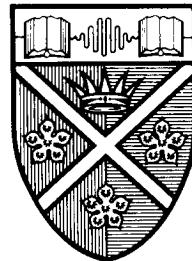


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# STRATHCLYDE PAPERS ON GOVERNMENT AND POLITICS



## *RECENT DEVELOPMENTS IN BRITISH REGIONAL POLICY*

*Brian W. Hogwood*

No. 51

1987

RECENT DEVELOPMENTS IN BRITISH REGIONAL POLICY

by

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This paper draws on research funded by the Leverhulme Trust and by a Hallsworth Fellowship at the University of Manchester, 1983-4.

STRATHCLYDE PAPERS ON GOVERNMENT AND POLITICS

(Series Editor Jeremy Richardson)

No. 51

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338.941  
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ISSN 0264-1496

c. 1987 Brian W. Hogwood

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#### ABSTRACT

This paper argues that the analysis of recent developments in regional policy in Britain has to be placed in the context of other related developments, including 'inner city' policy, small firms policy, partnership with the private sector, and deregulation. Mainstream regional policy has declined in relative significance since the mid 1970s, and in terms of targetting of grants is focussed on smaller areas than 'regions'. The other related developments are focussed on very limited areas, normally smaller than a single conurbation or local authority area. Ironically, this small area focus has to some extent been reinforced by the supranational level of European Community policy. Policies, as well as representing packages of intended outputs, can also have important symbolic political significance, and this is reflected in some of the recent changes in departmental responsibility for regional and related policies.

## THE DEVELOPMENT OF BRITISH REGIONAL POLICY

This section briefly outlines the development of regional policy in Britain, while the next section describes in more detail the changes introduced in 1984 (see also Lee, 1970; McCrone, 1969; McCallum, 1979). The purposes of this section are, first to provide the historical background of the evolution of policies, many of which have residues in the form of present arrangements. Secondly, the cataloguing of these developments serves as a reminder that with so many changes in the past we should not assume that the current pattern is fixed. Thirdly, by looking at past developments we can avoid drawing over-general conclusions from the current, perhaps ephemeral, arrangements.

The earliest forms of regional policy were available in Special Areas designated in 1934, covering parts of South Wales, North-East England, Cumbria and the Clyde Valley (see Map 1). The policy was largely administered through two unpaid Commissions for the depressed areas, one for England plus Wales and one for Scotland, under the loose control of the Ministry of Labour (see Lee, 1970, 18-20). At first no powers were available to provide subsidies to private firms, but incentives in the form of loans, grants and tax relief were later made available. The building of factory estates played an important part in policy.

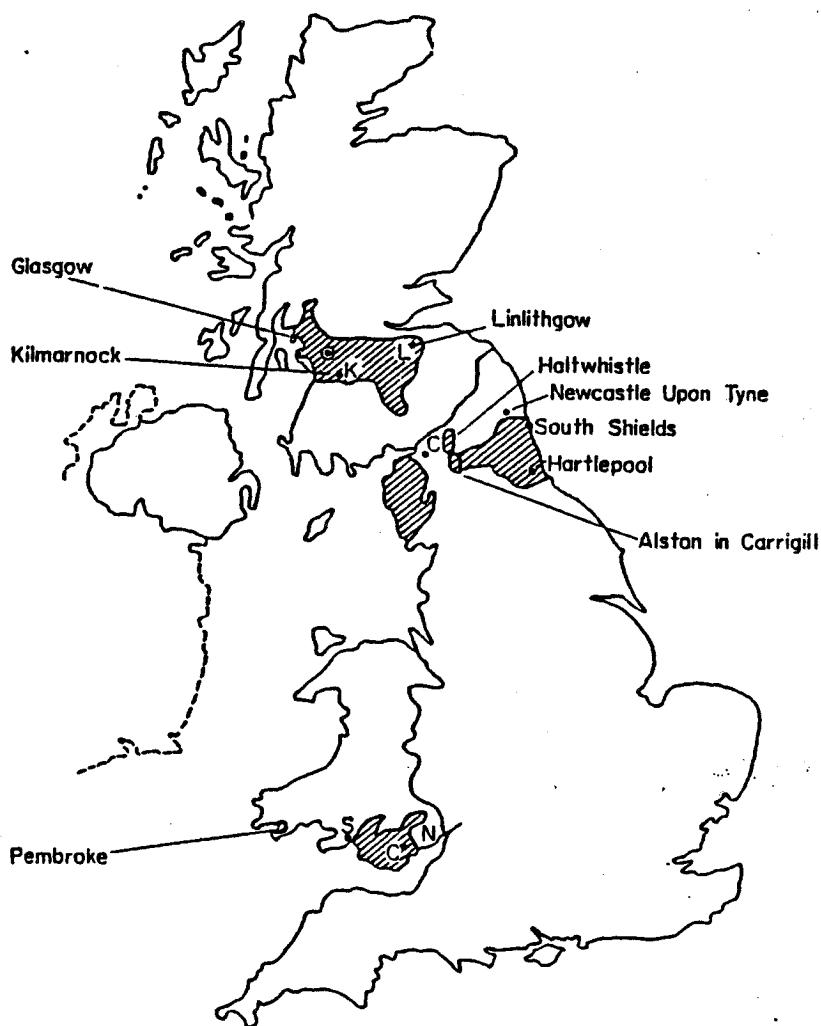
Under the Distribution of Industry Act 1945 certain areas in which there was or was likely to be a special danger of unemployment were designated development areas, which were similar to the pre-war special areas but with enlarged boundaries. Responsibility for the distribution of industry was given to the Board of Trade. The provision of factories played an important part in attracting firms to particular locations in the immediate postwar period.

1951 saw the return of a Conservative government, and the 1950s and the early 1960s are generally recognised to have been a 'policy off' period for regional policy. While the stick part of regional policy, that is the regulation of industrial location through industrial development certificates (IDCs) was administered by the Board of Trade, the carrot was administered partly by the Board of Trade and partly by the Inland Revenue. In the 1950s and the first half of the 1960s, financial assistance was mainly in the form of depreciation allowances and investment allowances administered by the Inland Revenue. No special staffing structure was set up specifically to deal with investment allowances.

Following concern at increases to what were then regarded as high levels of unemployment in some regions, the Conservative government began to take a more active regional policy stance in the early 1960s. The Local Employment Act 1960 abolished the development areas and provided for the establishment of a larger number of smaller development districts. Under the Local Employment Acts of 1960 and 1963, selective assistance could be made available, and was administered through the regional offices of the Board of Trade, though with approval being granted from the centre in all cases.

The election of a Labour government in 1964 saw a return to

Map 1 The Pre-war Special Areas



Source: McCrone (1969).

the idea of development areas. The 1966 Industrial Development Act provided for investment grants of 20% (later 25%) for the whole of Great Britain, but with a higher rate of 40% (later 45%) applying in the development areas. There was therefore a need for machinery to cover the whole country and not just the development areas. The investment grant system was administered by five investment grant offices situated in Glasgow, Cardiff, Billingham, Bootle, and Southend, involving a total staff of 1,000.

