

Chapter 4

Urban and regional policy for the 1980s

After two decades of active regional policy involving a sum of around £18 billion of exchequer expenditure at today's prices and urban policies involving a vast programme of urban renewal and New Town development, urban and regional problems seem as intractable as ever and remain a major policy issue facing governments in the 1980s. Regional unemployment disparities narrowed between 1960 and 1975 but have since widened sharply. Moreover the 'regional problem' now afflicts some hitherto prosperous regions: the unemployment rate in the West Midlands is now some 3 percentage points above the national rate. In inner city areas unemployment, which has been higher than the national average for some time, has become severe.

As urban and regional problems appear to have intensified, regional policy has been significantly weakened and the thrust of urban policy has switched from population and job dispersal to the economic and social regeneration of inner cities. These changes in part reflect the increasing severity of the recession. As unemployment has risen in formerly prosperous areas, resistance has increased to moving jobs out of these areas and into Assisted Areas. Recession has also changed the map of unemployment blackspots to include, most notably, the inner cities, but also the steel towns. The government responded to the deterioration in the situation by withdrawing or reducing aid in areas with problems which only a few years ago would have been regarded as intolerable.

All of this raises a number of crucially important issues for the future. What is the appropriate policy stance for the 1980s given that unemployment is likely to remain high throughout the UK for the rest of the decade? How much spatial policy should there be and what should be the general objectives of such policy? Are the traditional instruments of policy still appropriate? Can we coordinate urban and regional policies in such a way as to resolve the conflict between the needs of the inner cities and those of the traditional depressed regions?

This chapter addresses these questions, beginning with a reminder of the nature of urban and regional problems as set out in earlier chapters, and a brief statement of the current policy stance.

There is then a critique of existing policies and, finally, our proposals for policy change bearing in mind the need to coordinate action at the national, regional, and urban level.

The current policy response to the regional problem

Chapter 1 demonstrated that the essence of the regional problem was the lack of an effective mechanism for balancing job creation and growth of labour supply. To the extent that migration is regarded as an acceptable adjustment mechanism the core of the regional problem lies in those factors which prevent migration from being large enough to eliminate differences in unemployment. Our judgement, shared by most postwar governments, is that net outward migration has proved not to be an acceptable way of resolving regional unemployment differences and that a regional policy is therefore required to raise employment opportunities in depressed regions so as to maintain their population and preserve local communities.

The projections in Chapter 1 also suggested that the regional problem will persist for the remainder of this decade, whatever national economic policies are pursued, and could become more widespread and severe if recession continues. The traditional depressed regions of Northern Ireland, Wales, the North and Scotland will continue to be affected, but they will be joined in the queue for Assisted Area status by the two large industrial regions of the North West and the West Midlands.

Regional policies have already been cut back since the mid 1970s, just when problems became more severe. The regional employment premium and the system of industrial development controls have been abolished. Government spending on regional policy, which reached a peak of £1,380 million in 1975/6 (measured at 1982 prices) has fallen to about £600 million in 1982. Between 1980 and 1982 the map of the Assisted Areas changed radically as regional aid was withdrawn or reduced over large areas of northern England, North Yorkshire, Wales and Scotland. In this way sharply reduced amounts of total regional aid have become increasingly concentrated on the

