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Regional Economic Policy in the U.K.



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# REGIONAL ECONOMIC POLICY IN THE U.K.

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# INTRODUCTION

The history of regional policy in the United Kingdom is rather like that of a man with a grumbling appendix. Every now and again he feels acute pain and is forced to take a batch of medicines. Although his condition improves, he is never quite sure which of the medicines on their own or in combination with others, actually did the trick. However, at least he can forget about his discomfort and can turn his attention to other more pressing affairs. Then, sadly, once again his pain returns. This time he changes the doses and hastily adds a few new medicines to his treatment. The new combination seems to work and once again he feels confident that the problem has been solved. Sadly, disillusionment is just around the corner.

Over the forty years during which British governments have sought to narrow inter-regional inequalities in employment opportunities, incomes, social service provision and environmental quality, this ebb and flow of concern -- the one bringing grateful detachment, the other political recriminations and frantic searches for new policies -- are only too apparent to even the casual observer. However, despite these ebbs and flows, the long-run trend is unmistakeable. Thus the three major political parties (the Conservatives, the Socialists and the Liberals) accept that the problems of restructuring the older industrial and largely peripheral northern areas -- where the industrial revolution first bore fruit -- have not been solved, and all are committed to powerful measures and large expenditures to improve their economic performance. In addition, all political parties, though with varying degrees of enthusiasm, accept the need to control the rate of development of the relatively prosperous core or central regions of the South and West Midlands of England with the overall objective of steering some new growth to the lagging peripheral areas. As a result of this continuous and continuing concern, the U.K. has developed a battery of inducements and controls which clearly have affected the spatial incidence of the demand for labour and, in consequence the level of employment in, and the rate of out-migration from, these peripheral areas.

It would be naive and quite erroneous to detect a pursuit of national efficiency as the major justification for national measures to aid the peripheral regions. Whether in the form of curbing London's stranglehold over decision-making, the pursuit of a "work-to-the-workers" philosophy, or in the blatant exercise of provincial bargaining power over the siting of public enterprise activities or central government facilities, equity arguments are constantly in evidence. On this level the regional problem consists of grievances, often ill-defined, but acutely felt, which shower upon the heads of the government in the form of claims for the right to work, or the right to a secure future or the right to a given standard of social service. Equally the response to such claims is directly political and usually *ad hoc*.

It is not difficult to see why these grievances tend to meet a ready response amongst politicians of the Labour and Liberal Parties. McCallum (1973) has pointed out that in the 1970 general election Labour held 107 out of the 156 seats in the areas of greatest distress (the development areas) and no less than 25 out of the 32 seats in the areas which are showing symptoms of economic lag (the "intermediate areas"). Similarly, the Liberal Party, which won 6 seats has the bulk of its Members of Parliament in development area constituencies.

The commitment by the Conservative Party to regional policy is slightly more difficult to explain. The general election results showed that the Conservative power base was overwhelmingly outside of the lagging regions. Thus they held almost two seats for every one held by Labour outside of development areas and intermediate area constituencies (281 Conservatives:156 Labour seats). It is, however a matter of fact that in the last phase of the Macmillan administration (1957-1964) a series of powerful regional measures was introduced after a period during the fifties of weak regional policy. (McCrone, 1969). Similarly the Heath government (1970-1974), though originally professing a desire to disengage from activity which should more appropriately by left to private interests, and claiming that regional inducements should be tied more closely to performance, responded to high absolute levels of unemployment in the peripheral regions in 1971 by the introduction of a substantial package of regional inducements, many of which were not tied to performance. It also committed very large resources to propping up employment in sectors and companies which on strict market criteria should have been liquidated. Once again it seemed that no central government was prepared to countenance marked inter-regional variations in unemployment, nor, as we shall see, a policy of bringing workers to the work.

And yet, although political pressures give regional policy its main justification and its ever-changing vitality, efficiency arguments are never far beneath the surface. There are two possible meanings of efficiency in this context. The first is concerned with questions of how to devise regional policies which maximise the growth in real G.N.P., probably with a long-term perspective in mind. The second is concerned with using public resources and public policies in such a way that the goals of regional policy are achieved efficiently. This might imply a rule of minimum social costs for the achievement of a given "quantum" of regional goals. It is with both of these types of efficiency arguments that this chapter is primarily concerned.

## The Causes of the Regional Problem

Viewed from an economic point of view the starting point is a persistent tendency towards disequilibrium in the inter-regional labour market with some regions operating at a level of unemployment significantly short of the full employment position despite continuous outflows of labour and other regions suffering persistent labour shortages despite continuous labour in-migration both from within the country and from overseas. The consensus is that the basic cause of this problem is found in inter-regional differences in the structure of industry and the differing increase in the demand for labour region-by-region, which is derived from this differential structure of activity. There is, however, a growing acceptance that in particular regions, structure may not explain everything and that performance deficiencies in particular sectors may contribute to a low growth or even decline in jobs. Another accepted cause is the relatively high rates of natural increase in precisely these regions of job lag. The consequence of all of these factors is that in the peripheral regions the employment declines and their inadequate replacement by growing sectors causes a slower growth in the demand for labour than in the supply of labour. Surpluses of labour grow and persist. By contrast, the central or core regions, which capture the bulk of the fast growing manufacturing and service sectors, experience a growth in demand for labour which exceeds the available sources of local labour supply.

In these circumstances labour, and inactive population, tend to flow out of the peripheral regions and into the fast-growing regions. A reverse process, that of capital flowing to the regions of labour surplus and away from the regions of labour scarcity, is also set in motion. However, even in conditions of a high aggregate level of demand, these equilibriating mechanisms are never powerful enough to prevent persistent regional imbalance. This occurs largely because there are frictions which prevent adequate inter-regional flows to labour and of capital. With labour the major constraint is the broad degree of regional uniformity in wages for given skills achieved by nationally-organized trade unions. Thus, regardless of differences in productivity, cost-of-living or demand and supply conditions, wage rates within the lagging regions tend to follow the pattern set by bargains made in national negotiations or in the core regions. This effectively restrains the outflow of labour from the lagging regions and removes an obvious inducement which could attract large flows of capital to such regions. In terms of capital mobility, moreover, the possibilities of achieving an <u>adequate</u> rate of return within a lagging region may be clouded by personal prejudice or insufficiently obvious when set against personal preferences for the known locale. In any event capital may not flow into the problem regions on a scale sufficient to restore equilibrium. Thus, in the absence of any mechanism for adjusting regional factor prices, the structure of economic activity changes all-too-slowly and labour market disequilibrium persists. (McCrone, 1973)

In some circumstances, and apart from the social and political problems associated with marked disparities in employment conditions, this kind of intra-regional disequilibrium would not present a serious economic problem if

a) the absolute volume of unemployment and underemployment in the peripheral regions was small

b) the natural growth in labour supply within the core regions was relatively large

c) there were large reservoirs of low productivity agricultural labour which could be drawn into higher productivity activities within the core regions.

None of these conditions apply to the U.K. As we shall see the peripheral regions contain large reservoirs of unemployed labour, the growth in labour supply in the economy as a whole is expected to be only 3% between 1967 and 1981, whereas population is expected to grow by 8%,[1] and there are now no substantial reservoirs of agricultural labour available for transfer to urban-based activities. It follows that the reserves of labour which exist in the peripheral regions represent a valuable resource which if drawn into employment could make a substantial contribution to national employment and national output.

There are three alternative strategies by which this spare labour capacity could be absorbed into national production. The first is to permit unconstrained output expansion in the areas of labour shortage so that earnings for given skills are raised and migrants from the problem regions are sucked into these fast-growing regions. This movement could be stimulated by information, cash allowances or other inducements to the migrants. A second alternative is to force activities to decentralize from major centers within the core regions either by physical controls of one kind or another or through a use of taxes, fees for development and so on. The new location pattern may encourage short distance movements of labour from the surplus labour areas. The third alternative is to devise policies which directly raise the level of demand for the resources of the problem regions at "source" so that unemployment is reduced, out-migration is curbed, and the structure of economic activity is adapted.

Post-war governments' almost total preference for the second and third courses of action have been buttressed by a number of critical tenets of economic wisdom.[2] The first argument concerns the generation of inflation. If the demand for labour within the core regions is expanded rapidly, then it is assumed that migration from the labour surplus areas would not increase markedly in the short-run. In conditions of a relatively inelastic supply curve of labour large wage rate and earnings increases would be inevitable. These increases would then be spread quickly by nationally-organized trade unions to all other regions of the country including the labour surplus areas. The obvious result would be that the marginal increment to national output could only be achieved with a very large marginal increase in labour costs. In contrast a similar expansion of demand for labour in the surplus areas would not be inflationary, since there would be a far greater elasticity of labour supply at existing wage rates. This argument has frequently been used to justify control of industrial development in the inflation-generating regions.

