

Chapter 1

The regional impact of recession and prospects for the 1980s

The UK economy has now been in recession for almost a decade. Since 1973 output has grown only slowly and unemployment has risen to levels not seen since the inter-war years. Over the past three years, industrial production has fallen at an unprecedented rate, plant closures and job losses have been substantial and the number of people out of work has escalated to beyond 3 million. In this chapter we examine how recession has affected different parts of the country and consider the prospects for employment and unemployment in the regions during the 1980s under alternative national economic policies. We show that under any plausible set of assumptions, job shortages will remain acute in most areas and regional disparities are unlikely to narrow significantly.

We begin by reviewing briefly the main economic problems facing the UK at the national level,* since an understanding of these is essential for an understanding of the regional predicament and of the constraints which exist upon policy action to alleviate it.

National economic problems of the UK

The slowdown in economic growth in the UK over the past decade has coincided with general recession throughout Western Europe and in other industrial parts of the world. Since 1973 and the first big increase in the world price of oil, markets have grown much less rapidly than before and world trade has increased at little more than half the average rate experienced in the 1960s. This has hit UK exports in a way similar to those of other countries, but in the case of the UK the slowdown in world market growth came on top of a persistent long-term tendency for the share of British producers in home and overseas markets to decline. On the other hand, the UK, unlike other major industrial countries, has enjoyed an additional source of net export growth in the form of North Sea oil to offset, at least in part, the slower growth of other markets.

Even before 1973, the adverse trends in trade

*Readers who want a fuller account are referred to *Cambridge Economic Policy Review*, Vol. 8, No. 1, 'Prospects for the UK in the 1980s', April 1982.

performance were beginning to constrain domestic expenditure growth despite a high rate of world trade expansion. By the early 1970s the steady loss of export market shares combined with a persistent increase in import penetration had substantially reduced the surplus on manufactured trade, a surplus required to pay for necessary imports of food and raw materials. Even if world trade growth had continued at its previous rate from 1973 on, these trends would in all probability have forced whatever government was in power to restrict the growth of domestic spending and output below that required to maintain full employment, in order to contain the rise in imports and avoid balance of payments problems.

The fact that world trade growth has declined markedly since 1973, from around 9 or 10% a year to 5 or 6% a year, has greatly tightened the constraint on domestic expansion. At the same time, however, North Sea oil has come on stream and production has increased rapidly since the mid-1970s, enabling the UK to eliminate completely its net imports of oil and become a net exporter of energy. The growth of foreign exchange earnings from this source, by offsetting the adverse trends in manufacturing trade performance, permitted a modest increase in output and spending, by 2 to 3% a year, in the latter half of the 1970s, without this causing a mounting balance of payments deficit.

The fact that, instead of increasing at this rate, output has declined significantly since 1979, is largely attributable to the restrictive fiscal and monetary policies pursued by the present government, which have been directed at reducing inflation. Instead of allowing its budget deficit to rise so as to offset the slowdown caused by trends in trade, the government has cut back growth in its spending on goods and services while raising the proportion of personal income taken in tax. These policies have depressed domestic expenditure and caused a sharp deterioration in the cost competitiveness of UK producers by pushing up the exchange value of sterling at a time when UK inflation far exceeded that in other countries. As a result, the UK share of export markets has declined at an even faster rate than before 1979 while home market sales have slumped.

But while some recovery in output might be achieved through fiscal and monetary relaxation, sustained growth depends on underlying balance of payments problems being overcome. There is no question but that the present balance of payments surplus would very quickly be eroded if any significant domestic expansion occurred, and that there would be a high risk of financial pressure against the pound, which would be difficult, if not impossible, to control even with the re-imposition of exchange controls. Inflation could then escalate back above 10% and beyond, fuelled by the rise in import prices. The problem is compounded by the likelihood of continued slow growth of world trade, and therefore of UK export markets, largely because governments in other countries face the danger of the same kind of financial pressure as the UK if they were to initiate expansion, but also because high world trade growth would almost certainly give rise to a substantial increase in the price of oil once again with the by now familiar consequences. Moreover, rapid growth of North Sea oil production is now almost at an end. While output may remain at its present level for much of the 1980s, it will no longer provide a substantial source of foreign exchange *growth* to offset the adverse trends in trade performance.

The achievement of sustained economic growth in the UK which is necessary for any marked reduction in unemployment therefore depends on reversing the trend loss of UK producers in home and overseas markets which has gone on unabated under various different kinds of government policy. This task is made far more difficult than in the past by the fact that with sluggish growth of markets throughout the world, expansion in other countries equally depends on the competitive success of their producers. Any move by the UK government to improve the competitive position of its producers is almost certain in these circumstances to provoke retaliatory action by governments elsewhere.