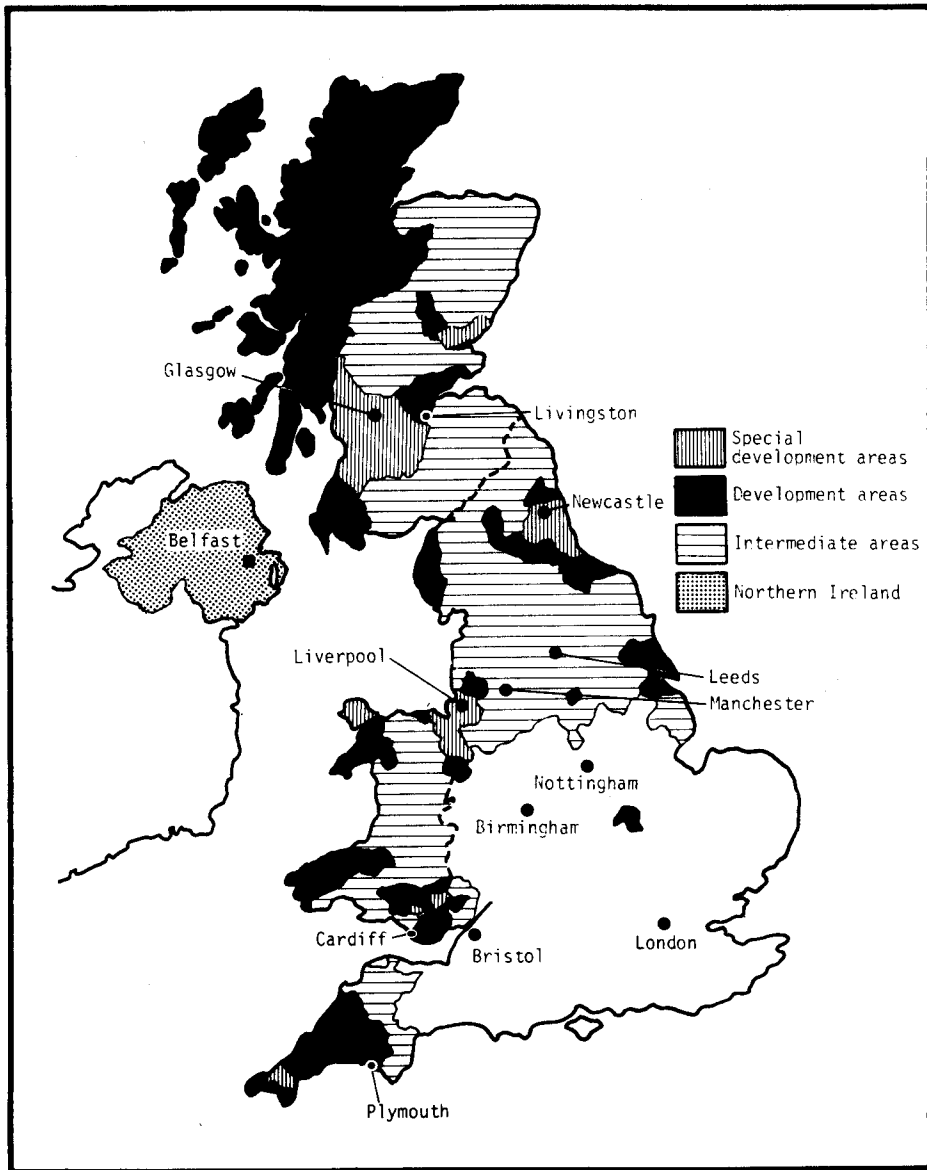