The selective assistance available under the Local Employment Acts of 1960 and 1963 was modified by the Industrial Development Act 1966. The selective assistance took the form of loans on favourable terms, building grants, removal grants, and operational grants. In contrast to investment grants, these forms of assistance were normally negotiated case-by-case and linked to the provision of new employment, or in some cases the preservation of existing employment. The grants were standardised by statute or administrative decisions, but loans were more flexible. The administrative machinery for processing this assistance consisted of the departmental headquarters in London (initially the Board of Trade and later the Ministry of Technology), the departmental regional offices, and an advisory committee (Field and Hills, 1976, 211). The regional offices were not authorised to approve assistance even in small cases. Both the investment grant offices and the regional offices dealing with selective assistance were limited to application processing and could therefore be described as deconcentrated units without discretion.

Another form of spatially discriminatory assistance introduced in September 1967 was Regional Employment Premium (REP), which was payable on the basis of employees for whom Selective Employment Tax (SET) was payable and who worked in development areas. Although SET was abolished in 1973, these conditions governing eligibility still applied until REP itself was abolished at the beginning of 1977, and the administrative arrangements were carried out by the Department of Employment rather than the Department of Industry. The policy significance of REP lay in the fact that it was a labour subsidy, while most regional assistance subsidised capital.

In addition to these carrots, the stick of IDC control continued to exist and was now applied in a more vigorous way. Distribution of industry functions remained with the Board of Trade until October 1969, when they were transferred to the Ministry of Technology. The discretion of controllers at the Board of Trade was in part expressed in terms of the size of factory or factory extension to which they could decide on the issuing of IDCs. However, regional discretion was exercised strictly in accordance with centrally determined policy. The large majority of planning applications were dealt with by regional controllers. Regional controllers in the Midlands, South East England, and Wales interviewed by Cross (1970, 440) did not feel that they could or should exercise a wider range of discretion. It was also felt that industry would view unfavourably the inconsistencies of treatment which a wider

range of discretion at regional level would entail. This illustrates a much more general attitude about British ideas of territorial justice: the rather paradoxical view that spatially discriminatory policies should be determined and administered in such a way as to ensure equality or consistency of treatment.

In November 1967, the government announced the designation of Special Development Areas within the existing areas eligible for extra assistance. These were mostly declining coal mining areas. Areas with unemployment lower than that of the development areas but above the British average were concerned that their industrial prospects would be adversely affected by the incentives available in the development areas. This concern led to the setting up of the Hunt Committee in 1967, which reported in 1969, recommending the establishment of intermediate areas in the North West and Yorkshire and Humberside which would benefit from building grants, derelict land clearance, and a relaxation of IDC controls. The Labour government partially implemented the recommendations before losing office in 1970. The effect of these changes was to introduce greater differentiation in the types of areas and to extend the total area covered.

The period of the 1964-70 Labour government also saw the establishment of institutions concerned with 'regional planning'. In 1964 the government announced plans for the machinery of government at regional level. The Department of Economic Affairs (DEA) was given responsibility for regional planning and England was divided into eight economic planning regions, with Scotland and Wales forming separate planning regions. Regional planning continued to be the responsibility of the DEA until 1969 when, following the disbandment of the DEA, responsibility for regional planning was transferred to the Ministry of Housing and Local Government (which was later merged into the Department of the Environment). At the same time, most of the Board of Trade's remaining industrial sponsorship functions passed to the Ministry of Technology, including responsibility for the distribution of industry.

The establishment of the economic planning regions was accompanied by the formation of the two sets of bodies: Regional Economic Planning Boards (REPBs) and Regional Economic Planning Councils (REPCs). The REPBs were composed of regional officers of the departments dealing with aspects of regional planning and were chaired by the regional officer of the DEA (later of the Department of the Environment). A notable omission from the departments represented on the Boards was the Treasury. As Leruez (1975, 158) points out: 'It is remarkable that the Treasury was not represented; this would have been unthinkable in France.' The REPBs' main job was to coordinate the work of the various departments and cooperate with the REPCs in the preparation of medium-term regional economic plans within the terms of the ill-fated National Plan. The regional office of the DEA provided the secretarial staff for both the REPB and the REPC.

However, the Board of Trade and the Ministry of Housing and Local Government retained executive powers over the main issues

of industrial location and land-use planning. By establishing their own forms of coordination between their central and regional offices and with local planning authorities it became possible for these and other bodies in England effectively to bypass the DEA (see Wright and Young, 1975). This reflected the situation in Whitehall, where the DEA had been given general responsibility for regional planning but had no statutory powers to discharge the responsibility itself. The small amount of administrative discretion accorded to regional offices meant that the regional offices tended to look to their own London headquarters for instruction or guidance, while variations between departments in the degree of regional discretion allowed also hindered coordination at regional level. Local authorities looking for guidance or assistance also tended to ignore the REPB and the REPC and even the regional offices of the departments, and sought to deal directly with the departments in Whitehall.

The REPCs had thirty or so appointed members, including industrialists, trade unionists, local authority councillors and officials, and independent members. Each REPC undertook a study for its region, taking into account the targets contained in the National Plan. Many of these studies were not completed until after the National Plan had been abandoned in 1966. The main weakness of the REPCs was that they were purely advisory and had no power to take decisions. The REPCs depended on their ability to influence planning decisions by local authorities, some of which regarded REPCs as potential threats to their authority. Once their planning studies had been published the REPCs depended entirely on other bodies for their implementation. Not surprisingly, there was considerable dissatisfaction among REPC members about their lack of impact. Despite the abandonment of the National Plan in 1966 and the abolition of the DEA in 1969, the REPCs continued in existence until they were abolished by the Conservative government in 1979.

The Regional Economic Planning Councils provided an additional channel for the articulation of regional demands. However, the lines of communication and decision-making were essentially vertical between the relevant regional offices and their Whitehall headquarters, rather than horizontal within the 'planning' machinery at regional level. There was thus a minimal impact of 'regional economic planning' on the actual administration of regional policy.

Until the early 1970s, the system of administration of industrial and regional policy was essentially Whitehall-focused, and uniform throughout Great Britain, though there were distinctive lobbying activities relating to Scotland and, to a lesser extent, Wales. There was some deconcentration of administration, but this was for the administrative convenience of the centre, and was not designed to provide a regional focus for policy-making or discretion in administration.

In 1970 the incoming Conservative government abolished investment grants, replacing them by a system of tax allowances with a substantially lower regional differential. However, in 1972 the Conservative government, as part of its now more

interventionist approach, introduced regional development grants (20% in development areas, 22% in special development areas), which were available on investment by existing as well as incoming firms, and a system of selective financial assistance wider than the old Local Employment Act measures. The areas covered by some form of assistance were expanded, having already been expanded in 1970 and 1971.

An interesting feature of the administration of selective financial assistance was the greater degree of delegation of authority to regional offices of the Department of Trade and Industry on applications up to certain specified limits.