It is against this background that the prospects for the regions need to be assessed. As national output has slumped, all parts of the country have suffered job losses and rising unemployment. The scale of the problem confronting historically-depressed regions has escalated, while other areas have experienced serious job shortages for virtually the first time in the post-war period. Unless the constraints on domestic expansion can somehow be overcome, unemployment will remain high nationally throughout the 1980s. Regional policy measures, whether in the form of grants, subsidies or controls on the location of factories, and whether administered centrally or locally, might be able to bring about a more balanced distribution of jobs and unemployment. But such measures in themselves will not stimulate any overall increase in national output except insofar as they improve trade performance and thereby relax constraints on expansion. If this does not happen then any jobs created in one area by whatever means must necessarily be at the

expense of employment elsewhere in the country.

National and regional job shortages

The figures of those registered as unemployed do not adequately reveal the scale of the employment problem in the UK. Between 1973 and 1981, the number of people joining the labour force would have been expected to increase significantly under normal circumstances, both because of the trend towards increased participation among married women in particular and because of unusually large numbers of people coming of working age. Although participation rates (the proportion of the working-age population recorded as part of the labour force) have fallen in the UK over the past few years, this in our view is the consequence of job shortages rather than of any reversal in the long-term trend towards more people, especially married women, wanting to work. There are no official figures but we have assumed that the labour force in this country would have risen by nearly 1400 thousand if jobs had been available (Table 1.1). In other words, the number of jobs would in aggregate have needed to expand by this amount between 1973 and 1981 in order to keep registered unemployment at its 1973 level, in the absence of outward migration.

However, instead of increasing, the number of jobs actually fell significantly over this period and overall employment declined by almost 1600 thousand. This means that by 1981 the overall number of jobs in the UK was almost 3 million short of what would have been required to employ all the additional people potentially looking for work in this country as compared with the position in 1973, and to keep registered unemployment constant at around 2½% of the labour force. Of the 3 million who might have filled these jobs, less than 2 million actually joined the unemployment register between 1973 and 1981. Over 800 thousand simply disappeared from the recorded labour force altogether, presumably deterred from registering as unemployed because of the shortage of available jobs. Net outward migration, at least partly in response to the employment situation, totalled 200 thousand.

This shortage of jobs is very unequally distributed across the country, a fact which is only partially revealed by differences in unemployment figures. At the regional level such recorded figures are an even less satisfactory guide to employment problems than they are nationally. This is both because labour force participation varied markedly between different parts of the country and because migration between regions is far more important than between countries. To overcome these problems, we have estimated shortfalls in employment in 1981 as compared with 1973 for each standard region, taking the employment shortfall in a region to be the difference between actual employment and that which would have been required to keep registered unemployment at

Table 1.1 The employment shortfall in the UK in 1981 relative to 1973^a

	Thousands	% of 1973 labour force
Unemployed in 1973	611	2.4
1973 to 1981:		
Natural increase in labour force ^b	1,092	4.4
Estimated increase in participation ^c	293	1.0
Change in employment and self-employment	-1,588	-6.2
Employment shortfall in 1981 relative to 1973	2,973	11.6
<i>of which</i>		
rise in registered unemployed	1,938	7.6
net emigration of labour force	216	0.8
rise in unregistered unemployed ^d	819	3.2

^a Sources for all tables in Chapter 1 are given in the Technical and Data Appendix.

^b The natural increase in population of working age (i.e. including net migration outflows) multiplied by the ratio of labour force to working age population in 1973.

^c The change in the participation rate from 1973 to the post-1973 peak, multiplied by the 1981 population of working age.

^d The fall in participation rate from the post-1973 peak to 1981, multiplied by the 1981 population of working age.

its 1973 level in the absence of outward migration and any decline in participation rates. These estimates then indicate how many more jobs would have been needed in 1981 in each region to cater for the increase in the labour force in that region between 1973 and 1981, and keep unemployment constant.

The calculations are set out in Table 1.2. The table shows the familiar marked disparity between regions in recorded rates of unemployment in 1973, with rates of around 1½% in the South East and East Anglia and between 4 and 5% in the North of England, Scotland and Northern Ireland. It also shows that the unemployment shortfall has indeed tended to rise most strongly in the areas where unemployment was already relatively high in 1973, by between 14 and 17% in Scotland, Wales and the assisted regions of the North and North West, as well as in the West Midlands and Yorkshire and Humberside which are still largely non-assisted regions. In Northern Ireland the employment shortfall rose by almost 23% between 1973 and 1981.