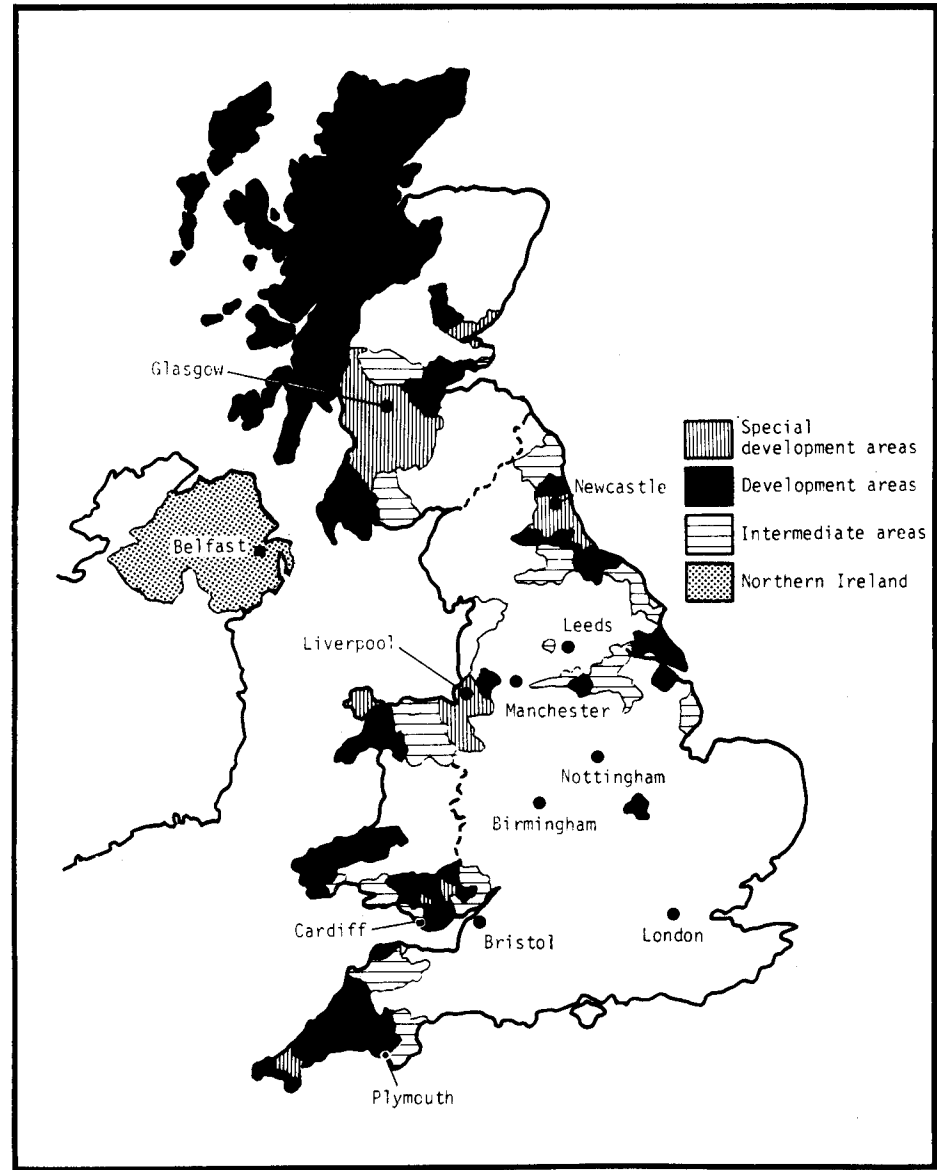