The Labour government elected in 1974 retained the Industry Act 1972 framework, while initially doubling REP (which the Conservatives had intended to phase out). Administrative responsibility for selective assistance in Scotland and Wales was transferred to the Scottish and Welsh Offices in 1975. The Labour government, which had taken office in 1974, was unwilling to devolve industrial policy functions to the proposed assemblies for Scotland and Wales, but was willing to strengthen 'administrative devolution'. Scottish and Welsh Development Agencies were also established, taking over responsibility from existing organisations for factory building and management, land clearance and renewal, and small firms. The agencies were also given an industrial investment role, but this role was run down following the Conservative's return to office in 1979. Both agencies later acquired important industrial promotion roles. The agencies have an important symbolic significance; while England has organisations which carry out similar roles to the SDA (English Industrial Estates, Council for Small Industries in Rural Areas, various regional industrial promotion organisations), English regions do not each have a single organisation covering all of these roles.

The Industry Act 1972, and the changes in 1975, represent the high water mark of explicit regional policy in Great Britain in terms of the amount of assistance (see Table 1) and the coverage of areas (see Map 2), though the 1960s and early 1970s were probably the period of greatest effectiveness of regional policy. Since then there has been a decline in the absolute importance of regional policy, and its significance relative to industrial policy as a whole and to other forms of spatial economic and industrial policies.

This decline should be seen in the context of two related features: the rise in unemployment throughout the United Kingdom, and evidence of the declining effectiveness of regional policy measures. As can be seen from Table 2, by the mid 1970s, levels of unemployment in the previously prosperous regions had become higher than the levels of unemployment in the assisted areas in previous periods. (Map 3 shows the boundaries of the regions to which the statistics relate.) Indeed, the West Midlands had by the early 1980s a level of unemployment higher than the levels existing at the same time in previous black spots such as Scotland, though Scotland's relative position deteriorated in 1986. The available evidence suggests that regional industrial incentives were less effective in terms of

Table 1 Regional preferential assistance: expenditure at 1984/85 prices (£m)

Region	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85
Northern	392.0	474.2	536.2	303.7	287.1	227.5	189.7	208.0	175.8	134.6	122.2
North west	286.0	274.3	233.2	130.8	139.2	133.4	170.3	186.3	135.1	107.0	100.5
Yorks & Humber	51.4	59.0	68.1	61.2	67.6	49.4	67.7	72.9	58.4	37.5	42.1
E. Midlands	15.4	7.7	6.3	5.4	7.7	6.5	5.8	10.1	15.0	16.6	10.2
South west	44.0	29.0	26.2	17.1	17.1	16.5	14.9	17.5	17.9	12.6	13.2
Scotland	441.2	637.8	473.1	268.0	266.6	181.5	237.1	259.6	409.3	234.7	181.1
Wales	232.3	257.4	253.4	176.7	190.9	160.5	221.5	233.8	200.5	119.8	140.7
Great Britain	1462.5	1739.3	1596.5	871.6	1090.2	798.8	915.5	1006.7	1011.9	664.7	610.0
N. Ireland	N/A	N/A	192.3	174.1	203.8	165.9	176.6	127.6	161.3	120.5	134.9

Sources: British Business, 14 June 1985, reprinting Parliamentary Answer of 3 June 1985.

Table 2 Unemployment rates (percentages)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
United Kingdom	2.3	4.1	4.6	4.9	4.5	4.2	6.7	9.2	10.3	10.8	11.3	11.3	11.4
North	4.0	5.4	6.2	6.9	7.0	6.9	10.0	13.1	14.4	15.5	16.5	16.3	16.3
Yorks. & Humber	2.3	4.0	4.3	4.7	4.6	4.3	7.4	10.1	11.4	11.9	12.5	12.7	13.3
E. Midlands	2.0	3.5	3.8	4.1	3.7	3.5	6.2	8.3	9.3	10.1	10.7	10.8	11.1
East Anglia	1.8	3.4	3.9	4.1	3.6	3.1	5.2	7.1	8.2	8.4	8.4	8.6	8.9
South East	1.4	2.9	3.5	3.6	3.0	2.5	4.3	6.4	7.3	7.9	8.2	8.3	8.4
South West	3.0	4.4	5.1	5.3	4.5	4.0	5.8	7.5	8.4	9.1	9.5	9.8	10.1
W. Midlands	2.0	4.3	4.3	4.5	4.2	4.3	7.8	11.5	12.8	13.3	13.6	13.4	13.5
North West	3.2	5.5	6.1	6.0	5.5	5.4	8.4	11.6	13.0	13.8	14.0	13.9	14.0
Wales	3.2	5.4	5.7	6.3	6.0	5.5	9.1	11.6	12.9	13.2	13.9	13.9	13.9
Scotland	3.3	5.0	6.0	6.7	6.2	6.2	8.7	11.2	12.1	12.7	13.1	13.3	14.2
N. Ireland	4.5	6.7	7.5	8.2	8.1	8.1	11.4	13.5	15.4	16.6	16.7	17.4	19.1

Sources: Economic Trends. Notes: Figures are 4th quarter seasonally adjusted.

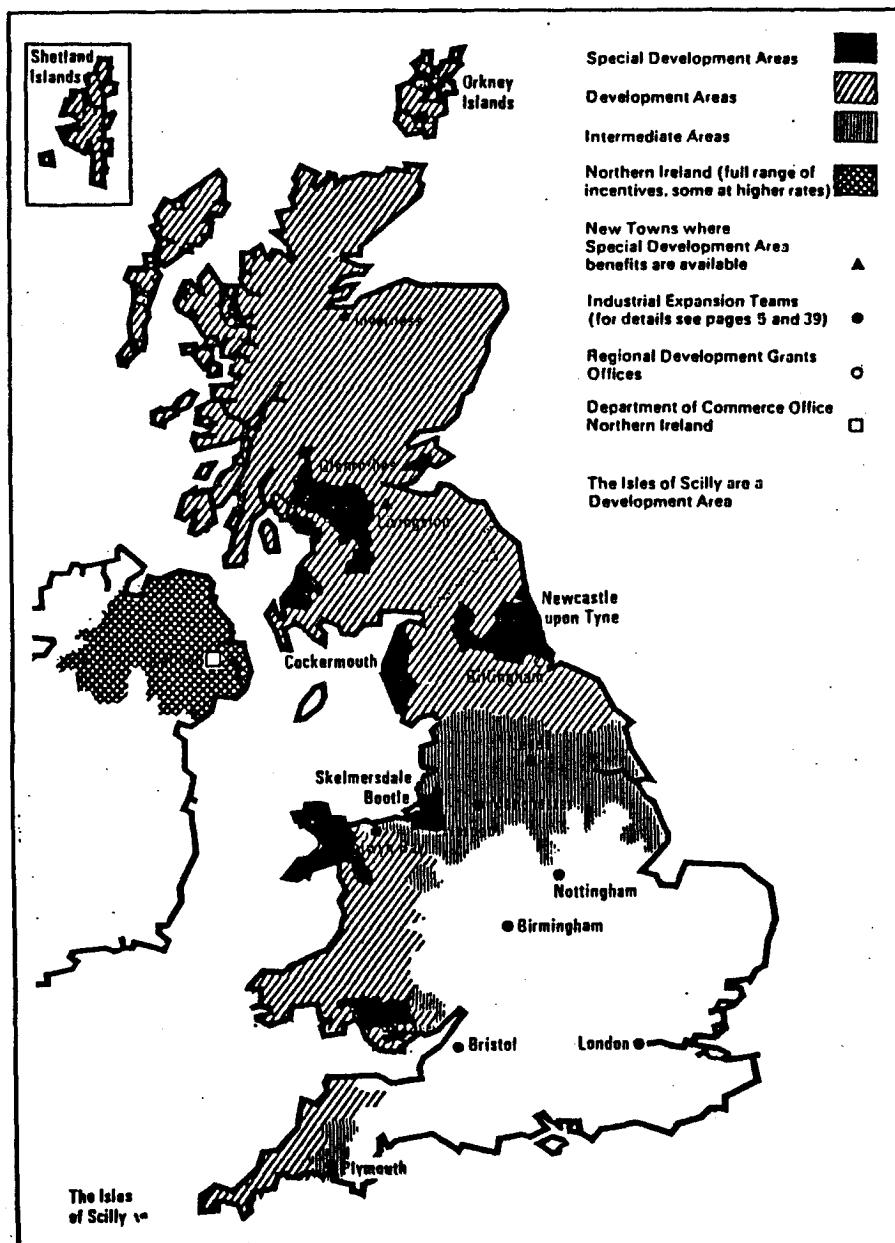
Table 3 Public expenditure on programmes related to regional policy 1980-1 to 1988-9