As is also indicated in Table 1.2, the reasons for the sharp rise in job shortages since 1973 differ somewhat across the country. Apart from East Anglia, where there was a small increase, all regions suffered a contraction of employment between 1973 and 1981, though this varied from negligible proportions in the East Midlands to over 11% in the traditionally prosperous West Midlands, which has been most exposed to declining performance in manufacturing trade. The North, the North West and Wales experienced job losses on almost the same scale, but in Scotland and Northern Ireland, employment declined, perhaps surprisingly, by only around 4%, less than in the traditionally prosperous South East.

Here the rise in job shortages was primarily a result of very much higher demographic growth than elsewhere. Scotland and Northern Ireland have thus had a different kind of problem in the 1970s from those of other regions where slow growth in employment rather than fast growth in population caused severe job shortages.

Migration

The main reason why the growing inter-regional disparities in job opportunities are not fully reflected in the figures for unemployment is migration. As jobs have become increasingly scarce in the most depressed regions, so significant numbers of people of working age have left to try to find work elsewhere. In the case of Northern Ireland in particular, the number of people looking for work in the province would have been 9% higher in 1981 had it not been for the migration flows since 1973 (Table 1.2). Similarly the labour force in Scotland would have been some 5% higher in the absence of such flows.

The fact that there has been little if any net job creation in the South and East has failed to deter people from moving into these regions. Thus East Anglia and the South West both experienced significant rises in the numbers looking for work as a result of net inward migration, while the South East, whose labour force was reduced by migration before 1979, has since seen a reversal in flows, with more people moving in than out for the first time since the early 1960s.

In general, migration flows have clearly helped to bring about a more even distribution of unemployment across the country. There is no question but that the numbers out of work would have been

Table 1.2 Employment shortfall in 1981 relative to 1973 by region

(percentages of 1973 labour force)

	Mainly non-assisted areas						Mainly assisted areas				
	SE	EA	SW	EM	WM	YH	NW	N	W	S	NI
Unemployment in 1973	1.4	1.6	1.9	1.9	2.0	2.5	3.3	4.3	3.0	4.2	4.9
<i>1973 to 1981</i>											
Natural increase in labour force	3.0	4.4	2.7	4.7	4.7	4.6	4.6	4.2	3.1	9.5	11.8
Increase in participation	1.0	2.2	1.4	4.4	0.6	2.0	0.5	2.3	3.1	2.9	6.8
Change in employment ^a	-5.5	0.7	-2.1	-0.3	-11.3	-8.0	-9.2	-10.0	-8.9	-4.2	-4.0
Employment shortfall in 1981 relative to 1973	9.5	5.9	6.2	9.4	16.6	14.6	14.3	16.5	15.1	16.6	22.6
<i>of which</i>											
rise in registered unemployed	5.6	6.5	6.7	7.4	9.8	8.0	8.7	9.3	9.6	7.9	11.2
net emigration of labour force	1.0	-7.9	-5.6	-1.6	1.7	1.0	2.8	2.2	-1.4	5.2	8.9
rise in unregistered unemployed	2.9	7.3	5.1	3.6	5.1	5.6	2.8	5.0	6.9	2.9	2.5

See notes to Table 1.1

^a Including self-employment

Key: SE – South East; EA – East Anglia; SW – South West; EM – East Midlands; WM – West Midlands; YH – Yorkshire and Humberside; NW – North West; N – North; W – Wales; S – Scotland; NI – Northern Ireland.

significantly higher in Scotland and Northern Ireland if it had not been for emigration or equally that it would have been significantly lower in East Anglia and the South West if people had not moved in from elsewhere.* Migration therefore represents the main mechanism, apart from government policy, for moderating regional labour market imbalances. Whereas conventional economic theory would predict that such imbalances would lead to differences in prices and wages across the country and so set in motion self-correcting market forces, in practice no such process occurs. Price and wage levels do not vary much between one place and another and appear largely insensitive to changes in the pressure of demand and supply.

The fact that migration flows act in this way has important implications for regional policy and the way in which it is often assessed. Whereas the initial effect of diverting extra jobs to a region through policy measures might be to reduce unemployment there by a similar amount, subsequently it would lead to a reduction in net outward migration. The effect of job creation upon unemployment is thus significantly less than one for one, and this might appear to detract from the effectiveness of policy if it is only conceived of in

terms of what happens to the numbers unemployed. If the aim of policy is to achieve a more balanced distribution of jobs across the country and to encourage a more even process of regional development, then the effect on migration is equally as important as the effect on the unemployment figures, and should be explicitly included in any policy assessment.

Regional employment to 1984

Unemployment in the UK now stands at close to 13% of the labour force, if school leavers are excluded. It is almost certain to continue increasing at least for the next year or two. There are no signs at all of any significant upturn in output in prospect, and if present policies continue to restrict domestic expenditure, production is likely to remain depressed, especially since export markets are unlikely to show much growth. By 1984, we would expect manufacturing output under these circumstances to be little if any higher than at present and for other sectors to have grown only slowly, by 1 or 2% a year at most. If this happens, then employment will continue to fall, principally in manufacturing where the number of jobs could be reduced by around 400 thousand in the next two years.

