

# Introduction

The purpose of this *Review* is to analyse the effects of prolonged economic recession in the UK on the different parts of the country, to examine the prospects for employment and unemployment in the different regions up to 1990, and to consider how government can best tackle urban and regional problems which are becoming acute.

The nature of regional problems in the postwar period has been one of persistent job shortages in much of the northern half of the UK and in Wales. The marked slowdown in economic growth at the national level since 1973 has spread the problem to virtually all parts of the country. At the same time, the escalation of unemployment in the large cities has added an inner city dimension to what was formerly considered a purely regional problem.

In contrast to the widespread fashion of relying on free market forces to resolve ills, we are convinced that there will be no solution to unemployment problems in the UK without a major shift in government policy. Most importantly, the emphasis of macroeconomic policy has to shift from fiscal and monetary restriction towards reflation. Without sustained expansion of demand in the economy, there is virtually no chance of any significant recovery of output and employment either nationally or in any substantial part of the country. There are clearly problems in pursuing this kind of policy at present, particularly in the context of world-wide recession. This *Review* is concerned not so much with how such problems can be overcome since this was discussed in the last *Review*\*, as with the regional implications of success or failure. Residents of regions which are more depressed than the national average unquestionably stand to benefit from reflationary policies. But they will still have to rely on additional assistance in the form of urban and regional policies to prevent an increasingly wide disparity in job opportunities opening up between themselves and people living in the more favoured southern regions.

Combinations of macroeconomic and regional policy changes are considered in Chapter 1, using the same national scenarios as were discussed in

\*Readers are referred to both our last *Review* (*Cambridge Economic Policy Review*, Vol. 8, No. 1) and the one forthcoming in April 1983 for a full examination of these issues.

our previous *Policy Review* published in April 1982. For the first time we present the results of a regional employment model linked directly to the CEPG model of the national economy. This enables us to forecast the consequences for each region of various national economic developments in the years ahead. The regional model not only allows for differences in sectoral demand between regions but also includes a fully developed supply side in which inter-regional labour migration plays a prominent part in determining the regional distribution of unemployment.

The model projections offer few grounds for optimism but do demonstrate the depth of the problem for the more depressed regions. A continuation of current policies is likely to lead to increased unemployment in all regions. By 1990 more than a million can be expected to be on the unemployment register in the south east alone, but the problem will be much worse in the northern regions, Wales and the West Midlands, each of which would have more than one in five unemployed. Even this entails more than a million people of working age leaving the north during the 1980s to seek work in the south or abroad. Nor can the depressed areas count on any significant strengthening of regional policy in the future, since with unemployment high everywhere, measures which divert jobs overtly from one region to another are unlikely to be politically acceptable. In addition, in a time of slow growth, it is inevitable that there will continue to be limitations on public spending, which makes it unlikely that large amounts of government money could be mobilised to ameliorate inner city or regional problems.

If conventional measures of reflation were now adopted, the most they could be expected to achieve would be to stabilise unemployment at around its present level throughout the remainder of the decade, which would give some but not much benefit to the depressed regions. To go further requires effective action to protect domestic expansion from the financial and balance of payments difficulties which would inevitably arise. Even with effective controls on trade and financial flows, a successful industrial policy and resolution of pressing global problems,

it is hard to imagine economic growth in the UK of much more than 3 or 4% a year between now and 1990. This would still mean around 2 million unemployed in this country in 1990, in the absence of extensive work-sharing schemes.

With sustained expansion at this rate, regional policies would need to be operated very much more vigorously than in the past for the disadvantaged areas to do any better than to share equally in the general improvement in employment. Unemployment would still in all likelihood be higher in the north than the south, which would mean a large exodus from the former to the latter. Indeed the reappearance of the old north-south drift is expected to be a major feature of the 1980s whatever policies are pursued. This has, *inter alia*, important implications for public expenditure and the use of existing public infrastructure, since population is likely to continue declining in northern cities and to grow in the more congested south east.