	Outturn						Estimate			Plans	
	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	
Urban Programmes	112	94	160	163	191	198	219	232	230	230	
Development											
Commission, etc.	16	11	15	21	22	27	24	27	30	30	
Urban Development											
Corporations	0	38	62	94	88	86	90	126	140	150	

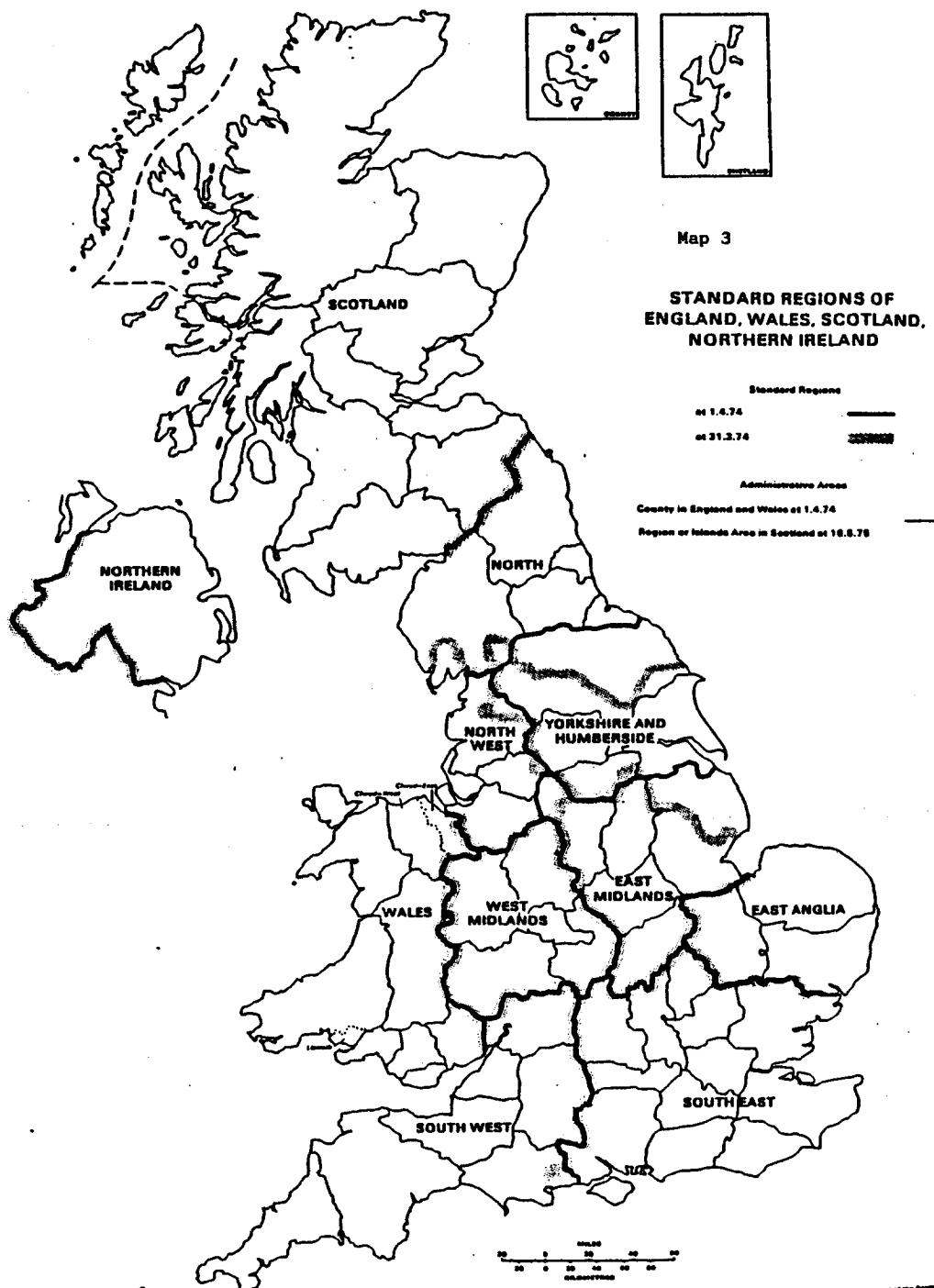
Note: \* Department of Environment only.

Sources: Cmnd 9702-II, 1986, p. 140; Cm 56-II, 1987, p. 161

Map 2 Assisted Areas, 1976



Source: Department of Industry.



Source: Regional Trends.

Job creation in the 1970s than in the 1960s, and were somewhat less effective in the second half of the 1970s than in the first half (HC 378, 1983-4, 2).

The most dramatic cut in regional policy was the abolition in 1977 of Regional Employment Premium, the only labour subsidy, as part of the package of public expenditure cuts associated with the IMF loan of 1976. The effect of this on total regional assistance can be seen from Table 1. The size of Regional Employment Premium reflects the fact that it was a subsidy payable to all relevant industry in development areas, not simply to those undertaking new investment. 1977 also saw some adjustments in areas covered; some areas were upgraded, but for the first time, some areas, notably Aberdeen, were downgraded.

Another important development was the effective cessation of the use of Industrial Development Certificates as a control device from the mid 1970s, though they were not formally abolished until 1982. Effectively, the government was no longer willing to prevent firms setting up or expanding where they wished, though they continued to provide incentives for them to move to development areas.