Fig. 4.1 A. The Assisted Areas up to 1.8.80



B. The Assisted Areas after 1.8.82

large conurbations of Merseyside, Tyneside and Clydeside, the urban areas of South Wales and Humberside, and very remote rural areas such as Anglesey, Dartmoor, Snowdonia and the Western Islands and Highlands of Scotland.

Well over half of the present government expenditure on regional aid of about £600 million per annum is devoted to regional development grants. These are capital subsidies automatically paid to manufacturing firms in Assisted Areas which invest in new buildings and plant and equipment. Most of the remainder is devoted to the provision of industrial land and factories in the Assisted Areas and to selective financial assistance which is capital subsidy to manufacturing, though with some employment safeguards. Some £40 million is devoted to the promotion of tourism but only £5 million is spent on encouraging the growth of other service industries in the Assisted Areas.

The present policy stance in the face of a rapidly deteriorating regional situation is therefore: firstly, to incur less expenditure; secondly, to concentrate regional aid in the northern conurbations; thirdly, to subsidise capital expenditure rather than employment; and finally, to limit policy almost entirely to manufacturing which is everywhere in decline or at the very most growing more slowly than other sectors.

The current policy response to the urban problem

Chapter 3 showed that all the conurbations, whether in depressed or prosperous regions, had lost jobs and population rapidly in the postwar period, that high unemployment among inner city residents had been a common feature for at least three decades and that it was getting worse. The inner city problem was defined as the unacceptable social situation of geographical concentrations of disadvantaged groups which, *inter alia*, are prone to high rates of unemployment. These concentrations, which arise as a by-product of the selective nature of urban decline, lead to an unbalanced social structure which, combined with poverty and poor housing, intensifies the worsening problems of social malaise, hopelessness and crime which characterise our inner city areas.

Postwar urban policy can be divided very broadly into three stages. First, for most of the period up to the late 1960s policy was primarily concerned with limiting the growth of the major conurbations, thereby reducing congestion and improving housing conditions. A number of measures were designed to achieve this, notably the use of prohibitive controls such as the well-established Green Belts and the steering of population and employment to New Towns and overspill areas, initially located close to the conurbations. In the second phase, in the 1960s, New Towns were located further away to avoid the problems generated by increased commuting and congestion. Firms were encouraged to move by imposing controls on industrial development,

particularly in London and Birmingham, by establishing quasi-governmental bodies such as the Location of Offices Bureau and by controlling the location of government employment itself. Financial incentives played a minimal role.

By the late 1960s and early 1970s the perception of the inner city problem had started to change and a second stage began to evolve. Increasingly, inner cities were recognised as requiring special policies if those people still living in them were to avoid severe hardship. The Milner Holland Report (1965), the Plowden Report (1967) and the Seebohm Report (1968) all contributed to the changing emphasis in policy. The role of New Towns became less clear. It was recognised belatedly that forecasts of population growth had been far too high and that rising real incomes, improvements in communications and the increased use of motor vehicles were generating a significant slowdown in urban growth quite apart from government dispersal policy. There was also growing concern over the increasing concentration of coloured people in inner city areas. The emphasis of housing policy began to switch away from the mere provision of additional housing and slum clearance to the problem of the poor and deteriorating quality of the existing stock. The 1969 Housing Act introduced General Improvement Areas and in 1974 Housing Action Areas were introduced: areas of acute housing stress where the local authority undertakes action to improve the whole area. However these measures remain minor in relation to national housing policies.

There was, in addition, a growing concern among policy makers about 'multiple deprivation' and 'cycles of deprivation' affecting individuals and families living in the conurbations. Initially resources were concentrated on education and social services. The 1968 Urban Programme was 'designed to raise the level of social services in areas of acute social need'. Neighbourhood-based action research was set up under the Community Development Projects, and Education Priority Areas were also established. Closely intertwined with this perception of the inner city problem was the question of racial concentrations.

It was not until the 1977 White Paper on Policy for Inner Cities that the main focus of attention switched from environmental and social problems to the question of the economic decline of inner cities. This White Paper argued that without the economic problem, the physical decay and social hardship found in the inner cities would be considerably less. In summary the government's proposals were to:-

- (i) Give a new priority to the inner cities in formulating the allocation of the main public spending programmes e.g. education health, social services, housing and manpower policies.
- (ii) Strengthen the economies of inner cities by adapting regional policy. IDCs were to be

relaxed in inner city areas; advanced factories were to be built to let on preferential terms; and local authorities were to be encouraged to foster the development of existing firms in their areas.

- (iii) Secure a more unified approach to urban problems as regards public sector activities rather than the usual functional approach of cutting across established practices in both central and local government. There were to be *new partnership schemes* with certain cities to develop inner area programmes and to unify action for the regeneration of these areas.
- (iv) Extend the urban programme to cover economic and environmental projects and to increase its size.
- (v) Review policies on population dispersal, involving a reduction in the New Town programme and putting pressure on New Towns to take more unemployed, low-skilled and elderly people from the inner cities. Housing policies in inner cities were to be adapted to allow more owner occupation.

The financial commitment of this new major policy initiative was not very large. Expenditure on the existing programme of £30 million a year was to be increased to £125 million by 1979/80.