Chapter 2 sets out the economic processes incorporated in the regional model and explains how and why regional unemployment problems emerge and persist. Manufacturing industry remains one of the major 'engines' of regional economic development. The variations in the rate at which manufacturing employment has changed in the regions is determined mainly by three factors in addition to the effects of government regional policies. The first is the composition of industry in a region, that is, whether it contains a high or low proportion of declining trades. This has always been important, though less so in recent years than in the 1950s and 1960s. The second is the urban/rural composition of a region, which has been particularly significant in the 1960s and 1970s, since regions containing large conurbations grow more slowly than others. The third is the average size of plant and the rate of new firm formation.

With the continuing de-industrialisation of the UK, services now account for the greater part of employment in all regions. But growth of services is for the most part dependent on the growth of other sectors and on population growth, rather than an independent source of regional expansion.

Nevertheless there are some services, in the public as well as the private sector — business services or leisure activities for example — which are not closely tied to local conditions and which can be used to initiate regional growth. Moreover these, though still relatively minor, are tending to increase in importance.

Regions in which the combined growth of manufacturing and service employment has failed to match the growth of labour supply tend to suffer from both high unemployment and high outward migration. Indeed, migration is the main way in which regional labour market imbalances are alleviated and, in a sense, regional policies which divert new jobs into depressed regions can be seen as interrupting this process since they reduce the rate of net outward migration. In our

view, large scale migration from a region, insofar as it is forced by economic circumstances, is both undesirable and unacceptable. It reduces the income flowing into the region and so depresses employment; it causes communities to be broken up; it means that more public facilities and infrastructure — schools, roads, etc. — need to be provided elsewhere; and it is liable to be accompanied by a deterioration in public services and facilities in the area which people are leaving. There is therefore a need to continue with some kind of regional policy.

The urban or inner city problem, which is the subject of new analysis in Chapter 3, manifests itself in much the same way as the regional problem and arises partly from a different configuration of the same set of economic processes at work in the economy at large. However, there are additional factors which make the urban problem different in kind from the regional problem and these require that the approach to policy solutions also be different.

All conurbations, and particularly inner city areas, have experienced a steady but sizeable outward movement of both jobs and people in the postwar period. Manufacturing firms have moved out and the population has dispersed into smaller towns and more rural areas, partly in response to this but also because of residential preference.

For thirty years up to 1976 public policy encouraged this movement. But it left behind concentrations of low-skill, low-income or otherwise disadvantaged groups prone to high rates of unemployment. Since the onset of recession in 1973, inner city unemployment has risen faster than elsewhere because of these concentrations. An increasing proportion of inner city jobs has been taken by inward commuters rather than by inner city residents.

The extent to which these *concentrations* of urban unemployment matter from a policy angle turns predominantly on the view taken of the social consequences. So long as there is recession, the people now living in inner cities are going to be unemployed somewhere or, if they are given special treatment, in terms of training for example, are going to displace others from employment. There is no strong case on economic grounds for removing the urban concentration of the unemployed. But there is a case on social grounds. A subculture is encouraged to develop, based on alienation from the rest of society, leading to increased crime and social unrest and making life in such areas unpleasant for those who have to live there. The concentrations become self-reinforcing and grow because those who can leave do so, while the feelings of alienation are passed from generation to generation. On the other hand, the counterpart of the concentration of social problems in such areas is their relative absence from suburban and rural areas. This results in political pressure for reforms being restricted to the minority who are directly involved, because others do not come into contact with the problems. The

pressures are thereby muted and the problems can remain unresolved for very long periods of time unless extreme action (such as riots) places the problems in the national limelight.

Both urban problems and regional problems have become increasingly intractable over the 1970s and early 1980s. Policies have been changed to meet the new circumstances but the net effect has been a weakening of policy effectiveness. Chapter 4 considers current policies and suggests changes for the future.

Traditionally, regional policy has relied on a package of financial inducements and physical location controls (Industrial Development Certificates) to encourage the expansion of manufacturing firms in designated Assisted Areas. Government spending on regional policy reached a peak of £1,380 million (at 1982 prices) in 1975/6 and IDC refusals were about one quarter of all applications. Since then regional policy has been radically cut back. In 1982/83 expenditure on regional policy is expected to be about £450 million and the machinery of locational control has been put in abeyance.

Large parts of formerly Assisted Areas have been descheduled and regional aid is now concentrated in 'areas of greatest need', which in practice means the large conurbations of Merseyside, Tyneside and Clydeside, and the urban areas of South Wales and Humberside.