The declining relative significance of regional policy was in part due to the increased emphasis which the Labour government of 1974-9 placed on sectoral schemes. While the subsequent Conservative government did not follow up this approach it has promoted schemes to encourage industry to use advanced technology.

Another important change of emphasis was the recognition that there were major economic and social differences within regions between parts of large urban areas and their hinterland. This led to the development of 'inner city' policies, which are discussed in more detail in a later section.

The incoming Conservative government of 1979, like its 1970 predecessor, had a commitment to reducing the role of government in industry. The government acted quickly, announcing changes in July 1979. The framework of the Industry Act 1972 was retained, but there were cuts in areas covered and in levels of grant. Some special development areas and many development areas were downgraded and many intermediate areas lost their status. Some areas were downgraded two levels, though the implementation of this was to be phased in. There were a few additions and upgradings. The overall effect was to reduce the coverage of assisted areas from 40% to 25% of the working population. (The government did subsequently announce some upgradings and 'stays of execution' for areas which were to be downgraded.) Regional development grants in special development areas remained at 22%, but the level in development areas was cut to 15%. Development grant on factory buildings in intermediate areas was abolished. Selective regional assistance was to be tightened to ensure that it funded only projects which would not otherwise go ahead.

The scale and nature of the 1979 cuts clearly accorded well with the new government's ideological position. However, it would be a mistake to assume that regional policy would have remained the same in geographical coverage and nature if Labour had remained in office. The case for traditional regional policy had already been undermined in absolute and relative terms.

### THE 1984 CHANGES

When the 1979 changes were announced it was made clear that in order to have a measure of stability these arrangements would last for the remainder of that Parliament. However, in 1982 and 1983 an interdepartmental committee, chaired by the Treasury, engaged in a review of existing arrangements and possible alternatives to them. This included a review of the available academic literature on the effectiveness of regional policy, including some commissioned by the Department of Industry, though the group did not directly seek views from outside Whitehall. The Joint Permanent Secretary at the DTI claimed that 'Over the two years of study almost every conceivable option was examined' (HC 378, 1983-4, 28). A White Paper, Regional Industrial Development (Cmnd 9111, 1983) set out the broad lines of change the government proposed. A further period until the end of May 1984 was set aside for considering representations about the details of the proposed changes.

In terms of time taken for consideration, collection of information, and review of options, the 1983 White Paper and the 1984 statement conformed much more closely to the rational synoptic model than the reactive or partisan models which are normally applicable to the British style of industrial policy-making. However, the evidence considered by the review also illustrates some practical and inherent difficulties in fully 'rational' decision-making based on the costs and benefits of all options. While research indicated a range of results of a net increase of 250,000 to 445,000 manufacturing jobs in the Assisted Areas from 1960 to 1981, there was much greater difficulty in assessing the effectiveness of individual regional policy instruments, and the DTI had no data on the negative effect of regional policy on investment and jobs in the rest of Great Britain (HC 378, 1983-4, 9-10, 21-2).

The 1983 White Paper marked an important change in the government case for regional policy and the objectives set for it. In the early 1960s and 1970s it could be argued that regional policy eased pressure of demand in prosperous areas. Regional policy might stimulate self-generating growth in previously depressed areas. In these ways, regional policy could contribute to national growth. However, the 1983 White Paper argued:

Although an economic case for regional policy may still be made, it is not now self-evident. The Government believe that the case for continuing the policy is now principally a social one with the aim of reducing, on a stable, long term basis, regional imbalances in employment opportunities (Cmnd 9111, 1983, 4).

The social objective for regional policy sits uneasily with the economic basis of the rest of the DTI's objectives.

Although it emerges less clearly from the White Paper, there has also been a considerable simplification of the objectives set for regional policy. Previously regional policy had multiple objectives concerned with improving employment, investment and infrastructure. Now there was to be a 'single

guiding objective, that objective being to reduce regional disparities in employment opportunities on a stable long term basis' (HC 378, 1983-4, 22). However, the DTI did not consider that setting targets for this objective was practical, in part because of the problem that target setting and monitoring are only readily done for gross jobs, while effectiveness in meeting the objective is concerned with net jobs created (HC 378, 1983-4, 34-6). The Committee of Public Accounts called for reconsideration of the collection of information to provide a measure of the effectiveness of incentives (HC 378, 1983-4, xi).

The main White Paper proposals were:

(a) Regional Development Grant (RDG) would become project-based (as opposed to the existing system of qualifying premises) and be extended to a range of service industries. Grant would be payable only where a project provided new capacity, expanded existing capacity, or effected a change in product, process or service (i.e. replacement expenditure would no longer be eligible). The grant would be calculated by reference to capital expenditure (subject to a cost-per-job limit except for small firms) or to new jobs created, whichever was more favourable to the investor. The revised framework for the RDG scheme was included in the Co-operative Development Agency and Industrial Development Act 1984.

(b) Regional selective assistance would also provide for greater parity of treatment between manufacturing and services and would continue to be available to assist modernisation projects not eligible for Regional Development Grant which were essential to safeguard or maintain existing employment. Relocation projects where there was no net increase in jobs would normally be excluded from RSA.

(c) The government intended to revise the assisted area map.

The government invited views on a number of points it still had to decide on: (a) the activities which should qualify for RDG, and the rates of grant; (b) the balance between automatic and selective assistance; (c) the criteria for designating Assisted Areas, and the coverage of the Assisted Area map.

A total of 499 submissions were received (British Business, 30 November 1984). According to the government, the vast majority of submissions supported the continuation of regional policy but were 'highly critical of the present extravagant system'. Two-thirds of those who commented on the proposal to increase the selectivity of regional industrial incentives welcomed it and many considered that automatic grants should not continue to be the major element. Most of the views submitted on coverage argued for the widest possible outer tier (i.e. which would receive the lowest level of assistance) so as to maximise access to the European regional development fund (British Business, 30 November 1984). At the same time most of the views argued for a tightly drawn inner tier to focus resources on the areas of greatest need.

The changes brought into effect in November 1984 had the following main features:

(1) The previous tier of special development areas was abolished. Development areas covering a much smaller proportion

of the country (just over 15% of the working population) were eligible for a smaller level of automatic grants. These areas are also eligible for selective regional assistance.

(2) The automatic regional development grants, although set at 15% of eligible costs of capital investment now had a limit of £10,000 per job, except for small firms. Firms would receive £3000 for each job created, if this was greater. The cost per job link meant that this type of expenditure was now eligible for funds from the European Regional Development Fund; this is discussed in more detail below.