A second set of arguments concerns the long-run effects of encouraging increased migration out of the labour surplus areas and into the core regions. Whilst it is reasonable to expect that most migrants would be economically better off as a result of their move, their improvement in welfare would have to be set against losses incurred by others. For example, net-outmigration would cause a reduction in expenditure upon local goods and services (i.e. non-basic production) and these negative multiplier effects could depress factor incomes and possibly employment levels. Moreover out-migration may result in an under-utilization of social and economic overhead capital within the population-losing areas and a duplication of capital in migrant-receiving areas. Over the longer run too, persistent net out-migration may be discriminant in that it creams off the most talented and vigorous sections of the labour force. Obviously given the size of the "standard regions,"[3] the flows in and out, are liable to be on a large scale. However, the assumption here is that the population-losing regions are liable to lose more from out-movement than they gain from in-movement of the highly productive sectors of the labour force. If this is indeed the case, then the labour surplus areas are liable to have a diminished capacity for entrepreneurship and, *ceteris paribus*, a diminished appeal to mobile enterprises seeking reserves of proficient labour. Viewed from the fast-growing regions on the other hand any further in-migration is liable to increase the unwanted externalities of growth, such as traffic congestion, noise, air and water pollution and possibly environmental decay. More specifically, migration into London and Birmingham, which are assumed to have reached an excessive population size, could complicate the problems of dispersing population to planned overspill and new town settlements in the respective outer metropolitan areas.

The final and most critical assertion is that every major surplus region is urbanized, industrialized and accessible to every region, has a labour force of broadly equal productivity (after training) for any given skill and is open to the flow of general technological information and, more particularly to knowledge on the "best practice." Accordingly, since the heart of the regional problem is how to adjust out-dated industrial structures, each problem region possesses the necessary attributes to make this reconstruction possible and successful. This means that over the long run the bulk of British manufacturing capacity can operate just as profitably within the labour surplus regions as in the core regions. It follows that the use of government subsidies to encourage an inflow of capital to the problem regions, need only cover the short-run. Such subsidies are assumed to be needed partly to overcome ill-informed business prejudices or lack of information, partly to cover the real short-run costs of settling-in and partly to compensate for the short-run costs of an environment weak on specific or industry external economies. However, as these new industries expand and internal and external economies of scale are reaped, then continuing state support will become unnecessary. Of course, there is every reason to use subsidies to stimulate increments of expansion of the efficient firm once it is well established within the problem region. The objective here is simply to improve the rate of return from producing within the labour surplus areas relative to other unassisted areas, with the hope that this will result in a bigger share of expansion projects being undertaken in areas of labour surplus than would have occurred without the subsidies.

Therefore on all of these grounds -- the more elastic supply of labour at existing wage rates, the relatively greater supplies of social and economic overhead capital, the possibilities of output expansion without unwanted externalities and the underlying conditions for competitively efficient production -- the assertion is that a given increment to national output can be achieved at a lower social cost by expanding the demand for labour within the labour surplus regions rather than within the core regions. Similarly over the long-run such a policy can avoid the process of cumulative decline which is assumed to accompany persistent out-migration of the most talented.

In a later section we will attempt to evaluate the validity of these assertions but first we must provide some measures of the extent of the regional problem.

## The Dimensions of the Regional Problem

Despite thirty years at, or close to, national full employment in which the annual unemployment rate has ranged from a low of 1.1% in 1955 to a high of 3.8% in 1972, certain of the peripheral regions (called officially development areas) have suffered persistently high unemployment, low female activity rates, relatively low per capita incomes, persistent net losses of population from out-migration and severe environmental decay. All of Northern Ireland, and the bulk of the two other celtic regions, Scotland and Wales, together with parts of the north, north-west and south-west regions of England tend to display all or many of these symptoms of economic distress. Taken together these areas contain more than 20% of the U.K.'s 55-1/2 million population, a roughly equal proportion of its 24 million labour force and 40 per cent of its land area.

Another type of problem area -- often referred to as an intermediate area, since it is neither prosperous nor in deep economic distress -- shows all the signs of incipient economic difficulties. Here the symptoms are relatively low income growth, out-migration and environmental decay and a general economic climate which does not seem conducive to new investment and a broadening of narrow economic structures. If these areas -- which are largely concentrated in parts of Lancashire and the mining areas of South Yorkshire and North Derbyshire are included in the problem category, then no less than 44.0% of the U.K.'s population is covered.[4]

In the development areas, unemployment rates typically run 50% to 100% above the national rate. (Table 1) In contrast the South-East has unemployment rates persistently and substantially below the national average. There is nothing ephemeral in this situation. Indeed the persistency of the problem is shown by the fact that the regional rank order of unemployment rates has remained unaltered during the last fifty years. (Brown, 1968)

The principal cause of this relatively high unemployment is not to be found in seasonal factors, labour market imperfections or the incidence of unemployables. In large measure differences in unemployment levels, region-by-region, can be attributed to differences in the pressure of demand for labour and to a lesser extent to differences in natural increases which affect the supply of labour.[5] As a result the growth in the employed labour force in the last 50 years has varied markedly region-by-region. For example, Table 2 shows the marked disparity between the growth performance of Northern Ireland, the northern group of regions and Wales between 1921 and 1961 as contrasted to the Southern and Midlands regions group. In Northern Ireland, Wales, Scotland and the North West of England, there was either an absolute decline or a stationary condition, whereas all of the Midlands and Southern group expanded their employed labour force markedly. Though these disparities in employment growth have been somewhat more muted in recent years, they still persist as Table 3 shows quite clearly.

Estimates of the number of unemployed workers actively seeking work who would require to be employed before every region contained only unemployables or those affected by seasonal or frictional factors, have varied enormously. However, as a minimum 100,000 jobs would have been required in the late 60's to achieve this goal.

Accompanying high unemployment in many regions is a low regional activity rate, especially for females. With a national activity rate of just under 40% in June 1968 for example, only 30% of the females aged 15 and above were in the labour force in Wales whereas no less than 43% were economically active in London and the South East. (Table 4) Given this degree of variation one estimate has indicated that if every region had its age specific activity rate raised to that of the highest attained anywhere within the nation then nearly 900,000 women would be added to the 8.8 million women in the 23 million labour force. (Brown, 1972, p. 214)

Generally speaking the development areas not only suffer from a persistent under-utilization of their human resources, they are also the poorest regions. Certainly by comparison with many other advanced countries the differences in real consumption per head are not great and, if we exclude Northern Ireland, only range from a high of 7% above the national norm in the South East to 10% below in the Northern region (Table 5).

This narrow range is largely due to a high degree of uniformity in regional gross product per head. Although this tends to have a wider range than that of real consumption with a low in 1961 of 85% of the national figure in Wales and a high of 115% in the South East, this range is further narrowed by progressive taxation, central financing of the social services and a relatively low cost of living in many of the development areas as compared to London.

Apart from the effects on the environment of dereliction and industrial obsolescence, of major concentrations of slum dwellings which once housed the artisans of the burgeoning Victorian cities and the limited range of services appropriate to relatively low incomes, the final indicator of development area malaise is found in the net migration trend. Three powerful processes are at work shaping the spatial distribution of British population. Of longest standing is the transfer of rural population to cities and small towns. This has occurred and continues to occur throughout every region but quantitatively it is largely a spent force. The U.K. now has one of the smallest agricultural and natural resource based populations in the world. For example, only 3.0% of the labour force is now classified as engaged in agriculture and forestry. The second major process is the dispersal of population out of the central cities of the major conurbations and into the outer conurbation areas. In part this reflects the scarcity of land within the central cities and the consequent spread of suburbs across central city boundaries, in part the necessity for new and expanding population settlements to occur outside of the "green belts," many of which have been given statutory enforcement. However in addition to these largely private movements, there are also large movements of population and of industry under planned over-spill schemes typically to "close-in" new towns and expanded towns though sometimes, as in the case of London, to centres as much as 100 miles away from the origin of the migrants.

The final, and from our point of view, the most interesting process is the migration from the north to the south of the country. Between 1961 and 1966 over 2 million people moved across regional boundaries and changed residence. In terms of net flows, the figure was 200,000. Approximately half of these net flows consisted of gains made by the South West and East Anglian regions of England at the expense of the South-East. In contrast, the South-East gained almost 28,000 from Scotland. As Brown has noted

> ...Scotland shows net emigration to every other British region, the North to every one except Scotland. There is a general tendency for each region to receive from those to the north of it and to give to the south as if they formed a cascade, until at the bottom, the South East's outflow surges into its westerly and north-easterly neighbours and even splashes into the East Midlands. (Brown, 1972. p. 80-81)

Taking internal and external migration together, the four regions north of the Trent[6] tended to lose 50,000 people per annum over the period 1961-1966 whereas the rest of Britain was gaining over 75,000.

A number of points should be noted about this North to South migration pattern. It is clearly of long-standing since it has occurred during periods of mass national unemployment as well as in the period of post-war full employment. Nevertheless, since the war no region has actually had a declining population. Apart from Scotland, where the net migration losses are very severe and almost equivalent to the natural increase, the internal growth in population in every other peripheral area has been approximately three times greater than the net migration loss. (Table 6) Indeed, the actual gross movements of population across regional boundaries is, by the standards of most other countries on a very limited scale with approximately 1-1/2% of the population crossing regional boundaries in any one year.

