrial development certificates, written into the Town and Country Planning Acts, has been retained in the present area development legislation. No new plants may be constructed or significant extensions made to existing plants without an industrial development certificate. The original purpose of the industrial development certificate was to prevent further concentration of industries in those areas which were already highly developed industrially and were faced with growing problems of congestion, such as the metropolitan London area and parts of the Midlands. Henceforth, however, the issuance of industrial development certificates by

the Board of Trade must be with "particular regard to the need for providing appropriate employment in development districts."

NOTE 7.—The Industrial Estate Management Corporations have only been in existence for a few months. The five members of each corporation are conversant with various phases of industrial development. Their duties include the management of derelict land acquired by the Board of Trade and leased to them.

NOTE 8.—During the last several years the Italian aid program for the south has put an increasing emphasis on aiding the development of manufacturing and on improving the status of transport, water, sewerage, and power in the south, in addition to extending further aid to agriculture, whereas in the early years of the program most of the funds for the south had been channelized into agricultural improvements.

NOTE 9.—The Cassa per il Mezzogiorno was authorized by area assistance legislation to cooperate with existing private lending institutions in southern Italy to form three lending corporations for the express purpose of extending loans to prospective new industrial enterprises of up to 500 employees in the assistance area. The three institutions formed are:

- (1) Institute for the Economic Development of Southern Italy.
- (2) Regional Institute for Financing Industry in Sicily.
- (3) Sardinian Industrial Credit.

NOTE 10.—Most of the regional assistance funds expended in southern Italy other than for aid to industries are in the form of grants. Grant funds have been used for irrigation, drainage, erosion and flood control, rural electrification, construction of farm roads, purchase of farm machinery and equipment, settlement of new families on the land as a result of land reform associated with the splitting up of large estates, construction of aqueducts for municipal sewerage systems, restoration of historical monuments in order to increase the tourist industry, purchase of equipment by craftsmen, and purchase of new fishing vessels and new fishing equipment. The Cassa per il Mezzogiorno has also expended sums appropriated for improvement of roads and modernization of Government-owned railway facilities in the south. These forms of regional aid necessarily have been in the form of grants or direct Government expenditures. Due to the scanty tax base and low incomes in the south, loans even at subsidized interest rates would not have proved to be a sufficient incentive. This has been demonstrated with respect to the provision of new municipal water supplies. It had been planned to use regional development funds to construct aqueducts to the edges of municipalities and to depend on municipal expenditures to complete the distribution system, but the southern Italian municipalities lacked even the funds to construct their shares of the total supply systems.

NOTE 11.—Italy's area assistance legislation requires the two major Government-owned industrial corporations (IRI and ENI) to allocate 60 percent of new investment to projects in the southern assistance area and 40 percent of all other investment in this area. In addition, a significant part of the total new investment of all kinds in the south stems from expenditures by the Cassa per il Mezzogiorno itself. During the period 1954-60, direct Cassa expenditures in the south were responsible for about 30 percent of total investment of new funds in the assistance region.

NOTE 12.—In Sweden the area assistance program tends to be subordinate to labor migration assistance since, from the Swedish viewpoint, certain areas of Sweden are likely to remain distinctly less favorable for economic development than other areas, and accordingly should not be maintained at artificially high levels of economic activity at national expense. The Industrial Location and Research Division of the Royal Labour Board does attempt to influence new industrial locations away from the major existing industrial centers, however, insofar as industries could be located in other areas without significant production cost handicaps. The Industrial Location and Research Division of the Labour Board carries on with industrialists consultations in which suitable areas for new industrial expansion are discussed. Either the Industrial Location and Research Division or the industrial enterprise may initiate such consultations. Information on suitable areas for new industrial locations are disseminated also by provincial labor market boards.