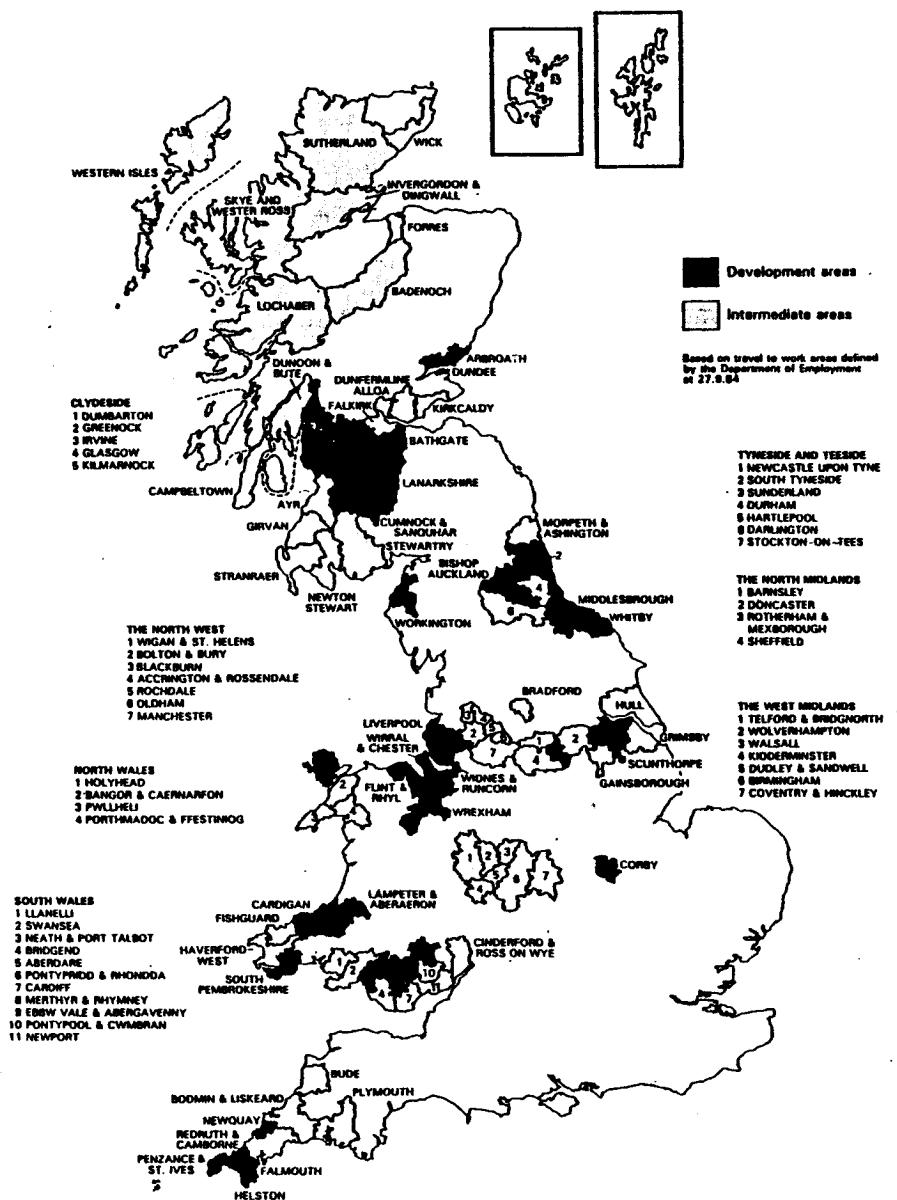
(3) While the geographical coverage of development areas was reduced, the total coverage of intermediate areas, which are eligible only for selective assistance, was substantially increased. Altogether, 35 per cent of the working population were covered by either development areas or intermediate areas. This was up from 27% in 1982, but still less than the 45% of 1979 when the government came into office. Again, maximisation of funding from the European Regional Development Fund was an important consideration.

(4) Some areas previously eligible for regional assistance were removed from eligibility altogether, in some cases going from development area to non-assisted. Other areas, notably the West Midlands, became eligible for regional assistance for the first time. The overall effect was to continue the move started in 1979 away from a pattern of broad regions being eligible for regional assistance (Map 2) to a larger number of clusters of travel-to-work areas (Map 4). Note the continuing appearance of the special areas of the 1930s (Map 1).

Unemployment level has always been the major criterion for the designation of assisted areas. However, it has never been applied in a straightforward way. Political considerations do intervene, with the designation of Grimsby in 1977 immediately before a by-election there being the most blatant example. More subtly, failure to redesignate when an area changes its relative position may be influenced by party or departmental politics. The 1984 reworking provided an opportunity to remove any 'anomalies'. However, calculations by the author indicate that while the average level of unemployment for intermediate areas is much the same for Scotland, Wales and England, the average level of unemployment in 1984 in the revised development areas was lower in Scotland (19.2%) and Wales (19.4%) than it was in England (20.9%). An examination of areas around the 'cut-off' level confirms that Scotland and Wales do appear to be more favourably treated on average than England.

One important intended consequence of these changes is that the level of public expenditure on mainstream regional policy will continue to decline, and this certainly has to be seen in the context of the Conservative's commitment (largely unfulfilled in its first six years) to halt and if possible reverse the rise in total public expenditure. For example, the government expected to spend nearly £400m on regional industrial incentives in 1987/8, a reduction of nearly £300m on what would have been expected under the old arrangements. Another important intended consequence is to switch the balance away from automatic

## Assisted Areas<sup>1</sup>



<sup>1</sup> As defined by the Department of Trade and Industry at 29 November 1984.

Source: Department of Trade and Industry

regional assistance towards selective assistance, though automatic assistance will account for the bulk of the total.

While Conservative commitment to cost-effectiveness and expenditure reduction can be seen as a 'party' input to the policy process, it is important to note that party political considerations in the sense of rewarding areas of Conservative support or marginal constituencies cannot have been a major factor in determining the coverage of the revised eligible areas. The development areas and to a lesser extent the intermediate areas are overwhelmingly areas of strong Labour support. Even under the Thatcher government, considerations of 'territorial justice' do carry some weight (see Morgan, 1985).

The 1984 changes also involved administrative changes. In England the regional offices of the Department of Trade and Industry were also given responsibility for delivering regional developments. In Scotland and Wales, this responsibility was given to the Scottish and Welsh Offices, which were already responsible for selective regional assistance. This further strengthened the roles of the Scottish and Welsh Offices as industrial policy departments, though the DTI remains the lead department on industrial policy matters.

#### **LOCALLY FOCUSED POLICIES**

This section briefly reviews a number of recent locally focused initiatives which overlap with regional industrial policy. Expenditure on some of these schemes is shown in Table 3. They vary considerably in the extent to which they are central government or local initiatives. Many overlap both with each other and with areas eligible for regional assistance.

##### **Inner city policy**

Inner city policy of the late 1960s focused largely on social policies (see McKay and Cox, 1979, ch.7). However, a renewed interest in the plight of inner city areas in the late 1970s focused much more on economic problems. Such problems were recognised to exist even in large cities outside the assisted areas. A 1977 White Paper announced increased funding for the Urban Programme, which was extended to include industrial, environmental and recreational matters as well as social projects. The White Paper also proposed the setting up of local-central government 'partnerships' for some of the larger cities. This involved setting up joint machinery to analyse inner area needs, draw up programmes and oversee implementation. Seven partnerships were established and 23 programme authorities designated.