As a result of this relatively limited amount of inter-regional migration and the above average rates of natural increase in the two regions with the most serious losses of population from migration (Scotland and Northern England) the actual share of each region in total national population has changed very little in the last 50 years. Recent official projections point to a continuation of this relatively slow process of regional population adjustment, for even the region with the most sizeable proportionate drop in population (Scotland) is expected to have three quarters of a million more people residing in it by 2001, than the five million it had in 1951 (Table 7).

In sum, the differences in welfare across the British regions are small; rural depopulation has already occurred to a very great extent; the domination of the primate city has declined at least if measured in terms of population and despite inter-regional migration processes which constantly shape the balance of population in favor of the South-East, the South-West, East Anglia and the West and East Midlands; the overall regional changes in population distribution, both historically and forecast, are on a modest scale. However, a high level of unemployment, in some regions low activity rates and generally appalling environmental conditions, create a continuing need for active measures to improve regional economic performance and the regional physical environment.

## National Goals for Regional Growth

For reasons which are largely related to a desire to leave policy objectives as fluid as possible in the face of Britain's seemingly endless struggles with balance of payment deficits, rampant cost inflation and puny private investment, both Labour and Conservative governments have resolutely shunned giving precise specification to the goals of regional policy and neither have shown any willingness to set quantified targets. Thus vague terms such as the prevention of regional imbalance, the regeneration of the regions and so on are in common parlance. Nonetheless a careful reading of legislation, parliamentary debates and government statements on regional development shows quite clearly that the implicit goals are a reduction in the unemployment levels and an increase in activity rates of the peripheral regions. The slowing up of the drift of population out of the northern regions and into the south-east appears to be a complementary goal. Per capita income convergence is never specified as a goal presumably because it is assumed that employment growth in the peripheral regions will occur in growing industries and that this by itself will mould the income-generating characteristics of these areas to correspond to that of the nation as a whole.

It is crucial to stress the totally unquantified nature of these goals. In forty years of regional policy, no <u>central government</u> has publicly announced targets for the number of jobs to be created in all the problem regions over a specified future period. Similarly although there are frequent regional population projections[7] which necessitate interdepartmental agreement on inter-regional migration assumptions, and a never-ending stream of official plans for regions, sub-regions and metropolitan areas, which include population assumptions, there are no regional population targets laid down by central government. This philosophy of non-quantified goals can best be captured through the words of Anthony Crosland then Secretary of State for Regional Planning in the Labour Government (1964-1970)

> I do not believe that...a case has been made out for precise regional population targets although all governments have formed the view that we want to stop the drift to the south-east. I believe we have not got the quantifiable factors which would lead us to set targets. We do not want to stop inter-regional migration. We live in a democratic society...where people are free to move from the places where they live...and there is no region which cannot cope with a very considerable increase in population... [8]

Clearly this suggests that central governments tend to see no insoluble physical difficulties in accommodating the expected natural population increase of each and every region within regional boundaries. Moreover, although central governments have shown a preference for reducing the drift of the population from north to south, this is not seen as requiring precise migration and population targets for every region.

This desire by central governments to retain open-ended targets has been re-inforced by the weakness of planning institutions at the regional level. In 1965, the newly-elected Labour Government, created a nationwide set of Economic Planning Councils and Economic Planning Boards, within the eight planning regions of England, and within Scotland and Wales. The Councils which are not elected by the "local" population but appointed by central government tend to be Councils composed of private citizens, public officials, trade union representatives and leaders of industry, all of whom are supposed to represent the key sectors of regional society. The Boards, on the other hand, consist of senior government officials who direct a ministry's activities at the regional level.

When first established it was expected that these councils, with the assistance of the boards, would formulate long-term regional development strategies which could inform and help mould the medium and long-term plans of the central government for each and every region. Over the longer run it was anticipated that these institutions would be the first building-blocks in the creation of elected regional governments which would remove much of the planning and decision-making from London. (Brown, Lord George, 1972)

The development of these institutions (which still exist) has been fitful. Their early strategies varied enormously in style, content and sophistication and there is no unequivocal evidence that the central government took particular notice of their conclusions. Certainly, as their sophistication has grown, the councils have played a useful role in evaluating government proposals for given regions and the boards have provided a needed regional forum for the exchange of information across ministry frontiers. But these are minor achievements. The reality is that the Labour Government lost interest in the idea of powerful regional institutions. The last Conservative Government saw fit to follow this same attitude. Thus the councils remain purely advisory bodies, have limited financial resources, lack legitimacy in that their members are not elected and have no rights to openly question central government decisions affecting a given region.[9] The result is that the real power over resource allocation, spatial planning and inducements, still rests at the centre and especially in the Treasury, the Department of Trade and Industry and the Department of the Environment.

## The Nature of Government Measures

### Area Designation

Ever since the Town and Country Planning Act of 1947 successive central governments have used a "carrot and stick" approach to encourage private enterprise to help solve the problems of the peripheral regions. The carrots consist of a whole range of incentives backed up by a huge range of government actions, which seek to raise the level of investment and the demand for labour within the lagging regions. The "sticks" consist of controls over new industrial and office buildings in some of the full-employment regions with the explicit objective of diverting some capital and enterprise to the problem regions.

Given this system of positive encouragements to growth and negative controls upon growth, the designation of areas into an assisted or controlled category is a crucial first step in a process which ultimately affects the spatial disposition of government resources, the spatial incidence of private investment and the level of consumption, employment, and growth in the different regions.

The spatial building blocks are the ten economic planning regions -- first designated in 1965 -- which are used as the basis for all regional administrative machinery, for regional economic planning and for the sub-national evaluation of government strategies which may affect the regions. Eight of these regions are in England, and Scotland and Wales make up the two other regions. Northern Ireland retains a large degree of planning and expenditure autonomy and is, to all intents and purposes, a separate entity (Map 1). Of these ten economic planning regions, only the

South East of England and East Anglia do not have any areas in which some forms of special government development assistance is available. In parts, or in some instances, the whole of the other regions, varying types and levels of assistance are on offer. Four different gradations of assisted area are currently used and these are listed in ascending order of available assistance and more generally of severity of economic distress (Map 2).

(i) Derelict Land Clearance Areas

In areas where severe despoilation of the environment from mining or industrial working is currently creating difficulties in attracting and developing new sources of employment, the central government covers the bulk (75%) of the costs incurred in approved clearance schemes. The northern parts of both the West Midlands and East Midlands are specifically covered by this designation.

(ii) Intermediate Areas

Large parts of the north of England show many signs of incipient economic distress. Typically their economic structure is narrow, their physical environment is poor, income growth is lagging and out-migration is a constant drain on population growth. The limited range of inducements and assistance presently on offer in three areas (which cover all of the North West, Yorkshire and Humberside regions, parts of the South West, the South-East and northern coastal strip of Wales and Edinburgh in Scotland) are designed to encourage new industrial building, retraining and training of labour and derelict land clearance.

(iii) The Development Areas

Development areas, which represent the hard core of the regional problem, are primarily designated because of their level of unemployment.

Here the full range of incentives and assistance are on offer. Currently, the whole of Scotland apart from Edinburgh, the whole of the Northern region of England, Merseyside, the bulk of Wales and a large part of the South-West region are development areas.

(iv) The Special Development Areas

Within parts of the most northerly development areas (Northern England and Scotland) and in the valleys of Wales, the expectation is that severe unemployment will persist. In these special development areas, which originally embraced worked-out mining areas but now take in two major industrial areas in Scotland (Clydeside and Dundee) and in the North-East of England (around Newcastle and Sunderland) the highest rate of development grant is paid.

Taken together, these areas embrace almost half (48.2%) of the British population of over 54 million. Thus, in mid 1972, 4.0% of the population was in Derelict Land Clearance Areas, 21.7% in Intermediate Areas, 14.1% in Development Areas, and 8.4% in the Special Development Areas.

Government Controls and Assistance

a) Controls

Outside of development areas and special development areas, all new industrial building or extensions to existing industrial buildings of more than 10,000 square feet in the South East and 15,000 square feet elsewhere, are subject to administrative scrutiny both by the Department of Trade and Industry and by the local planning authority. Before such developments are approved an industrial development certificate (I.D.C.) is required and this can be refused if the production company "could reasonably be expected to set up in an assisted area...and, or...is likely to add appreciably to existing pressure on resources principally on labour, in an area of labour shortage."[10]

In this system of control the onus of proof rests upon the company (whether British owned or foreign-owned) which must show that its long-run efficiency and, or, its export competitiveness, would suffer if it was diverted to a development or intermediate area. This proof must be based on calculations which include the benefits of the government inducements associated with development in the assisted area.

Office developments in London are also subject to control through an office development permit system. Proposals to erect offices are scrutinized against the criteria of whether the development "would enhance London's prospects as an international financial and commercial centre."

b) Government Assistance

The central government seeks to favor the development of the assisted areas in four ways. The most obvious is the host of financial inducements aimed at encouraging private investment and an expansion of the demand for labour within these areas. A second method is through the disposition of spatially discriminant government expenditures on both capital and current account. The third and fourth methods use the location of government offices and the nationalized industries to favor the assisted areas.