The effect of this on the official figures for

*The precise scale of the effect in each case depends on the associated income flows.

unemployment depends not only on how many people who cannot find jobs bother to register but also on the scale and take-up of youth opportunity programmes and other temporary job creation schemes, as well as on changes in the system of registration. Our best guess is that recorded unemployment, excluding school-leavers, is likely to be around 3.6 million by 1984. Even if there were to be a major shift in the direction of policy towards expansion in the near future, it would probably be too late to depress unemployment much below this figure by then, and any significant reduction in unemployment below its *present* level will inevitably take quite a few years to achieve, without major changes in the organisation of employment through work-sharing.

The regions where unemployment is already high are likely to suffer most from continued recession and job losses. In those regions, the unemployment rate could be around 2% higher on average than at present, while in the South, though the rate will almost certainly increase, the rise might be less than 1% (Table 1.3).

Areas like the West Midlands with a relatively high concentration of manufacturing will tend to lose jobs most rapidly, though few places will escape a continued decline in employment (Table 1.4), especially since public services will go on shedding labour on present plans. With their labour forces continuing to rise relatively fast, Northern Ireland and Scotland can be expected to experience the biggest increases in job shortages, but other 'mainly assisted' regions as well as the West Midlands are unlikely to be far behind. In consequence, there will be continued outward migration of people from these regions looking for jobs in other areas, even though these other areas have severe employment problems of their own. Nevertheless the gap between job availability in the South East or South West and that in Scotland

or even in the traditionally prosperous West Midlands will be so wide that significant migration in this direction is inevitable.

All in all, therefore, things are unlikely to change much in the next two years. The main difference will be that recession will have gone on longer and so more of the unemployed will have been out of work for a prolonged period, while cutbacks in public services and housing will have become more serious. All of the problem regions

Table 1.3 Regional unemployment in September 1982 and forecasts for 1984

Unemployment excluding school leavers
as % of labour force^a

	Sept 1982	1984 forecast
South East	9.0	10.2
East Anglia	9.6	12.0
South West	9.8	11.4
East Midlands	10.7	12.6
West Midlands	14.8	17.4
Yorks and Humberside	12.6	15.0
North West	14.7	16.7
North	15.8	18.6
Wales	14.8	17.5
Scotland	13.9	16.6
Northern Ireland	18.2	20.9
UK average	11.8	14.0

^a Labour force includes self-employed in both cases. Because of this the September 1982 figures are lower than those given in the Department of Employment *Gazette* for October 1982.

Table 1.4 Employment^a in the regions 1981 to 1984

	Mainly non-assisted areas						Mainly assisted areas				
	SE*	EA	SW	EM	WM	YH	NW	N	W	S	NI
Employment growth ^a 1981-84 (%)	-2.3	-1.4	-1.2	-2.0	-5.9	-4.6	-5.3	-4.9	-4.3	-5.1	-5.0
Natural increase in labour force 1981-4 (%)	1.4	2.1	1.4	1.7	1.8	1.8	1.9	1.5	1.2	2.9	4.7
Net in-migration 1981-4 (thousands)	+87	+16	+26	+7	-66	-25	-89	-32	-10	-93	-36
(% of 1981 working age population)	0.8	1.4	1.0	0.3	-2.1	-0.8	-2.3	-1.7	-0.6	-2.9	-3.9
Unemployed 1984 (thousands)	854	100	220	228	424	333	499	259	207	401	136
(percentage of labour force ^a)	10.2	12.0	11.4	12.6	17.4	15.0	16.7	18.6	17.5	16.6	20.9
Change in participation rate 1981-4	-0.5	0.3	0.2	0.6	0.7	-0.1	0.5	1.4	0.8	0.0	1.4

^a Including self-employed *See Key to Table 1.2

will by then have had unemployment rates in double figures for at least four years and the dependence on public services will have become that much greater.

Regional employment to 1990

The longer-term prospects for the regions depend critically upon economic policy at the national level and its success in overcoming the constraints on domestic expansion noted earlier. Unless there is a dramatic improvement in the performance of the national economy, there is very little chance of any individual region escaping continued high levels of unemployment and acute job shortages.

To illustrate the possible range of outcomes for the regions in the rest of the 1980s we have taken three projections for the national economy which the CEPG carried out at the beginning of 1982 and which were reported in our April 1982 *Policy Review*, and have examined their regional implications. For present purposes, we need not go into much detail about the precise assumptions adopted to generate the projections: readers who are interested should look at the April 1982 *Review*. It is sufficient to note that the projections cover by and large the range of broad strategies that are currently on offer from the major political parties, and in each case that the outcome represents our best guess at what is likely to happen to output and employment if a particular set of policies were followed.