The incoming Conservative government continued with this initiative after 1980, increasing funding in real terms sharply after 1981, though they cut back on the funds allocated to it from 1983. Their concern about inner city issues was focused by riots in 1981 and 1985. A Financial Institutions Group set up by Michael Heseltine, Secretary of State for the Environment, following the 1981 riots recommended the introduction of Urban Development Grants modelled on the US Urban Development Action

Grants (see Jacobs, 1985). This was accepted by the government and a system of grants payable through local authorities to projects with private sector participation was instituted. Central government would cover 75% of the public sector contribution. About 80 local authorities in England and Wales which were designated under the Inner Urban Areas Act 1978 or had enterprise zones, were invited to bid for UDG finance (Scotland had its own 'LEG-UP' scheme).

Since Urban Development Grants were payable for industrial projects there was a potential overlap with regional assistance. In other words, the Department of the Environment was entering into territory already inhabited by the Department of Industry. Arrangements were worked out whereby applications from urban areas within assisted areas would be considered in the first place by the Department of Industry as though they were applications for regional assistance; those which failed on those criteria could still be eligible for Urban Development Grant. Of projects approved to the end of 1983 about 40% of approvals and 33% of UDG awarded were for industrial projects (Jacobs, 1985).

However, a report from the Committee of Public Accounts in February 1986 drew attention to the problems which the Urban Development Grant system had run into. In the first year of operation, 1983-4, £60m was allocated but only £7m paid out. In 1984-85 £48m was allocated, but only £15m was taken up. For 1985-6 the allocation was cut to £40m, but it was estimated that only £25m would be taken up. Some of the unspent money was recycled to other parts of the urban programme, notably funds for the London and Liverpool docklands development corporations, but the total amount spent on the programme in the years 1983-84 to 1985-86 was still £67m less than the allocation. One of the main problems of the UDG scheme has been the reluctance of some Labour-controlled councils to have anything to do with the private sector. Improvement or development schemes which do not have private sector financial involvement cannot qualify. To sidestep this ideological reluctance, the government has introduced legislation which would enable it to pay Urban Regeneration Grants directly to people or organisations involved in inner city projects. In August 1986 the government announced that it proposed to phase out the 'traditional urban programme'.

The Labour party and local authorities would point out that set against the increased funding of central government inner city initiatives was the continuing decline in the proportion of general local government spending funded by rate support grant from central government.

#### Local authority initiatives

From the mid 1970s a large number of local authorities, particularly in urban areas, became much more interested and directly involved in economic development, in addition to their involvement through the inner city policies outlined above. This took a number of forms. At one level, local authorities, encouraged by central government, took more explicit account of the impact on existing and potential industry of a wide range of

their traditional functions, including land-use planning, roads, transport and housing.

As unemployment rose everywhere to levels previously regarded as high in the development areas, many local authorities became active in promotional activity designed to attract inward industrial investment, including from other countries. They did so with varying degrees of amateurism. Central government has tried to channel such activity through regional industrial development organisations in England (and the Scottish and Welsh Development Agencies) to whose funding it contributes.

In Britain local authorities are only empowered to carry out such activities as are specified by law, and industrial policy functions are not included. However, local authorities do have the right to spend up to a 2p rate on the interests of the area, and this has been used by a number of local authorities to engage in a range of activities, including the provision of factory premises and the setting up by a number of metropolitan county councils (now abolished) of Enterprise Boards which made investments in local industry. Such enterprise boards represent an alternative, local state intervention, approach to the deregulation and private partnership approaches favoured by the Conservatives. The abolition of the metropolitan counties and the Greater London Council in 1986 meant that while the districts could still raise the 2p rate and devote it to industrial matters if they wished, the additional 2p rate which the counties could raise now ceased.

#### Urban Development Corporations

Although most of its locally focussed initiatives exhibit at least superficially a desire for deregulation or private sector involvement, the Conservatives have not been averse to large-scale intervention. In 1981, the government set up two urban development corporations for the London and Merseyside Docklands, bypassing the existing two tiers of local government. As can be seen from Table 3, the government has been willing to commit substantial public funds to these bodies, which have also tried to promote private development. The apparent success of the corporations has led the government to consider extending their use to other urban areas. However, this may be a misreading of the work of the existing corporations, since they have been dealing largely with derelict sites rather than areas of substantial population.

#### Local Enterprise Agencies

An examination of the development of local enterprise agencies tells us a lot about developments in policy fashion and interdepartmental politics during the Conservative government. Although help for industry clearly fell to the Department of Industry, the original initiative for the encouragement of what he called Enterprise Trusts came from Michael Heseltine at the Department of the Environment in 1980. These trusts were to be a means of enabling businessmen to contribute to the development

of their communities by offering advice particularly to small local firms. In 1982 the government introduced tax relief on contributions to recognised local enterprise agencies. The Department of Industry managed to 'claw back' responsibility for local enterprise agencies, and the junior minister concerned set a target in 1983 of increasing the existing 160 agencies to 300 in two to three years. This target was met. However, a number of agencies have led a rather shaky existence; ironically, given the emphasis on private sector involvement, agencies which have substantial support from local government are among the more successful.

Following the 1983 election the government increased its twin emphases on deregulation and small business as approaches which would create employment. This was symbolised by the appointment of Lord Young as Secretary of State for Employment in 1985. At the same time Employment took over from Industry responsibility for small firms, including local enterprise agencies. In addition to tax relief, local enterprise agencies can receive up to £20,000 per agency from government out of a total budget of £2.5m in 1986-7 to match funds from local companies and banks; government help is due to taper off in the subsequent two years in the expectation that private sources will fill the gap. Claims have been made by Business in the Community, an organisation of firms engaged in local enterprise activity, that the agencies are helping to create 50,000 jobs per year, but it is very difficult to assess the contribution made by the agencies themselves.

#### Enterprise Zones

The story of enterprise zones illustrates the pitfalls of small area approaches which confront the problems of being parts of larger local and national systems. The original conception was that since planning and labour regulations were a major constraint on job creation, if zones could be designated where regulations did not apply then new jobs would be created in those areas. However, as the policy emerged in 1980, very little relaxation of planning controls was allowed because of spillover effects, and the government was unwilling to cease to apply health and safety and labour regulations. What remained was essentially a fiscal subsidy in the form of 100% allowances for capital spending on buildings and of relief from rates (local property taxes) for ten years; central government refunds local government for the amount lost. Firms were eligible for any regional policy subsidies which applied in the area. The relief was available to firms already in the zones and to firms moving in from nearby as well as to genuinely new activities. The first round of zones was announced in 1981. Before there was an opportunity to evaluate the first round of zones, a further round was announced in 1982. The second round of zones tended to be smaller and more fragmented.