Assistance to Private Enterprise

In the post-war period the British method of encouraging private enterprises to help meet the government's objectives for the assisted areas has never included direct tax reliefs or tax holidays. Instead varying combinations of subsidies for the use of new capital and of labour have operated. On capital investments, the initial allowance for depreciation purposes to be set against tax has also been used in a variety of ways. In addition government grants to cover the costs of labour training or retraining are on offer and low interest loans may be obtained in special circumstances.

Three broad categories of assistance apply, the first being the assistance given to particular industrial sectors. For example, in circumstances where a key privately-owned industry within the development areas has shown signs of imminent collapse, central governments frequently have stepped in either with direct assistance for the industry as a whole or for particular companies. The classic case is the shipbuilding industry which has received substantial grants and reduced interest loans over a number of years.

The other principal method of encouraging private enterprise to aid in the achievement of the central government's regional goals is through a complex set of financial incentives. As we have already noted, post-war British governments have never used "tax holidays" but instead a varying combination of financial incentives to encourage investment in fixed capital and in the employment of labour. Currently the key inducements consist of:

a) A regional development grant of 20% of the cost of new plant and machinery and of new industrial building with free depreciation on the plant and machinery, and an initial depreciation allowance of 40% on buildings. This contrasts with a no grant situation in non-development areas but with free depreciation allowed on plant and machinery and a 15% initial allowance on buildings.

It is important to stress that the value of the grant can be offset against tax when depreciation is being calculated so that the real value of the grant for the company earning profits is approximately 30%. Secondly, grants are not conditional upon employment creation.

b) A regional employment premium, an ad hominem subsidy, paid to manufacturing concerns which employ labour in the development areas. It was introduced in 1967 with an initial life of seven years and is due to be phased out after September 1974. When first introduced it represented a subsidy of approximately 7% of the average earnings of male manual workers. Its current value (early 1974) is probably less than 4%.

c) Selective assistance, normally in the form of low interest loans but also by interest relief and removal grants may also be paid to companies moving to a development area or already operating there. The criteria for allocation is enormous ranging from employment creation to employment stabilization.

d) Training grants to offset the cost of training or retraining labour in the development areas can be paid in authorized schemes.

Taken together, the magnitude of these grants and loans, are substantial. The official estimate is that including R.E.P.,£ 410 million will be required in the financial year 1973/1974 though this largely depends upon the volume of new private investment. In fact, approximately £225 will be available for development grants, £35 million for selective assistance, £96 million for R.E.P., and a very small amount, £2-5 million, for training grants.[11] Measured in terms of total manufacturing costs

Wilson (1973) has calculated that the development grant on its own will give development area producers a cost advantage of between 1 and 2-1/2 -- or, approximately, 2-1/2 - 5% of net value added.

Government Expenditure

In very simple terms this can be broken down into expenditures on real assets such as our roads, advance factories, industrial estates, schools, ports, current expenditure from the government sector for specific goods and services and equalization payments to supplement local authority resources. On the first two of these items regional criteria enter quite explicitly. For example, additional real expenditures for the development areas are typically allocated as a counter-cyclical device or, more normally, as an inducement to capital, for population redistribution purposes or as a general method of improving the real standard-of-living. The government also favors the development areas through its own buying policy giving special status to contractors in the D.A.'s who are equally competitive with non-development area bidders.[12]

Once again the magnitude involved is very large. The government tends to spend more than £ 10 million each year on building factories which are let at non-competitive rates and in its general spending on infrastructure clearly favors the D.A.'s. For example in 1968/1969 total public investment in new construction was £ 2,340 million, and if the D.A.'s had received their per capita share, then £ 826 million would have come to them. In fact the figure invested was over £ 100 million more than this.

Government Offices

The government has dispersed its own offices particularly out of Central London, and increasingly the claims of the D.A.'s have been answered. Since the end of the war and up to October 1972, 45,000 jobs were dispersed from London, roughly a third of them going to the assisted areas. In addition, almost 10,000 new jobs were created in these areas through deliberate decentralization policy. This policy is being continued and even strengthened. A further sixteen thousand jobs will be dispersed or created and it is likely that 80 per cent will go to the assisted areas.

## Nationalized Industries

It is extremely difficult to be categorical about the extent to which nationalized industries are used to achieve regional employment and development goals. Certainly, all nationalized sectors operate under profitability targets devised by central government. Accordingly, where specific loss-making activities are imposed upon an industry by the government, then it is the government which agrees to the nature of the service and assumes the subsequent losses. Apart from a few limited loss-making activities, such as the air and steamer links to the Scottish islands, there are very few explicit services which are exclusively or largely regional in their impact. However the level of employment in the problem regions may enter into nationalized industry decisions in a way which is difficult to quantify but is none the less real. The most obvious example is the run down of employment during the 1960's of the coal industry. Both the relatively slow rate of run down and the personal subsidies which were used to induce early retirements, transfers to other coalfields and retraining, together with the provision of advance factories and the highest level of development assistance within the areas of closure, largely reflected an awareness of the acute unemployment problems which the problem regions would face if the industry and the government had sought to achieve a fast run down.

Examples of where nationalized industries increase the growth of employment for explicitly regional reasons are harder to find, though the decision of the Conservative government (1970-1974) not to allow consideration of a South-East site by the British Steel Corporation (Maplin Sands) for a new steel producing complex and the subsequent choice of a development area (Teeside) can be seen as an example of deliberate regional bias.

The Effects of Policy

It is obvious that the identification of the effects of policy is a particularly tricky exercise when policies have changed so frequently, companies may have made decisions which favor development in the assisted areas without government aid, and when the objectives of much government investment are geared to long-run development goals.

Given these complexities we are fortunate in having two skillful and valuable exercises in measuring regional policy effects. A. J. Brown (1972) in comparing the performance of the four major development areas -- Scotland, Wales, Northern and North-Western England -- over the years when policy was weak (1953-1959) and strong (1961-1966), concluded that something other than structure and changes in the characteristic performance of industries as such, improved their relative performance by about 70,000 jobs per annum. This he ascribes to increases in mobile jobs (15,000 p.a.), increases in new jobs associated with I.D.C. approvals within the four regions (30,000 p.a.) and multiplier effects in the service sectors (20,000 p.a.). He concludes

> It seems likely from our previous discussion that most of the change in patterns in moves and approvals was due to the strengthening of policy. If this is granted, it is very hard to suppose that the improvement in the relative performance of the assisted areas (after estimating structural factors) was not largely the result of strengthened policy also. (p. 318)

Brown has also concluded that if policy had not been strengthened, the G.N.P. would have been reduced by the order of £150-£200 million per annum. This, of course, assumes that workers remain unemployed in the problem regions and do not migrate to the regions of labour shortage. However, the real economic question as we have already pointed out, is how much G.N.P. for a given social cost would be increased by raising the demand for labour in the problem regions as opposed to raising the demand in the labour shortage regions. No one, including Brown, has provided a definitive estimate of this kind.

The other careful estimate of regional policy effects has been made by Moore and Rhodes (1973). Using a modified shift-share technique, they concluded that over the years 1963-1970, employment in manufacturing within the D.A.'s was 12% higher than it would have been if regional policies had been as "passive" as in the fifties and early sixties. In quantitative terms and allowing for multiplier effects, they estimated that over 200,000 extra jobs were generated by the active regional policies in force over these years. As far as private manufacturing investment was concerned, the policy effect was an extra £90 million per annum or a 30% increase over the anticipated investment level.

Measured in more general terms regional policy has contributed to an improvement in the regions' relative unemployment level,[13] has underpinned a rate of per capita income growth which in most development areas has mirrored that of the nation and has probably increased the flow into the D.A.'s of talented personnel. At least then these measures can be regarded as a major holding operation pending the structural reform which is essential to the more rapid growth of the development areas. There are however, more fundamental questions which must be asked of regional policy and these we discuss in the next section.

## The Validity of the Regional Arguments

In a country with as poor a post-war growth performance as that of the U.K. it is patently obvious that if policies which improve the economic performance of specified regions only do so by retarding the overall growth of G.N.P., then this should be clearly perceived and justified. We have already stressed that the economic case for raising the demand for labour in the high unemployment regions is that this is the most efficient method of raising G.N.P. and employment. The alternative method, it was argued, of allowing workers to migrate to the fast-growing regions could only generate additional economic costs, and therefore was less efficient. It is not difficult to develop an entirely different case which would substantiate Samuelson's verdict (1969) that regional aid typically results in a "sentimental distortion of the national production pattern." Here the real fear is that some quantum of new development is either being stifled altogether or forced to occur in locations which are not the best of the alternatives available. Both effects would reduce the rate of growth in the British G.N.P. In this section we try to reach some conclusion as to which of these views is more consistent with reality.

It is clear that some of the arguments which have been used against the movement of people from the problem regions have been rather poorly founded. The notion that out-migration results in severe negative multiplier effects in the population-losing regions, has probably been over-stressed. In terms of primary effects upon employment Brown (op. cit. p. 275) argued that in conditions of slcak demand these effects will be minimal.