In recent years, the emphasis of urban policy has also shifted to that of assisting the large conurbations, at first mainly through community development projects, educational and social welfare schemes, and subsequently through Partnership Schemes between central and local government. Since 1980 a number of Enterprise Zones have been set up in selected urban areas, with the aim of attracting new employment by offering financial inducements and fewer controls. But it is difficult to foresee either Enterprise Zones or Dockland Development Corporations having anything more than a very small effect on the deep-seated problems of inner city areas.

Under the conditions of stagnation and high unemployment which now prevail, current regional policies are neither appropriate nor cost-effective. The £400 million a year devoted to capital subsidies under the much reduced regional policy package continues to divert a few firms into Assisted Areas but most of it is used up by large, capital-intensive firms to replace plants, often with the effect of reducing rather than expanding employment. The exchequer cost of creating such new jobs in Assisted Areas has risen dramatically to an average of about £40,000, and to considerably more in some cases.

The current policy stance of limiting regional aid to the large northern conurbations is too restrictive and even if successful would not significantly help the urban unemployed, which must be one aim of the policy. About four-fifths of the jobs created in inner city areas are, in fact, filled not by those living in inner cities but by daily

inward commuters who can offer higher skills. Present urban policy, with its emphasis on Enterprise Zones, suffers from the same weakness.

Undoubtedly lessons can be learnt from the operation of policy between 1960 and 1975. The first is that regional policy can be highly effective in creating employment opportunities in depressed areas and indeed is essential to avoid unbalanced growth. Secondly, capital-intensive projects have attracted large investment grants for relatively few jobs, which argues for a cost per job limit to be applied to grants. Thirdly, the Regional Employment Premium, which was a general subsidy on employment, created relatively few jobs for the large sums of money involved, which would again argue for a more selective approach in future. But the main general lesson is that regional policy can be expected to divert substantial numbers of jobs only in the context of national economic expansion.

In Chapter 4 most attention is given not to the question of regional policies in an expansionary context but to the question of what kind of regional and urban policies would be appropriate for the conditions of recession which now exist and which, on present policies, are likely to prevail throughout the 1980s.

Firstly, any policy should be cost effective and, secondly, policies will need to avoid relying mainly on the diversion of manufacturing employment from the south to the north. To make some contribution towards these objectives we suggest that policy be reformed as follows:

#### *Regional policy*

- (i) Large, highly capital-intensive projects which create few, if any, new jobs in Assisted Areas ought to be subject to a cost-per-job limit.
- (ii) The West Midlands which has suffered a severe decline of manufacturing industry should be designated an Assisted Area.
- (iii) There should be greater focus on services. The existing service industry scheme should be radically strengthened and directed much more narrowly to inner city areas, rather than to the Assisted Areas as a whole.
- (iv) As a contribution to the long-run regeneration of manufacturing in the depressed areas, the grants currently payable to unemployed people starting new firms should be extended to cover everyone in high unemployment areas.
- (v) As a further contribution, areas particularly suitable for industrial growth should be identified and made the focus of policy in depressed regions.

#### *Urban policy*

- (i) Local authorities in major urban areas should be encouraged to assemble land in quantities sufficient to enable the larger indigenous firms to remain in their present locations and maintain employment in the inner urban areas.
- (ii) To increase the proportion of inner city jobs

being filled by residents rather than inward commuters, consideration should be given to introducing a subsidy scheme for employers who recruit and train workers from the registered unemployed in inner cities.

- (iii) Consideration should be given to schemes to encourage inner city residents to commute to obtain work in the outer city and beyond.
- (iv) There should be more balance between public and private housing in inner city areas and easier access to public sector housing in other areas for those who wish to move out.

Even if all these policy changes were introduced there would be no dramatic effects on geographical disparities in economic and social conditions in the short term. These are long-term

policies which need to be pursued over at least two decades if they are to make significant inroads into regional and urban problems.

Finally, Chapter 5 of the *Review* argues the need for reform of the way in which regional and urban policies are administered. In particular it suggests that there are grounds for introducing some kind of regional tier of administration in England to coordinate central government policies with those of local government.

It also advocates establishing a clearer institutional framework at central government level for coordinating both the spatial aspects of national economic and social policies and the specific regional and urban measures which are now the responsibility of several government departments.