The main policy assumptions adopted in the three cases are briefly as follows:

- (1) *The continuation of present policies*, with continued restraint of public expenditure and government borrowing, modest tax reductions when they do not infringe financial targets and

only a small fall in the exchange rate over the next few years.

- (2) *Conventional reflation* through expansion of public expenditure and tax reductions, the imposition of incomes policy and 20% devaluation by 1985, with some continuing fall in the exchange rate thereafter.
- (3) *Reflation backed by import controls* in a Labour strategy of substantial public expenditure growth, a steady devaluation of sterling to improve cost competitiveness and the imposition of tariffs on imports of manufactures and services steadily rising to 50% by 1990, with retaliation being assumed to cancel out the benefits of lower import penetration in the first two or three years but only to reduce them slightly thereafter.

The results of each projection for the UK as a whole are summarised in Table 1.5. In our view, the continuation of present policies is likely to lead to slow growth of output at best, with further job losses in manufacturing and a continuing rise in unemployment. The avoidance of this outcome depends on a self-generated improvement in industrial competitiveness of significant proportions to reverse the trend loss in the world market shares of UK producers. On all the evidence that we have, the chances of this happening, if not non-existent, are at least extremely remote.

A conventional reflation could yield immediate benefits to output and employment, but is unlikely to achieve sustained high growth in the longer term because of the financial pressures and risk of accelerating inflation which it is likely to face before long. Although it might succeed in stabilising unemployment at around its present level, any significant reduction below this would probably depend on concentrating reflation on job creation and funding work-sharing schemes.

Table 1.5 Alternative projections of the UK economy 1984 to 1990

	Stagnation under present policies	Modest growth through conventional reflation	Recovery through reflation and import restrictions
<i>% change 1984 to 1990</i>			
GDP	6.3	15.0	26.4
Employment	-3.4	3.8	11.3
<i>of which</i>			
manufacturing	-15.1	-8.4	3.7
government services	0.0	19.6	23.0
other sectors	0.0	1.9	10.4
Unemployment in 1990			
(millions)	4.5	3.3	1.9
(%)	17.1	12.3	7.0

Source: *Cambridge Economic Policy Review*, Vol. 8, No. 1, April 1982

A Labour strategy of reflation with tariffs to hold the growth of imports in check might achieve more output and employment in the longer term, but much would depend on the scale of retaliation — which in the present climate could easily be greater than assumed — and the effectiveness of industrial policy. Even under a relatively successful policy of expansion, unemployment is unlikely to be reduced much below 2 million by 1990 without extensive work-sharing, while job creation is likely to depend almost entirely on the growth of services.

The regional implications of these projections, assuming that regional policy is held constant, are summarised in Tables 1.6 to 1.8. They show that if national economic policy succeeds in stimulating growth then *all* regions stand to benefit. Conversely all regions will suffer continued contraction of employment if recession persists. The projections are considered in turn below.

Stagnation under present policies

If there is no reversal of present policies and recession persists, few areas can expect any significant growth of employment. Any additional jobs created are likely to be in the south and east where the shortage of work though serious is already less acute than elsewhere and where the prospects for service employment are more promising. But even in these regions employment growth would be barely perceptible (Table 1.6). In the rest of the country — in the West Midlands and Yorkshire and Humberside as well as in the 'mainly assisted' regions — employment would almost certainly fall further as the decline in manufacturing jobs continued. The West Midlands and the North with their high concentrations of industry would be particularly hard hit

and could experience as much as an 8% reduction in employment between 1984 and 1990 on top of the substantial job losses which they have suffered over the past three years.

Although by the second half of the 1980s the growth in the population of working age will have slowed down because of low birth rates in the early 1970s, the contraction or at best modest growth of employment will mean a continued rise in the number of people out of work throughout the country. Even in the South East, the unemployment rate could be around 12½% by 1990 (i.e. about the national average at the present time), boosted significantly by the considerable inward migration which is likely to take place as people leave regions of ever greater job scarcity in search of work. In all the 'mainly assisted' regions as well as in the West Midlands, unemployment would probably be over 20%, despite outward migration on a substantial scale. On past experience, a further 800 thousand people could move out of these areas between 1984 and 1990, which would bring their total net loss of working-age population to 1.15 million over the decade as a whole. About half of these would have gone to the south and east, half abroad.