> Unemployed outgoers obviously do not...[affect employment] while employed outgoers bequeath their jobs, in effect, to local unemployed. Incomers either stay unemployed or, more probably get jobs that would otherwise have gone to local people. In these conditions the primary effect of migration is simply that the number of unemployed is reduced by the number of migrants in the region of origin, increased equally in that of destination. There are no primary effects on production in either region.

However, Brown concludes that there will be secondary effects as the spending power of the unemployed out-migrants (from unemployment benefit, supplementary benefit and personal savings) is transferred to the region of destination. His calculation is based on the realistic assumptions that the average unemployed person spends between 40% and 60% of the average employee in employment, and that 40% of this expenditure goes into factor incomes within the region of the unemployed. Thus for every unemployed out-migrant, 18-30% of an average job might be lost. This means that for every 100 unemployed out-movers, perhaps between 18 and 30 jobs in the origin region might be lost. This figure, of course, only relates to the short-run. The migrants' spending power in the new region will be subject to normal leakages and this, in time, will have positive factor income and employment effects in the migrants' origin region.

Thus although the loss of any jobs in labour surplus region is unwelcome, the highly integrated nature of the British spatial economy and the correspondingly large inter-regional leaks from any given regional expenditure, mean that reductions in employment following the migration of unemployed workers, tend to be relatively limited.

A similar conclusion applies to the argument that out-migration results in the under-utilization or even the redundancy of social capital in the migrant-losing area and its duplication in the migrant-receiving area. We know that the <u>physical</u> life of most forms of infrastructure such as roads, schools, hospitals, libraries and ports, is in excess of 50 years. Allowing for technological obsolescence and changing consumers preferences, perhaps an average of 2% social and economic overhead capital falls due for replacement each year. In broad terms this means that unless population as a whole is falling by more than 2%, or alternatively there is a greater than 2% reduction in the numbers of specific age or social groups which use particular types of infra-structure, then problems of redundancy and duplication do not apply. In fact, as we have already noted, no standard region has actually suffered a population decline in the last decade, and even in those sub-regions where population has declined, the percentage losses have typically been significantly less than 2% (D.O.E., 1971). We can therefore discount this argument as a major justification for preventing out-migration from the problem regions.

One other alleged cost of out-migration was that the migrants would crowd into congested centres and increase the unwanted external-ities of noise, air and water pollution, traffic congestion and perhaps environmental over-crowding. There is simply no evidence on the magnitude of these effects but two general points should be borne in mind. It is obvious that the migrants in leaving their home environment may, by this action, reduce the unwanted externalities there. Thus before we could reach any definitive conclusion on the net costs of migrant moves (that is unwanted externalities created in the new location minus unwanted externalities diminished in the old location) we would require a sub-stantial amount of information on the characteristics of both locations. A second point is equally obvious but has often been forgotten in British population analysis. The popular fallacy is that all migrants from the problem regions crowd into the most densely populated areas of the biggest cities of southern England. Inner Birmingham and inner London on this recokoning, must be bristling with newly arrived Scotsmen, Tynesiders and Merseysiders. The reality is more complex. If we take, as an example, the Census of Population figures on migration flows between England and Wales and Scotland over the years 1961-1966, we can readily dispose of the fallacy. Between these dates, Scotland lost 59,000 population from net migration flows. Over a third (35%) of these net losses were to the South-East of England, and six other regions shared the bulk of the remaining net losses. The crucial point however is that relative to the population size of the receiving areas, the biggest net loss was not to the South-East but to the East Midlands, which picked up 15% of the net losses although it only had 7% of the population of England and Wales in 1966. The bulk of these net losses were concentrated in Corby New Town, where steel-making has continuously attracted Scottish migrants ever since the 1930's. Even in the net losses to the South East, Greater London only picked up a 13% share. The bulk of the net losses were to the fast-expanding Outer Metropolitan area and in the counties between London and Birmingham. A similar picture emerges in the West Midlands, with the conurbation only receiving 1-1/2% of the net losses with the remaining share, 9-1/2%, being concentrated in the outer conurbation area especially around Coventry.

There is one further point to add. Even if peripheral region migrants crowd into the central parts of London or of Birmingham, it does not follow that unwanted externalities will increase. London, in particular, has been losing population rapidly for several years as people move to suburban areas, new towns and outer metropolitan areas. Thus between 1961 and 1966, Greater London gained from in-migration, as a percentage of population, 4.1%, but lost an equivalent of no less than 10.1% of its population from out-migration.

If none of these arguments carry weight three other factors in favor of raising the level of demand for peripheral region labour have greater intrinsic merit. Though the evidence is by no means unequivocal, it does appear that wage inflation tends to be initiated in the South East and perhaps the West Midlands, and thereafter spreads to the other regions regardless of their factor market conditions. This has been corroborated in a general kind of way in a recent study which found that,

> Unemployment dispersion [over the standard regions] exerted an upward pressure on aggregate rates of wage change of more than two percentage points in the post war period... (Thomas and Storey, 1971.)

If this finding is valid, then a reduction in the demand for factors in those fast-growing areas already at the margin of full capacity and a transfer of that demand to the areas of labour surplus, would tend to slow the pace of wage inflation. The reasoning here is that the bargains struck in the surplus areas would result in lower wage rates than would have occurred in the areas of labour shortage and, secondly, that the bargains struck in the shortage areas would ultimately reflect the relative diminution of the pressure of demand. To quote Brown once again, (1972, p. 331)

> ...there seems to be a reasonable assumption that a more even spreading of the pressure of demand between regions would do something to reduce the speed of wage inflation, though it is difficult to quantify this effect.

Other crucial points relate to the nature and magnitude of migration flows. If out-migration from the problem regions is officially encouraged there is the real possibility that this process will cream off the most vigorous and talented members of the losing region. Once again the Census figures for Scotland between 1961 and 1966 provide some justification for this argument. Scotland's net loss of people was largely made up of economically active persons (60.4%) who form only half of the overall population. Of these net losses, over 60% were in the socio-economic groups normally regarded as the most productive. These figures, of course, do not provide conclusive evidence that net out-migration has harmful long-run effects on Scotland's developmental capacity. At most, they indicate that there are some detectable differences in the socio-economic characteristics of the out-migrants as compared to the in-migrants. Indeed the whole subject of the effects of different degrees of out-migration on the losing regions' economic structure and performance requires much more thorough research.

A second more obvious possibility is that the scale of unemployment and even more especially of disguised unemployment as measured by low activity rates for females is such that only very large increases in out-migration would begin to bring the problem regions into demand/supply equilibrium. Thus subsidized emigration is unlikely to solve either the immediate problem of surplus labour or the longer term problem of how to recreate the economic base.

It is precisely at this point that the ground becomes particularly treacherous because what is at stake is whether

a) The costs in terms of growth foregone in controlling development in privately chosen locations is of a large magnitude.

b) The real resource costs of manufacturing plants producing and distributing from lagging area locations are substantially different, over the long run, from the costs of producing and distributing in a preferred non-peripheral area locale.

c) If the first type of cost is of a large magnitude then the G.N.P. will be affected markedly. If the second type of situation applies, then central governments may be forced to provide long-run operating subsidies, simply to keep businesses competitive, rather than subsidies to cover short-run settling-in costs or subsidies to increase the share of national production occurring in the peripheral areas.

On the first question, the evidence is by no means clear cut, but it does seem likely that the loss of growth caused by I.D.C. controls is not large. Data from the controlling ministry, the Department of Trade and Industry (D.T.I.) shows that in the two regions where controls have been most rigidly applied (the South-East and West Midlands) an average of 20-30% of all employment associated with applications tends to be refused. Moreover the I.D.C. system has been loosened considerably since 1971. In any event the bulk of those refused projects go ahead in other parts of the non-assisted areas and only about 5% of all projects are abandoned or take place outside of the U.K. (Brown, 1972, p. 304). However it is arguable that some projects are lost because manufacturers do not approach the D.T.I. for permission to expand.

The Confederation of British Industry -- the principal British Employers' Association -- looked into this point carefully. In reviewing their evidence Brown came to the conclusion that this kind of potential loss of growth was of a very small magnitude indeed. Thus we can probably discount the I.D.C. control system as a major restraint on potential growth.

A verdict on the other possible undesirable effect -- that of a mal-location of economic activity -- cannot be given with such confidence. The critical question is whether the long-run costs of the new branch, the new division or the transferred operation, are higher than the costs associated with development in a non-assisted area which is almost certainly more central to major centres of population, of economic activity and to international trade routes.