With the election of the Conservative government in 1979, two new initiatives were introduced. Firstly, London and Liverpool dockland areas were placed under the control of Urban Development Corporations so that large scale redevelopment beyond the capacity of ordinary local authorities could take place.

Secondly, Enterprise Zones were established in 1980 in the more derelict parts of inner city areas. Initially nine zones were designated, each enjoying a number of privileges, the most important being exemption from local authority rates and 100% tax allowances on commercial buildings, but also exemption from Development Land Tax and, to a large extent, from planning controls.

The objectives of the present policy approach towards inner cities which has now been pursued since 1977 have only ever been presented in very vague terms — to bring about regeneration — and never in a way which would enable achievements to be assessed properly. Public expenditure on specific inner city policies has until recently been negligible. Even in 1982, after recent substantial increases, the total sum devoted to the urban programme and the Urban Development Corporations was less than £400 million.

A critique of current regional and urban policy

Existing regional policy is a legacy from the past. The policy was designed in the 1960s in conditions of full or overfull employment in the greater part of the country. It sought to divert economic activity away from the more prosperous areas to the traditionally depressed peripheral

regions. Equity objectives were always important but these were supported by the economic argument that the diversion of economic activity to depressed regions by reducing labour scarcity or inflationary pressure in the fully-employed regions permitted a higher level of national output and employment to be achieved. Any losses of efficiency in firms forced to locate in areas not of their choosing would, it was argued, be offset by output gains arising from increased utilisation of national resources.

Since there is no possibility that the macroeconomic conditions of the 1960s will return in the 1980s, this economic case for policy is no longer relevant. On the other hand, there is a chance that regional policy may attract internationally-mobile projects which make a positive contribution to our trade balance, and that regional financial inducements will encourage manufacturing firms to modernise their plants and product ranges. For both reasons it might, therefore, boost international competitiveness and enable a higher national growth rate to be achieved. However, the social case is if anything more compelling than the economic case because of the significant widening of regional disparities as high unemployment has spread throughout the country.

The designation in the late 1960s of Special Development Areas in which firms were eligible for higher rates of financial assistance relative to Development Areas tended to bias the effects of regional policy in favour of the large conurbations: Clydeside, Merseyside, and Tyneside. The recent descheduling of certain areas eligible for regional assistance has reinforced this bias. This may lead to a loss of efficiency. Since the mid 1950s manufacturing firms have been leaving the conurbations in very large numbers and the major growth of manufacturing employment has been in the smaller towns and more rural communities. There are several reasons for this, but it is clear that congested urban sites have cost disadvantages for expansion, relative to less congested areas, as industry has become more space and capital intensive. Moreover the economies associated with large concentrations of population and industry are not as important as they once were. Insofar as jobs created in conurbations increase inward commuting they mean higher costs for public transport, increased energy usage and additional congestion on roads. If the impact of regional policy is largely on commuting then the inner city unemployment problem on which policy is supposed to be focussed may be left virtually unaffected.

Regional policy has always been concentrated on shifting manufacturing jobs from more prosperous areas to the more depressed areas. Though some attempt has been made in recent years to attract service industries into Assisted Areas and though the government has relocated some of its own jobs, the emphasis on the manufacturing sector still remains. Such a strategy is more effec-

tive when manufacturing employment is growing, as it was in the 1960s, than when it is falling, as it has been since. Growing employment and a high rate of manufacturing investment encourages mobility of industry and in these circumstances regional policy has a much better chance of encouraging potentially short-distance industrial moves to become longer-distance moves to Assisted Areas. Empirical work suggests that as much as two-thirds of the overall effect of policy on regional employment arose from the movement of industry rather than from the expansion of indigenous firms.

There is evidence that automatic investment grants such as RDGs have been consistently effective and continue to be so. However, a substantial proportion of government expenditure on RDGs goes to firms which either do not use the grant to increase jobs or which actually reduce employment. This may happen, for example, if the grant encourages rationalisation, which could in some cases lead to production and employment shifting in favour of non-Assisted Areas.