Modest growth through conventional reflation

As noted above, a conventional reflation could boost output over the next few years and start to bring down unemployment, but is unlikely to be able to secure sufficient growth beyond the mid 1980s to do more than stabilise unemployment. In the West Midlands and the North West, though there might be some job creation in services, this is likely to be offset by continued job losses in manufacturing. Employment in these regions could even fall slightly between 1984 and 1990 (Table 1.7). In

Table 1.6 Employment in the regions 1984 to 1990: stagnation under present policies

	Mainly non-assisted areas						Mainly assisted areas				
	SE*	EA	SW	EM	WM	YH	NW	N	W	S	NI
Employment growth ^a 1984-1990 (%)	0.4	1.6	1.8	-0.6	-8.3	-5.5	-7.1	-7.8	-6.9	-6.8	-6.0
Labour force: natural increase 1984-90 (%)	1.2	2.7	1.3	2.7	2.3	2.2	2.2	1.5	1.1	4.2	6.8
Net in-migration 1984-90 (thousands)	260	36	83	0	-169	-66	-182	-87	-32	-198	-76
(% of 1984 working age population)	2.4	3.0	3.1	0	5.3	-2.2	-4.6	-4.6	-1.9	-6.2	-8.3
Unemployed 1990 (thousands)	1,083	129	265	315	502	411	578	317	256	478	157
(%)	12.6	14.8	13.2	16.7	21.4	18.8	20.0	23.2	22.0	20.3	24.5
Change in participation rate 1984-90	-0.5	-0.5	-0.3	1.1	-0.5	-1.0	-0.6	0.6	-0.5	-0.7	-0.3

^a Including self-employed *See Key to Table 1.2

Table 1.7 Employment in the regions 1984 to 1990: modest growth through conventional reflation

	SE*	Mainly non-assisted areas					Mainly assisted areas				
		EA	SW	EM	WM	YH	NW	N	W	S	NI
Employment growth ^a 1984-90 (%)	4.9	9.5	8.8	6.1	-0.9	1.8	-0.7	0.8	3.3	1.6	3.1
Labour force: natural increase 1984-90 (%)	1.2	2.7	1.3	2.7	2.3	2.2	2.2	1.5	1.1	4.2	6.7
Net in-migration 1984-90 (thousands)	173	38	79	-4	-157	-56	-188	-73	-19	-180	-72
(% of 1984 working age population)	1.6	3.1	2.9	-0.2	-4.9	-1.9	-4.8	-3.8	-1.1	-5.6	-7.8
Unemployed 1990 (thousands)	781	86	173	229	383	301	445	242	180	346	122
(%)	9.0	9.6	8.4	11.9	16.0	13.5	15.1	17.3	15.0	14.4	18.6
Change in participation rate 1984-90	0.9	0.9	1.3	2.7	0.7	0.3	0.7	1.9	0.7	0.8	1.3

^a Including self-employed *See Key to Table 1.2

other 'mainly assisted' regions as well as in Yorkshire and Humberside, there would probably be some rise in employment, but in most cases not enough to cover the growth of the labour force. Under these circumstances, outward migration is likely to continue on a significant scale and unemployment could more or less stabilise at around its present level.

In the south and east, employment growth is likely to outstrip the rise in the indigenous labour force and unemployment could come down. However, many of the jobs created would probably be taken by people moving into the area from other parts of the country and, at the same time, since virtually all the new jobs would be in services, some of these are likely to be taken up by married women not at present recorded as part of

the labour force. For both reasons, the fall in registered unemployment might well be modest.

Recovery through reflation and import restrictions

If difficult balance of payments and financial problems can be overcome, it would be possible to sustain recovery in the second half of the 1980s. But even on the most optimistic assumptions shown in Table 1.8, it is hard to imagine sustained output growth of much more than 4% a year between 1984 and 1990, which would still leave unemployment at around 2 million at the end of the decade. If growth at this rate were to be achieved, employment in the south and east might rise by 2 or 3% a year, though in the rest of the

Table 1.8 Employment in the regions 1984 to 1990: recovery through reflation and import restrictions

	SE*	Mainly non-assisted areas					Mainly assisted areas				
		EA	SW	EM	WM	YH	NW	N	W	S	NI
Employment growth ^a 1984-1990 (%)	12.6	19.1	16.1	13.2	6.5	9.7	4.5	9.4	9.2	7.7	8.7
Labour force: natural increase 1984-90 (%)	1.2	2.7	1.3	2.7	2.3	2.2	2.2	1.5	1.1	4.2	6.7
Net in-migration 1984-90 (thousands)	193	41	83	-4	-163	-57	-215	-64	-21	-192	-72
(% of 1984 working age population)	1.8	3.4	3.1	-0.2	-5.1	-1.9	-5.5	-3.4	-1.2	-6.0	-7.8
Unemployed 1990 (thousands)	322	30	66	132	256	172	331	156	127	236	92
(%)	3.6	3.3	3.2	6.7	10.5	7.5	11.1	10.9	10.4	9.6	13.8
Change in participation rate 1984-90	2.5	2.5	2.5	4.0	2.2	1.7	2.3	3.1	1.9	2.4	2.1

^a Including self-employed *See Key to Table 1.2

country the increase might still not be much above 1% a year. Few of the additional jobs created are likely to be in manufacturing despite recovery of output. Because of continued migration from the north to the south, the decline in unemployment would be more uniform than the disparity in these figures would suggest. Nevertheless unemployment rates in the West Midlands and the 'mainly assisted' regions could still be in double figures in 1990 even with an historically high and sustained rate of economic growth.