Some general points are worth bearing in mind. A proportion of mobile industry actually moves to the development areas to serve the local market there. Sometimes this is a general market coverage and sometimes it is production for a specific producer or producers within the development area. Evidence from a study by the author suggests that in the case of Scotland approximately 10% of the moves arose from this kind of motive. (Cameron and Clark, 1966) The second fact is that industries in which transport and communication costs form a relatively high proportion of total costs tend to avoid settling in the distant peripheral areas. (Logan, 1972) To what extent this is because of the skillful administration of the I.D.C. system or the lack of growth in these industries so that new buildings are not required, the end result is that industries which might be particularly sensitive to distance from major markets and inputs, tend not to settle in distant regions. A. J. Brown, in a fascinating analysis (1972, p. 323 and p. 324) has also found no strong tendency for activities which are clustered together with others of the same industry to have significantly higher net output, than activities which are not clustered. Indeed,

> ...an extra 10% of a trades national employment in a particular region seems to go with a raising of its net output per head in that region by about a seventh of one per cent...[thus] so far as

> manufacturing industry is concerned...a move towards a new pattern of regional specialisation at all comparable to that of the nineteenth century is not visible. Dispersion and diversification rather are the rule.

It is also clear that mobile companies have shown a marked preference for the development areas which are most accessible to the core regions (Keeble 1972) and from this one could conclude that what is happening is a natural extension of the boundaries of the core region.

Apart from these factors it does appear that the extra costs of operating a distant development area plant as compared to an _in-situ_ extension or a more localized development, mainly consist of greater settling-in costs and perhaps some longer-run costs associated with duplication of staff and of buildings, extra transport and communication costs and extra training costs. The most comprehensive evaluation of these extra costs has been made in a study by Luttrell (1962). Unfortunately, his study is now rather out of date since it dealt with moves in the immediate post-war period. Certainly Luttrell's findings were reassuring in that most mobile industries appeared able to operate, after the running-in stage, at a level of costs not markedly different from a potential location in a prosperous region and this "favorable" conclusion could be backed by a number of other more recent findings. There is no doubt that transport costs are falling in most industries as a proportion of net output (_op_. _cit_., Logan). Moreover many British companies use average cost delivery charges so that for inputs the development area producers may not be at a disadvantage. Executive communication factors may present more serious problems but once again these typically tend to represent a very small proportion of resource costs. Furthermore, if the development areas are marginal locations, then we could expect relatively high closure rates and a tendency to treat development area plants as the point of first redundancies during business downturns. This does not appear to be correct in terms of closures according to D.T.I. data (Atkins, 1973). The D.T.I. has also studied the decline in employment in branch plants within the D.A.'s over a cyclical downturn and compared this to the decline at the headquarters plants of the parent companies located outside of D.A.'s. This comparison showed that the D.A. plants declined by considerably less than the headquarter plants.[14] Finally, studies by Hart and Macbean (1961) and by Mulvey (1973) suggest that the comparison of profitability in similar manufacturing sectors in England and Scotland gave results which were not significantly different in the two countries.

In contrast to these studies, which all seem to point to the conclusion that the costs of developing in an assisted area are not significantly different from operating in a prosperous core region, there is a growing body of literature which claims that the U.K. cannot afford to have major companies suffer any degree of cost disadvantage (West, 1973). Memoranda to the Expenditure Committee of the House of Commons (1972-1973) from several leading manufacturers (particularly car assemblers) which had experience of operation in the development areas concluded that even after allowing for government inducements, they had incurred sizeable cost disadvantages and these were normally caused by higher transport bills. When faced with these criticisms, the D.T.I. could only stress that no company was forced to select a D.A. location, that there were a number of D.A.'s which were highly accessible to the core regions and that private manufacturers were not likely to pay attention to the inflationary effects on the labour market of expanding in the labour shortage regions.

Given this range of conflicting evidence, we must agree with Foster (1973) in concluding that regional policy cannot be securely based unless some of the crucial efficiency magnitudes are known. Thus whilst the "credit" side of regional policy is fairly clear -- unemployed and under-employed resources have been put to work, the pace of wage inflation probably has been reduced and some of the undesirable economic effects of out-migration have been avoided -- the "debit" side is not so clear-cut. Certainly although the evidence suggests that the development control system has not caused a large volume of growth to be lost to the U.K., it is not conclusive enough to permit any convincing statement on the degree of the private cost penalties suffered by companies which have been "invited" to develop in the problem areas. Indeed until additional research has been undertaken, the economic justification for (or the case against) regional policy, will remain tantalizingly in a state of "not proven."

## The Future Scale of the Problem

Despite the obvious effects of powerful regional measures as indicated by the studies of Brown and by Moore and Rhodes, it is obvious that the regional problem has by no means been solved. The magnitude of the problem still seems enormous. One recent estimate has suggested that for the major problem regions, that is Scotland, Wales, Northern Yorkshire and Humberside and the North-West, a job creation target of over one million may be required over the next ten years (Ridley, 1972). It is important to note how this target was derived. The first assumption was that the full employment rate for the nation is reached when unemployment falls to 1.5%. Assuming no regional policy, the estimate was that even if this rate was reached nationally these five regions would continue to have surplus labour. If the unemployment rates in these regions were to be equalized with the national rate than 120,000 jobs would be required.[15] The second component of the target is made up of 250,000 extra jobs required to increase female activity rates. This in fact represents a half-way stage in a raising of regional activity rates to the highest level obtained anywhere. The third elements were the expected growth in labour supply and the expected change in labour demand. Even if net migration continues at current rates (an average loss of 50,000 in the sixties) labour supply is expected to increase by 350,000 in the decade. In the absence of regional policy, the assumption was that aggregate demand of labour would be static but that 350,000 redundancies in the coal, steel, textiles, shipbuilding and engineering industries would have to be filled to meet this static employment assumption.

It would be easy to quibble with some of these magnitudes. For example, the activity rate reduction could be regarded as an optional target. Clearly there is no compelling reason to assume that the same proportion of females in every region necessarily wish to be economically active. On the other side, a job reduction of only 300,000 over ten years may seem a ludicrously small estimate when seen against a reduction in the total number employed in these regions of 176,000 in the two years between 1969 and 1971. Thus, it seems reasonable to conclude that the overall magnitude of the problem has not been overstated, and a target of 100,000 jobs per annum seems a reasonable working assumption. To meet this target there are several obvious sources of employment growth:

a) Manufacturing activities moving from the non-development areas of the U.K.

b) International manufacturing companies being steered to the development areas.

c) Indigenous job creation from within the development areas themselves in the form of new manufacturing firms starting up and expansions of existing activities.

d) Public sector dispersion particularly of central government office functions.

e) Private service sector dispersion.

f) Indigenous growth in service employment.

Before we embark on a scrutiny of these possible sources of employment growth, one factor should be borne in mind. Like most other economically advanced nations, the balance of U.K. employment is constantly shifting towards the services sector. The last authoritative unofficial projection suggested that between 1968 and 1975, the number employed in services would rise by 900,000 but the numbers in goods-producing activities would fall by 300,000 (Department of Applied Economics, 1972).

## Manufacturing Employment

### Mobile enterprise

With the economy expanding relatively rapidly, the development areas tend to pick up approximately 30,000 jobs per annum from mobile British enterprises -- both transfer and branch type developments. Allowing for job multiplier effects within the receiving areas,[16] a total increase of approximately 35,000 jobs per annum might seem a reasonable expectation. This, of course, could be overly optimistic.

We have already noted that I.D.C.'s are one of the influences in encouraging expanding companies to move to the development areas, but also that the system has been considerably relaxed in recent years. Indeed in the last report on the U.K. economy (1972) the O.E.C.D. warned of the weakening of regional policy if this course of action was pursued. Moreover, even when the system is applied, companies refused an I.D.C. to expand in, say, the South East, may increasingly bluff the government into a favorable decision by threatening to open a plant on the Continent. It is also possible that the general rise in unemployment levels in the non-assisted areas, and the growing capital intensity of most manufacturing activities may diminish businessmens' interest in the relatively more abundant supplies of labour in the development areas. Finally, the considerable improvement in communication brought about by the establishment of the main parts of the motorway network may mean that companies do not have the same incentive to establish branches in the development areas to service local customers. All of these factors would tend to reduce the magnitude of the mobile flow.

The other obvious source of mobile enterprise is from foreign companies setting up in the U.K. British governments have been particularly successful in steering foreign companies to development areas, and, of the regions, Scotland and Northern Ireland have gained most. Indeed, Scotland now has 20% of its manufacturing employment in U.S.-owned firms. (Forsyth, 1972) Great faith is being pinned upon attracting European capital. It would, however, be overly optimistic to expect a large job flow from this source if the past few years are a valid guide. U.S. capital, some of it associated with North Sea oil and gas developments

markets elsewhere within the country or the relative paucity of subcontracting opportunities , the real problem here is seen as how to create an atmosphere in which enterprise and risk-taking flourishes. The alternative explanation is that there are market imperfections and perhaps policy barriers which prevent the flow of new ideas from taking shape in the form of new companies and vigorous expansions. Not surprisingly some critics have detected the root of the problem in the conservative local lending institutions which demand a higher rate of return from D.A. borrowers for a given degree of risk. Similarly some critics have seen the problem as the obvious outcome of administrators' concentrating too much upon mobile capital to the neglect of locally-initiated enterprise.