The present policy stance on the employment problems of inner cities is moving in a direction similar to that of regional policy. The objective now is to stimulate employment growth in inner areas by providing a variety of financial incentives and freedom from planning controls in designated Enterprise Zones, and by improving economic conditions for small businesses. Because the main subsidies are related to floorspace and premises, Enterprise Zones will offer the greatest advantage to businesses with a high ratio of floorspace to value added i.e. warehouses, car showrooms, supermarkets. With the exception of some regionally-mobile service sector businesses such as mail order warehouses, most of this type of business serves local demand so the experiment is likely to lead to only a small redistribution of employment and then largely within a relatively small area.

Our main criticisms of existing urban and regional policies can be summarised as follows. Regional policy concentrates excessively on capital subsidies to the manufacturing sector. Too much subsidy is paid to firms which create few if any jobs in the regions. There is a distinct danger of concentrating aid to firms in locations which are for various reasons inherently unattractive, namely the large urban areas, thereby diminishing the effectiveness of the policy inducements. New jobs created in the conurbations are frequently not filled by unemployed city residents but rather by higher-skilled inward commuters. The public expenditure commitment to regenerate inner city areas remains very modest in relation to the size of the problem. The main general criticism is that the two arms of spatial policy have developed separately in a piecemeal and uncoordinated way without proper regard for developing an overall strategy.

Proposals for recasting regional and urban policies

The process of devising an appropriate set of spatial policies for the conditions and problems of the 1980s ought to start with a clarification of the objectives. With unemployment high in all regions and with regional and urban social and economic disparities widening, several objectives will need to be pursued simultaneously in an integrated package of urban and regional policies. A traditional objective of regional policy has been that of slowing down the relative economic decline of depressed regions and thereby reducing unemployment and net outward migration. No doubt, in a severe recession some elements of such a job-retention strategy will need to be continued. But even in Britain a second, broader objective for regional policy has come more into prominence. This is that of the management of structural change. In this case, regional policy is used to assist economic and social development in each region. It goes beyond giving the traditional range of financial incentives for manufacturing firms to embracing intervention in sectors, industries or individual firms, the promotion of small firms, the provision of venture capital, training, research and development and the provision of environmental and social amenities, including housing. The work of the Development Agencies provides, perhaps, the best example in Britain of this wider and very important development.

The third and final objective is that of tackling the problem of unemployment, social deprivation and decay in all our major inner city areas. The question of whom the jobs are for is particularly relevant in devising spatial policy for the 1980s, and one which hitherto has not been properly considered. Until it is, the low-skilled and otherwise disadvantaged groups in the inner city areas will not be the main beneficiaries of new jobs and will consequently suffer persistently high rates of unemployment.

The essence of our preferred strategy is to increase employment in or near the conurbations of the depressed regions in such a way as to help the process of industrial regeneration and national recovery whilst at the same time ensuring that a substantial proportion of the benefits of the policy accrue to unemployed inner city residents. With this broad objective in mind we suggest the following policy changes.

Regional policy

A reform of the system of regional development grants, which subsidise large capital-intensive projects that do not always create jobs, should be introduced to limit the cost per job. This could produce savings of £100 to £200 million in the present budget to be deployed more cost effectively elsewhere within the overall strategy.

Since manufacturing industry may well con-

tinue to shed labour in the 1980s, or at least not provide many additional jobs, almost irrespective of how rapidly output grows, regional policy for the 1980s requires more emphasis to be put on the service sector. In the early 1970s the scope for diverting mobile service jobs to the Assisted Areas was recognised by the introduction of the Office and Service Industries Grant Scheme. Under this scheme special grants are available to services and to other activities which create additional employment in Assisted Areas, so long as there is a genuine choice of location and the financial aid is necessary to enable projects to go ahead. During the year 1980/81, £5 million only was spent on 42 projects involving an estimated 2,560 jobs in the Assisted Areas (see Annual Report of the Industry Act, 1981).