The zones initiative has turned out to be very expensive. A report from the National Audit Office in February 1986 found that the full public sector costs of the enterprise zones are unknown, but could have amounted to £180m up to the end of

1984/5; rate exemptions to firms already in the Enterprise Zones amounted to a windfall of £70m. The report also noted that 'The absence of essential information and analysis, and doubts on the reliability of some of the available data, make it impossible to draw firm conclusions about the merits of the enterprise zone concept, the true costs involved, and the effectiveness of enterprise zones in securing the results'. There is also some evidence that rental values of nearby industrial property are adversely affected. A lands tribunal ruled in February 1986 that rates in industrial property close to the city's enterprise zone should be cut by up to 20%; the estimated total cost to Swansea's rate bill alone could be over £10m.

#### Freeports

Freeports were born of a similar approach to enterprise zones, namely that freedom from regulations might stimulate enterprise. However, unlike enterprise zones, there is no substantial fiscal subsidy. In the zones firms can import goods and only have to pay duty if those goods or items assembled from them are then sent into the domestic market. However, a lot of record-keeping is still involved, and under EEC rules VAT must be paid on goods and services supplied within the zone. The sites of six freeports were announced in 1984. However, freeports in their early years, with the possible exception of Southampton, are turning out to be a non-event. One estimate was that the total number of jobs created was 90 (Sunday Times, 3 August 1986).

#### THE EUROPEAN COMMUNITIES DIMENSION

All proposals to alter regional aid schemes, including changes in their geographical coverage, must be notified to the European Commission and their compatibility with the EEC established. European regulations limit the maximum amount of regional aid, including Regional Development Grant and Selective Financial Assistance. In 1984 this was set at 30 per cent of the net present value of a project. The DTI considered that the limits were set 'quite generously' and that given the intended direction of government policy this should not cause problems for the Commission in approving the arrangements (HC 378, 1983-4, 37). These limits could, however, cause problems in obtaining Commission approval for a government which wanted to increase substantially the maximum payable in regional assistance.

The Commission's unhappiness with 'distorting' features of member state schemes may not lead to immediate rejection, but to long-term pressure to remove the disliked feature. The government's December 1983 White Paper, Regional Industrial Development (Cmnd 9111, 1983), explicitly refers to criticism of Regional Development Grants by the European Commission as a consideration in deciding to alter their basis:

They have been criticised for aiding replacement investment, in particular by the European Commission; the Government have given the

Commission a commitment that expenditure on replacement investment will be excluded (Cmnd 9111, 1983, 4).

The operation of the European Regional Development Fund (ERDF) means that the coverage of Assisted Area boundaries is no longer purely a domestic matter for the UK, quite apart from the approval of the Commission being required for alterations in geographical coverage (see HC 378, 1983-4, 42-3). Until the beginning of 1985, the bulk of the ERDF was allocated between members states on the basis of fixed quotas. The UK's share was 28.3 per cent, amounting in 1983 to about £260m. A change in Assisted Area coverage does not in itself have any effect on the UK's share of the ERDF quota section. However, the ERDF regulation specifies that areas which may benefit from quota section contributions shall be limited to those aided areas established by member states for approved regional aid and in which they grant aid which qualifies for ERDF assistance. This covers the British assisted areas for regional aid.

ERDF aid is supposed to be additional to national assistance, but this has degenerated into something of a farce in Britain (see Preston, 1983). Firms apply for assistance in the usual way and if approved receive funds from British government; the project may then be put into a package for approval by the European Community. If this was approved, which was virtually automatic under the quota system, a bewildered industrialist might find it announced that he had received funding from the ERDF. In fact, the European money goes direct to the UK Treasury, which claims that the additioinality requirement is fulfilled because it is able to afford a larger expenditure on regional policy than it would otherwise be able to.

As already noted, there has been an increased relative emphasis in Britain on urban development aid to specified areas. During 1983 the European Commission accepted that inner city areas designated under the Inner Urban Areas Act 1978 were in principle eligible areas, even if they were not in an Assisted Area. However, the Commission can limit its discretion in granting such aid; by April 1984 schemes in the West Midlands, Blackburn and Rochdale had been approved.

It is important to note that the geographical coverage issue applies not only to the 20 per cent of ERDF quota aid to Britain going towards regional assistance to industry, but also the remainder passed on to public and local authorities in respect of infrastructure projects.

An increase in the coverage of Assisted Areas would increase the size of the potential pool of projects which could be used in drawing up applications for ERDF quota section aid, but under the previous fixed quota system it would not result in an increase in the amount coming to Britain. If Assisted Area coverage and that of eligible inner urban areas was reduced dramatically there might be insufficient appropriate projects for Britain to take up its full quota. This would be an important consideration for any government considering the reduction or abolition of Assisted Areas. Indeed, the government

made it quite clear in November 1984 that its major consideration in extending the coverage of assisted areas was to maximise the pool of projects eligible for ERDF. This was taken to the extent of splitting the Manchester travel-to-work area in two in order to squeeze in the maximum permitted coverage of 35% of the working population.

A further consideration is that because they were not job-related, the pre-1984 Regional Development Grants did not normally qualify for ERDF contributions, unless given in conjunction with selective assistance. However, the revised job-related RDG would allow all RDGs to qualify in principle for ERDF contributions, thus increasing the potential pool of suitable projects for UK applications to take up its share of the quota section.

The importance of having available a suitable pool of eligible projects was increased by the new arrangements for ERDF from the beginning of 1985. Each member state has a quota range. The lower limit is the amount a member state is guaranteed to get if it submits an adequate number of eligible applications to the Commission. There is also a ceiling; the sum of the ceilings for all members states amounts to 116.56% of the money available in the fund. Britain's range is 14.5% to 19.31%. The new arrangements also place emphasis on the financing of programmes rather than individual projects.

The non-quota section of ERDF, set at a maximum of 5 per cent of the Fund's resources, is also area related. However, these are areas relevant to the specific Community policies concerned - in the UK's case new employment opportunities in shipbuilding and steel areas and improving the economic situation in the border areas of Northern Ireland. The areas are defined in the relevant Community regulations and are not necessarily restricted to the Assisted Areas. Further, these areas remain fixed for the duration of the five-year programmes and would not be affected by any change in Assisted Areas.

Other European sources of finance include the European Social Fund and the European Coal and Steel Community funds, which make grants for the training, recruitment and redeployment of workers, with priority being given to projects in the Community's less developed regions. Britain has been particularly adept at taking full advantage of the ESF. Such funds can be exploited by British local authorities and local enterprise agencies. A notable example has been Strathclyde Regional Council in Scotland, which used ESF money to set up an Employment Grants Scheme. Thus a supranational body can help to strengthen the developing economic role of subnational organisations.

#### **CONCLUSION**

Recent developments in regional policy in Britain have clearly led to a reduction in both absolute and relative terms in its significance. While the existence of a Conservative government may have accelerated this decline, there were already indications before 1979 that traditional regional policy was

receiving a lower priority. A regional policy framework still exists, involving the expenditure of hundreds of millions of pounds annually. Britain's membership of the European Communities now provides a set of constraints and opportunities which did not apply in previous formulations of policy. In moving away from regional policy to a more urban and local focus, the government has experimented with a number of schemes. However, many of these have themselves run into the types of problems for which traditional regional policy was being criticised in the late 1970s.

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