Whichever of these explanations is more accurate -- and on balance it would appear that the first set of arguments "holds more water" -- there is a real need for policy to take greater notice of the requirements of the new small firm sector within the D.A.'s. Whether this will require a separate regional institutional framework is clearly a point yet to be decided, though the apparent success of a Northern Ireland agency specifically created for such a purpose perhaps indicates that the answer should be "yes." (Simpson, 1974)

When we come to the question of all other activity apart from new mobile companies and newly created indigenous companies, we begin to enter no-man's land. Here the critical questions are how to encourage diversification, rationalization, greater competitiveness and a host of other laudable objectives. Nonetheless two general points are worthy of notice. First, it is a mistake to assume that all manufacturing enterprise in the development areas is collapsing dramatically. Let alone for the half a million jobs in over one thousand companies, which have flowed to the development areas under post-war industrial mobility policy, many old established manufacturing sectors continue to thrive.[18] The second point is that government aid in encouraging greater competitiveness and growth by indigenous (and other) activity must somehow avoid paying out subsidies for companies which would have taken such actions without this aid. Thus the stress ought to be upon marginal cases wherever possible. This of course is easier said than done. The current approach and indeed that favored by the last Labour Government, relies heavily upon standard grants for all investment-creating projects, regardless of employment created. R.E.P. is also a standard, "no strings attached" kind of grant, since it is paid ad hominem. The advantages of this type of approach are obvious. The schemes are easily understood, simple to administer and the benefits to the recipients are fairly clear-cut. Moreover, such an approach is sophisticated enough to recognize that economic growth may come about without a growth in employment. It also avoids nasty equity questions since everyone is "equal before the law." However, this type of approach inevitably provides blanket benefits and favors those companies which may require no assistance. Standard grants may become an expensive system of "overkill" -- and this may, in time, bring regional policy into disrepute.

Now it is true that under section 7 of the 1972 Industry Act, loans and interest relief on especially favorable terms may be made available to companies expanding their employment. This indeed represents a type of discrimination but it may not go far enough.[19] This is not to argue the case for providing discriminatory assistance in growth centres. The structures of the lagging regions are so diversified, the trading inter-relations between the regions so complex, and the spatial incidence of wanted externalities so changeable that no one could predict with any confidence where growth will be maximized, or where the spread and backwash effects will be greatest or where the creation of external economies will be largest. (Cameron, 1969) Equally, there is no great interest in providing special subsidies for companies which are part of an integrated industrial complex. The administrative complexities alone seem to overwhelm any alleged advantages of faster regional growth for a given subsidy. However Wilson (1973) has provided cogent arguments for a basic standard investment grant system topped up by regionally administered discretionary grants for those companies which increase employment markedly and for those which set up R and D divisions. The first kind of discretionary assistance might appropriately allow for direct and expected induced employment created by a given project. The latter is clearly aimed at stimulating the growth of those companies which provide opportunities for able people who might otherwise emigrate.

In some regions where the problems of lag are particularly severe even discriminant subsidies may not get to the root of the problem. It could be that in regions like West Central Scotland, the decline in employment has been caused in part by major companies failing to exploit favorable market circumstances. If this is correct the stress should be upon using government resources, probably through a semi-independent development corporation, to stimulate research, product innovation, industrial relations reform, better marketing and so on. (West Central Scotland Plan)

Services growth

Here the most obvious possibility is the dispersal of government offices, particularly of the standard decision-making type. Currently some 14,000 jobs are awaiting dispersal (or new creation) in the development areas, and the Hardman Committee (1973) looking at the further dispersal of headquarters staff has recommended that the D.A.'s and Intermediate Areas should receive a further 17,000 jobs. However, even if the government increases the latter figure it is unlikely that the problem areas will gain more than 3-4,000 jobs per annum and clearly this cannot be a large contributor to regional equilibrium. This suggests that much greater effort should be given to encouraging private service activities to grow from within the D.A.'s and to decentralize from the South-East of England, and especially from London. Certainly the success to date in achieving dispersal to the D.A.'s has been minimal. This is regrettable since a major study by Rhodes and Kan, has suggested that the subsidy cost of dispersing private sector office work could be much smaller than in the case of manufacturing. Until mid-1973 the Heath Government still appeared to think that services only supplied local needs, and it tended to argue that any aid, particularly to locally established services would automatically result in local closures which offset the benefits of the subsidy. Belatedly measures were introduced in June[20] which could increase the flow of service activities out of the South-East. And yet until there is a far greater effort given to understanding how service industries operate, and, in particular, which services are "basic" as distinct from population related activities, then government promotional efforts are liable to remain puny and almost certainly inappropriate.

## Conclusions

The new measures of March 1972 and the general support given to them by all major political parties, represent a consensus view that the regional problem has not been solved and must now be tackled with increased resources. Thus whilst there is no doubt that policy did have substantial successes during the sixties and especially if measured in terms of extra employment created in the Development Areas, the task which still remains seems dauntingly large. Certainly the well-tried component of private industrial dispersal from the core regions will continue to provide a useful method of raising the demand for labour in the lagging regions though the extent to which this affects private efficiency will have to be scrutinized much more closely. Moreover government office dispersal will continue to provide some stable work. However these components are clearly not sufficient and the first is especially sensitive to success in maintaining a high rate of national growth and a system of industrial development controls. Considerable imagination will therefore be required if the base of the regional effort is to be successfully broadened. In particular, far greater effort will have to be given to encouraging that part of the private service sector which is not tied to local consumption requirements, to locate or to expand in the Development Areas. There is also a clear need for greater discrimination in the use of financial subsidies if regional policy is not to fall into the evil company of other large programmes which deliver the goods at a very high cost. Finally, the whole question of how to stimulate new growth from within the problem economies and especially of how to encourage small new enterprises should be given high priority.

## Acknowledgements

The author is grateful to many people for reading and commenting upon an early draft of this paper. Aurthur Brown, Christopher Foster, Richard Crum and Kevin Allen, and Jim Sundquist all provided thoughtful and helpful criticisms. The draft was also improved by an anonymous reader. Of course none of the above bear any responsibility for remaining errors of fact or judgement.

I.

TABLE 1

UNEMPLOYMENT RATES IN THE REGIONS: 1960-1972
(AVERAGES OF MONTHLY FIGURES, PER CENTS)

<table>
<tr><th></th><th>1960</th><th>1961</th><th>1962</th><th>1963</th><th>1964</th><th>1965</th><th>1966</th><th>1967</th><th>1968</th><th>1969</th><th>1970</th><th>1971</th><th>1972</th></tr>
<tr><td>South East</td><td rowspan="2">1.0</td><td rowspan="2">1.0</td><td rowspan="2">1.3</td><td rowspan="2">1.6</td><td rowspan="2">1.0</td><td>0.9</td><td>1.0</td><td>1.7</td><td>1.6</td><td>1.6</td><td>1.7</td><td>2.0</td><td>2.2</td></tr>
<tr><td>East Anglia</td><td>1.3</td><td>1.4</td><td>2.1</td><td>2.0</td><td>1.9</td><td>2.1</td><td>3.1</td><td>2.9</td></tr>
<tr><td>South West</td><td>1.7</td><td>1.4</td><td>1.7</td><td>2.1</td><td>1.5</td><td>1.6</td><td>1.8</td><td>2.5</td><td>2.5</td><td>2.7</td><td>2.8</td><td>3.4</td><td>3.4</td></tr>
<tr><td>East Midlands</td><td rowspan="3">1.0</td><td rowspan="3">1.1</td><td rowspan="3">1.6</td><td rowspan="3">2.0</td><td rowspan="3">1.0</td><td>0.9</td><td>1.1</td><td>1.8</td><td>1.9</td><td>2.0</td><td>2.3</td><td>3.1</td><td>3.1</td></tr>
<tr><td>West Midlands</td><td>0.9</td><td>1.3</td><td>2.5</td><td>2.2</td><td>2.0</td><td>2.3</td><td>4.0</td><td>3.6</td></tr>
<tr><td>Yorkshire & Humberside</td><td>1.1</td><td>1.2</td><td>2.1</td><td>2.6</td><td>2.6</td><td>2.9</td><td>4.0</td><td>4.2</td></tr>
<tr><td>North West</td><td>1.9</td><td>1.6</td><td>2.5</td><td>3.1</td><td>2.1</td><td>1.6</td><td>1.5</td><td>2.5</td><td>2.5</td><td>2.5</td><td>2.8</td><td>4.1</td><td>4.9</td></tr>
<tr><td>North</td><td>2.9</td><td>2.5</td><td>3.7</td><td>5.0</td><td>3.3</td><td>2.6</td><td>2.6</td><td>4.0</td><td>4.7</td><td>4.8</td><td>4.8</td><td>5.9</td><td>6.4</td></tr>
<tr><td>Wales</td><td>2.7</td><td>2.6</td><td>3.1</td><td>3.6</td><td>2.6</td><td>2.6</td><td>2.9</td><td>4.1</td><td>4.0</td><td>4.1</td><td>4.0</td><td>4.7</td><td>4.9</td></tr>
<tr><td>Scotland</td><td>3.6</td><td>3.1</td><td>3.8</td><td>4.8</td><td>3.6</td><td>3.0</td><td>2.9</td><td>3.9</td><td>3.8</td><td>3.7</td><td>4.3</td><td>6.0</td><td>6.5</td></tr>
<tr><td>Northern Ireland</td><td>6.7</td><td>7.5</td><td>7.5</td><td>7.9</td><td>6.6</td><td>6.1</td><td>6.1</td><td>7.7</td><td>7.2</td><td>7.3</td><td>7.0</td><td>8.0</td><td>8.1</td></tr>
<tr><td>UNITED KINGDOM</td><td>1.7</td><td>1.6</td><td>2.1</td><td>2.6</td><td>1.7</td><td>1.5</td><td>1.6</td><td>2.5</td><td>2.5</td><td>2.5</td><td>2.7</td><td>3.7</td><td>3.9</td></tr>
</table>

Source: Department of Employment. Gazette

II.