There are strong grounds for strengthening this scheme. Firstly, the grants currently rise to a maximum of only £8,000 per job created and the nature of the scheme means that most of these are net additional jobs to the Assisted Areas. By contrast the exchequer cost per net job created in manufacturing industry by regional policy of the more traditional kind is of the order of £30,000 per job, and for capital-intensive manufacturing projects which qualify heavily for automatic regional development grants on capital expenditure the exchequer cost per job created can exceed £100,000.

Secondly, business service employment is heavily concentrated in the South East at present. In 1981, it had about 8 jobs in business services per 100 population of working age as compared with a national average of 4.6. If only one third of the 'above average' element of South East business service employment were genuinely mobile this could provide about 100 thousand jobs for more depressed regions. This is more than the manufacturing jobs likely to be diverted to the Assisted Areas by 1990 on present policy. This could be reinforced by the diversion of public sector employment away from the South East, where there are 200 thousand more jobs than warranted, to those regions where employment is currently well below the national average.

Over the years there have been several programmes to decentralise central government office employment from London. Many of the dispersal schemes have been highly successful in both cost and human terms in spite of initial opposition on the part of London-based staff, and many thousands of jobs have been dispersed. In recent years the dispersal programme has ground to a halt mainly because of staff opposition, although the experience has always been that staff who do move reluctantly, come to prefer a decentralised location and would not consider moving back into London. There are still many central government office jobs which are not tied to a London location and at least some of these should be considered within a new dispersal programme spread over a ten year period. All the evidence points to this as being a highly cost-effective way of easing the

employment situation in those regions which are de-industrialising most rapidly.

The government could also ensure, as it has in Northern Ireland, that regions with below average employment in social services (in health and education in particular) are brought nearer to the national average. This could be achieved through modest adjustments in the continuous process of public expenditure planning.

Financial assistance to the service industries should not necessarily be limited to potentially mobile producer and government services. Employment in new private consumer services, such as leisure facilities, has grown rapidly in both the UK and the USA in recent years and will almost certainly continue to do so in the future. These might be stimulated in areas of high unemployment, especially inner cities.

As a contribution to the long-run regeneration of both service and manufacturing industries in the depressed areas, the grants currently payable to unemployed people wanting to start new firms (the enterprise allowance of £40 per week for one year) should be extended to provide a larger grant over a longer period and to cover the employed as well as the unemployed in all the Assisted Areas. The scheme is currently on trial in five pilot areas across the country. At the moment applicants must provide £1,000 of their own capital for a scheme which the government deems to be viable. This viability criteria ought to be interpreted with flexibility to enable grants to cover a period of training.

It is time that at least part of the West Midlands region was designated as an Assisted Area. The region has received support in recent years through national industrial policy aid to British Leyland, which is planned to be phased out in the mid 1980s. More generally, the West Midland engineering industries which have suffered severely from international competition must be regenerated. At the same time Birmingham's inner city problem has to be tackled.

Regional policy assistance of the traditional kind also needs to be continued in the older conurbations of the depressed regions of Clydeside, Tyneside and Merseyside as part of a strategy of modernising and slowing down the decline of manufacturing firms, which should also include policies by local authorities to help indigenous firms to acquire sufficient land to enable them to stay in their present locations whilst maintaining their employment. Local authorities could also perform a useful function in providing premises for newly-established small firms. But since urban areas are not the most efficient locations for most manufacturing firms the Assisted Area boundaries should not be tightly drawn but should include outer areas. These should be areas in which industrial costs are low, public infrastructure is already provided and land for industrial development is readily available. There should also be good lines of communication with the inner city areas. The aim of the growth

zone element in the strategy would be to provide a focus for new industrial development in each depressed region, to help existing industries to re-structure and develop new products and to encourage the region's growth industries to expand.