Population shifts

One of the constant features of each of the above projections is the large movement of population from the north to the south, irrespective of the overall growth rate achieved. These flows are likely to be one of the major features of the 1980s. As shown below, they are unlikely to be much affected in practice by the strength of regional policy. The north-south drift, which dominated regional population change in the depressed conditions of the 1930s as much as in the expansionary 1950s, is likely to return and for much the same reasons. The relative employment shortfalls will be large in the north either because the decline in employment is greater or, if reflation comes, because growth is faster elsewhere. After a long period of no growth at all, the population of the South East is expected to increase by a million by 1990 if recession persists, and only by slightly less if expansion is generated. This, *inter alia*, may pose a serious financial problem for the government. If, as we anticipate, population actually declines in several of the more urban industrial regions, while it expands elsewhere, then it could add greatly to the need for public expenditure. While it increases the need for new public facilities and infrastructure in areas to which population is moving, it does little to reduce the necessity for refurbishing inner city areas from which population is leaving.

Regional policy in the 1980s

Traditionally regional policy has relied almost exclusively on diverting manufacturing jobs into the Assisted Areas, though public employment and construction expenditure have also contributed. Generalised recession however has made it more difficult both to finance and to justify diversionary policies. So long as recession persists or growth is other than modest, it will be hard to strengthen regional policy of this kind. Under these conditions manufacturing employment is likely to decline throughout the decade, and although some firms will be expanding there will be few potentially mobile projects. With unemployment continuing to rise, strong political resistance in the south and east to further job losses would be probable. If expansion can be sustained,

the strengthening of regional policy becomes much more plausible. Output growth and perhaps a small rise in jobs in manufacturing could provide scope for employment diversion of the traditional kind.

To examine how much might be achieved through traditional methods we carried out a number of projections on the assumption that economic recovery was generated through reflation and import restrictions, in each case varying the strength of regional policy. Table 1.9 shows that, as compared with no regional policy at all, the weak policy measures which now operate and which were incorporated in the projections discussed above (Tables 1.6 to 1.8) serve to raise total employment growth in the four traditionally assisted regions — the North, Wales, Scotland and Northern Ireland — by 2% between 1984 and 1990. This is achieved by a diversion of 19 thousand manufacturing jobs a year. The cost to other areas is a reduction in jobs of less than 1% over the six years in most cases, though the West Midlands with its relatively large manufacturing sector loses more. Both unemployment and outward migration in these four regions are consequently lower as a result of present regional policy, but not greatly so.

If regional policy were to revert to its peak strength of the past then the gains to the Assisted Areas as a whole would of course be larger. We cannot necessarily assume that the diverted jobs would be distributed within those regions in the same way as in the past, since this would mean diverting jobs out of the West Midlands and perhaps the North West where the unemployment rate is currently over 16% and into Scotland where it is lower. If policy is strengthened it is reasonable to assume that all of the regions with relatively high unemployment will share in the benefit, which could imply almost 40% of the diverted jobs going to the West Midlands and the North West, both of which are large industrial regions. Because of this, even with regional policy operating at its historical peak strength, the four traditionally assisted regions would not gain many more jobs than they did in the second half of the 1970s.

The effect of strengthening regional policy is to slow employment growth by little more than 1% over six years in the south and east (Table 1.9) as compared with no regional policy at all. Both the West Midlands and North West would gain jobs, by 1 or 2% over six years, as would most of the other assisted regions, while Northern Ireland would also gain service jobs by more than elsewhere just as it did in the 1970s. Unemployment rates, however, are not greatly changed by strengthening regional policy by this amount.