Urban policy

The proposals made above for giving greater emphasis to service industries could be given an urban as well as a regional dimension. Because service industries are less space-intensive than manufacturing industries they can operate more efficiently in inner city areas. Service industry schemes could therefore be concentrated on the inner city areas of Birmingham, Merseyside, Tyneside and Clydeside rather than being uniformly applicable to all parts of the Assisted Areas.

One of the weaknesses of current urban policy is that it makes no attempt to ensure that at least some of the new jobs created in or around the conurbations are filled by unemployed inner city residents. Evidence suggests that inward commuters from outside the conurbations 'crowd out' the inner city residents. To encourage employers to recruit a higher proportion of their labour force from amongst inner city residents, a marginal subsidy could be introduced for firms recruiting from inner city areas employees previously on the unemployment register. This scheme could be designed to help employers improve the skill and job experience of inner city residents.

Other policy measures could be introduced to give inner city residents a better chance to compete for work on the city outskirts. At present commuters into inner London have their commuting costs largely offset through the London salary weighting system, but inner city residents working in outer city areas get no such subsidy.

One social programme which has met with some success in the United States is the Job Corps Programme, although it was not aimed specifically at disadvantaged young people living in inner city areas. The programme aimed to provide young people between 16 and 21 years of age with a comprehensive package of residential support, remedial education, vocational training and various other services. To be eligible, trainees had to be from poor families and in need of additional education and training to secure employment or continue schooling. They also had to be living in a deprived environment: in a broken home, or a poor community. Initially over one hundred residential centres were established but by the mid 1970s this number had been reduced to about 60, with the majority providing accommodation and training for between 100 and 250 persons, though a few were much larger. Although the programme has not been an unqualified success, its achievements are widely seen as considerable and the experiment provides an

important example for the UK.

The opportunities for inner city residents to move out to other places could also be improved. Administrative changes could be made to enable easier access to public sector housing in other local authorities. Access to owner occupation could be increased by relaxing the criteria for obtaining mortgages. A disproportionately large number of inner city residents are precluded from getting mortgages either because they are unemployed or because they do not earn enough. Local authorities already provide mortgages for those who have difficulty in obtaining building society or bank mortgages but because of fairly stringent eligibility criteria they bypass many of those most in need. Increased access to home ownership would also go some way to correct the present bias in favour of public sector housing in many inner city areas.

A further aspect of urban policy relates to the provision of public services and the Rate Support Grant. Partnerships and Urban Programmes represent an explicit acknowledgement on the part of central government of the special needs of inner city areas resulting from poverty and high levels of multiple deprivation. However, because the cost to inner city authorities has to be kept within government expenditure targets, other local authority programmes have to be cut to compensate.

The distribution of the Rate Support Grant, the major instrument for tackling the problem of divergencies between the need for public services and local resources, could be improved in a variety of ways to deal with inner city problems. In particular, there could be more discrimination in the distribution formula used, in recognition of the extra pressures created by concentrations of economic and social problems.

Two of the specific suggestions for reform would involve significant reductions in public expenditure. An appropriate cost per job limit for regional development grants could save as much as £200 million a year. Moreover, achieving a greater degree of balance between public and private sector housing in inner city areas should reduce rather than increase public expenditure. Funds could also be diverted from the vast array of youth opportunity and job creation programmes which have been allocated a budget for 1982 of £1,800 million, far more than all regional and urban policy measures put together. Spatial policy shares the same objective of reducing unemployment; it could if desired be aimed at the young in just the same way, and its cost effectiveness is likely to be at least as high, if properly designed and coordinated.

The changes we are proposing are intended as steps towards an integrated strategy for spatial policy which has regard simultaneously to urban, regional, and national economic and social objectives. As a strategy it would go well beyond giving subsidies to manufacturing firms in that it includes policies for other sectors such as services and housing and aims to create jobs for specific groups

of people. The formulation and implementation of such a strategy would require close coordination on the part of several government departments, local authorities and various government — and indeed private — agencies in order to minimise

conflict between the different strands of policy at the regional and local level. In Chapter 5 we discuss the institutional problems to which this gives rise.