What then would be needed to equalise unemployment across regions in 1990 given some national economic recovery? To answer this question we have used our regional model to calculate by how much employment would have to change in order to achieve the UK average unemployment rate of 7% in each region by 1990. The

Table 1.9 Employment in the regions, 1984 to 1990: national recovery with regional policy of varying strengths

	Mainly non-assisted areas						Mainly assisted areas				
	SE*	EA	SW	EM	WM	YH	NW	N	W	S	NI
<i>No regional policy</i>											
Employment growth ^a	13.1	19.9	16.6	14.1	7.9	10.8	4.8	7.0	6.1	5.7	4.0
Labour force growth	5.7	9.1	7.0	6.7	-0.1	2.4	-0.9	0.6	0.9	0.0	-0.6
of which in-migration ^b	2.0	3.9	3.2	0.1	-4.5	-1.4	-5.4	-4.2	-2.2	-6.7	-9.6
Unemployment in 1990	3.3	2.8	2.9	6.1	9.6	6.8	10.9	12.4	12.5	10.9	16.8
<i>Weak regional policy</i>											
Employment growth ^a	12.6	19.1	16.1	13.2	6.5	9.7	4.5	9.4	9.2	7.7	8.7
Labour force growth	5.5	8.4	6.9	6.5	-0.6	1.4	-1.0	1.2	1.8	0.6	1.0
of which in-migration ^b	1.8	3.4	3.1	-0.2	-5.1	-1.9	-5.5	-3.4	-1.2	-6.0	-7.8
Unemployment in 1990	3.6	3.3	3.2	6.7	10.5	7.5	11.1	10.9	10.4	9.6	13.8
<i>Strong regional policy</i>											
Employment growth	11.7	18.2	15.7	12.6	8.9	9.5	6.7	9.0	8.7	8.2	9.1
Labour force growth	5.2	7.5	6.7	6.3	0.0	1.9	-0.3	1.0	1.7	0.6	4.9
of which in-migration ^b	1.4	3.4	2.9	-0.3	-4.3	-2.0	-4.7	-3.6	-1.5	-5.9	-3.9
Unemployment in 1990	4.2	3.8	3.4	7.0	9.1	7.7	9.7	11.2	10.2	9.4	13.6

^a Including self-employed *See Key to Table 1.2

^b Net migration of working-age population at constant 1984 participation rate as % of labour force in 1984

jobs diverted are assumed to be in manufacturing although this induces a transfer of service jobs as well. In the case of Northern Ireland, where manufacturing employment is relatively low, it is again assumed that the province's share of government services employment grows at the rate observed in the 1970s.

To achieve this aim, the number of unemployed in the regions which currently have above-average unemployment would have to fall by 470 thousand in total, with corresponding rises in other areas. For this to happen, employment would have to rise and fall by much more than 470 thousand, because of the changes in the labour force caused by lower migration from the North to the South. In fact, on our estimates some 860 thousand jobs would need to be transferred from the South and East to areas of relatively high unemployment. If traditional methods were used, this would entail diverting some 630 thousand jobs in manufacturing to the 7 high unemployment regions and 54 thousand public services jobs to Northern Ireland, which would then induce the transfer of the remaining jobs in services. The details are shown in Table 1.10. At 105 thousand jobs a year the rate of diversion of manufacturing jobs would be about

four times greater than the peak rate achieved by regional policy in the 1960s.

This provides a measure both of the scale of the regional problem and of the very large effort which would be needed to solve it. If the diversion of jobs to the Assisted Areas takes place mainly within the manufacturing sector as in the past, then the degree of control over industrial location would have to be on a completely different scale from anything so far experienced in a peacetime mixed economy. Moreover, even if it were politically feasible to move so many jobs over such a short period, the result would be to increase the dependence of the Assisted Areas on manufacturing, a sector which has an inbuilt tendency to shed jobs. It seems that we shall either have to accept a continuing regional problem as a price paid for a mixed economy with economic planning largely devoted to private sector companies, or move to a position in which the government assumes a more active role in determining the location of employment. This might involve intervention in the private sector but could equally be achieved by diverting more jobs in government services into the Assisted Areas.

Table 1.10 National recovery with regional unemployment equalised by 1990

	Mainly non-assisted areas						Mainly assisted areas				
	SE*	EA	SW	EM	WM	YH	NW	N	W	S	NI
Employment growth ^a 1984-1990 (%)	8.3	12.7	9.9	12.5	11.8	10.6	10.5	15.0	13.9	11.4	25.5
Labour force: natural increase 1984-90 (%)	1.2	2.7	1.3	2.7	2.3	2.2	2.2	1.6	1.1	4.2	6.7
Net in-migration 1984-90 (thousands)	-63	18	28	-8	-88	-34	-115	-16	9	-131	-40
(% of 1984 working age population)	-0.6	1.5	1.0	-0.3	-2.7	-1.1	-2.9	-0.8	0.5	-4.1	-4.3
Unemployed 1990 (thousands)	611	62	138	138	172	159	210	100	85	174	5.1
(%)	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Change in participation rate 1984-90	2.9	2.8	2.8	2.0	3.9	1.7	1.7	2.5	1.4	2.3	5.4

^a Including self-employed *See Key to Table 1.2