TABLE 2

PERCENTAGE INCREASES IN THE OCCUPIED POPULATION AT WORK
1921 - 1961*

| Region | % Change |
|---|---|
| Northern Ireland | - 4.6 ** |
| Wales | + 0.3 |
| Scotland | + 1.0 |
| North West | + 1.3 |
| Yorks and Humberside | + 7.9 |
| North | + 10.8 |
| | |
| East Anglia | + 20.4 |
| East Midlands | + 26.5 |
| South West | + 29.3 |
| West Midlands | + 39.9 |
| South East | + 41.3 |

Source: Lee, C. H. (1971) Regional Economic Growth in the United Kingdom since the 1880's Maidenhead: McGraw Hill, 1971.

* As percentages of total employment in 1921.

** Period 1926-1961.

III

TABLE 3

PERCENTAGE INCREASES IN EMPLOYEES IN EMPLOYMENT
1953 - 1966

| Region | % Change |
|---|---|
| Scotland | + 3.0 |
| North West | + 4.0 |
| Wales | + 6.6 |
| North | + 6.9 |
| Yorks and Humberside | + 9.1 |
| | |
| East Midlands | + 15.3 |
| South East | + 18.6 |
| South West | + 18.6 |
| West Midlands | + 18.9 |

Source: Brown, A. J. (1972) The Framework of Regional Economics in the United Kingdom. Cambridge: Cambridge U.P. p. 30.

IV

TABLE 4

ACTIVITY RATES, STANDARD REGIONS
June 1968[a]

(percent)

| New standard regions | Male and Female | Male | Female |
|---|---|---|---|
| South East | 59.7 | 77.9 | 43.4 |
| East Anglia | 48.5 | 64.6 | 33.1 |
| South West | 47.0 | 63.5 | 32.2 |
| West Midlands | 60.2 | 78.4 | 42.6 |
| East Midlands | 56.3 | 74.1 | 39.3 |
| Yorks and Humberside | 56.1 | 74.7 | 38.8 |
| North West | 58.1 | 75.9 | 40.1 |
| North | 51.8 | 70.0 | 34.8 |
| Wales | 47.1 | 65.6 | 30.1 |
| Scotland | 56.4 | 74.5 | 40.4 |
| Great Britain | - | - | - |
| Northern Ireland | 48.9 | 64.0 | 35.2 |
| United Kingdom | 56.2 | 74.1 | 39.8 |

[a]Employees as a percentage of the home population aged 15 years and over. See Abstract of Regional Statistics, 1969, No. 5. H.M.S.O.

V

TABLE 5

INTERREGIONAL PRICE INDICES AND REAL CONSUMPTION, 1964

Indices

| | N | Y&H | NW | EM | WM | SEE | SW | Wa. | Sc. |
|---|---|---|---|---|---|---|---|---|---|
| Price Indices (G.B.=100) | | | | | | | | | |
| Food | 99 | 101 | 98 | 100 | 102 | 99 | 99 | 104 | 105 |
| Housing[a] | 82 | 85 | 92 | 79 | 89 | 129 | 88 | 80 | 89 |
| Fuel & light | 95 | 96 | 98 | 93 | 96 | 109 | 112 | 102 | 101 |
| Travel to work | 80 | 89 | 96 | 90 | 92 | 119 | 78 | 104 | 89 |
| All goods & services | 96 | 97 | 99 | 97 | 98 | 106 | 97 | 98 | 99 |
| Consumers' expenditure (U.K. = 100) | 86 | 91 | 95 | 91 | 105 | 114 | 92 | 90 | 93 |
| Consumers' expenditure valued at G.B. prices | 90 | 94 | 96 | 94 | 107 | 108 | 95 | 92 | 94 |
| Consumers' expenditure plus beneficial current public expenditure[b] | 90 | 94 | 97 | 94 | 105 | 107 | 95 | 94 | 95 |

Source: A.J. Brown (op. cit. 1972). The figures are based on Central Statistical Office, National Income and Expenditure 1964, London, HMSO 1964; Ministry of Labour, Family Expenditure Survey 1966, London, HMSO 1967; Ministry of Agriculture, Household Food Consumption and Expenditure 1964, London, HMSO, 1965; Ministry of Power, Statistical Digest 1966, London, HMSO, 1967; Government Social Survey, Labour Mobility in Great Britain 1953-63.

[a]Including maintenance.

[b]On goods and services.

VI

TABLE 6

CHANGE IN POPULATION BY REGION

Mid 1961 to Mid 1971

| Region | Mid 1971 | Average Annual Change mid 1961 to mid 1971 | | | |
|---|---|---|---|---|---|
| | Est. Home Population | Net Migration ('000) | Natural Change ('000) | Migration per 1000 population 1971 | Migration as a % of natural change |
| Scotland | 5217.4 | -32.5 | +34.3 | -6.2 | - 95 |
| North | 3293.5 | -10.8 | +17.4 | -3.3 | - 62 |
| North West | 6747.3 | -11.4 | +33.8 | -1.7 | - 34 |
| Yorks and Humberside | 4811.3 | - 7.0 | +26.5 | -1.5 | - 26 |
| Wales | 2723.6 | - 0.4 | + 9.8 | -0.1 | - 4 |
| South-East | 17288.7 | - 3.7 | +99.6 | -0.2 | - 4 |
| West Midlands | 5121.5 | - 1.3 | +39.8 | -0.3 | - 3 |
| East Midlands | 3390.2 | + 7.1 | +22.2 | +2.1 | + 32 |
| East Anglia | 1686.0 | +12.1 | + 8.4 | +7.2 | +144 |
| South-West | 3792.3 | +22.4 | +15.0 | +5.9 | +149 |
| North Ireland | 1534.0 | - 6.7 | +17.3 | -4.3 | - 39 |

Source: Abstract of Regional Statistics, 1973, No. 9 H.M.S.O.

VII

TABLE 7

THE CHANGING REGIONAL DISTRIBUTION OF POPULATION, 1921-69, AND PROJECTED DISTRIBUTION TO 2001

| Region | Population 1921 (thousands) | Percentage Distribution | | | | | Population 1969 (thousands) | Projected home Population 2001 (thousands) | Percentage Distribution 2001 |
|---|---|---|---|---|---|---|---|---|---|
| | | 1921 | 1931 | 1951 | 1961 | 1969 | | | |
| England | | | | | | | | | |
| Northern | 3,019 | 7.06 | 6.78 | 6.39 | 6.32 | 6.19 | 3,346 | 3,634 | 5.64 |
| Yorks and Humberside | 4,095 | 9.57 | 9.61 | 9.22 | 9.01 | 8.90 | 4,810 | 5,435 | 8.44 |
| North West | 6,022 | 14.09 | 13.83 | 13.12 | 12.73 | 12.53 | 6,770 | 7,431 | 12.31 |
| East Midlands | 2,337 | 5.46 | 5.61 | 5.92 | 6.05 | 6.20 | 3,349 | 4,472 | 6.34 |
| West Midlands | 3,504 | 8.19 | 8.36 | 9.05 | 9.27 | 9.52 | 5,145 | 6,235 | 9.68 |
| East Anglia | 1,211 | 2.83 | 2.75 | 2.84 | 2.90 | 3.07 | 1,657 | 2,261 | 3.51 |
| South East | 12,317 | 28.80 | 30.22 | 31.10 | 31.81 | 32.02 | 17,295 | 20,762 | 32.22 |
| South West | 2,725 | 6.37 | 6.24 | 6.64 | 6.69 | 6.91 | 3,730 | 4,714 | 7.32 |
| Wales | 2,656 | 6.21 | 5.79 | 5.29 | 5.13 | 5.04 | 2,724 | 3,096 | 4.80 |
| Scotland | 4,882 | 11.42 | 10.81 | 10.43 | 10.09 | 9.62 | 5,195 | 5,891 | 9.14 |
| Great Britain | 42,769 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 54,022 | 64,431 | 100.00 |

Source: Great Britain, Department of the Environment, Long Term Population Distribution in Great Britain, (London: Her Majesty's Stationery Office, 1971).

VIII

TABLE 8

COMPONENTS OF EMPLOYMENT CHANGE IN MANUFACTURING INDUSTRY IN THE CENTRAL CLYDESIDE CONURBATION, 1958 - 1968

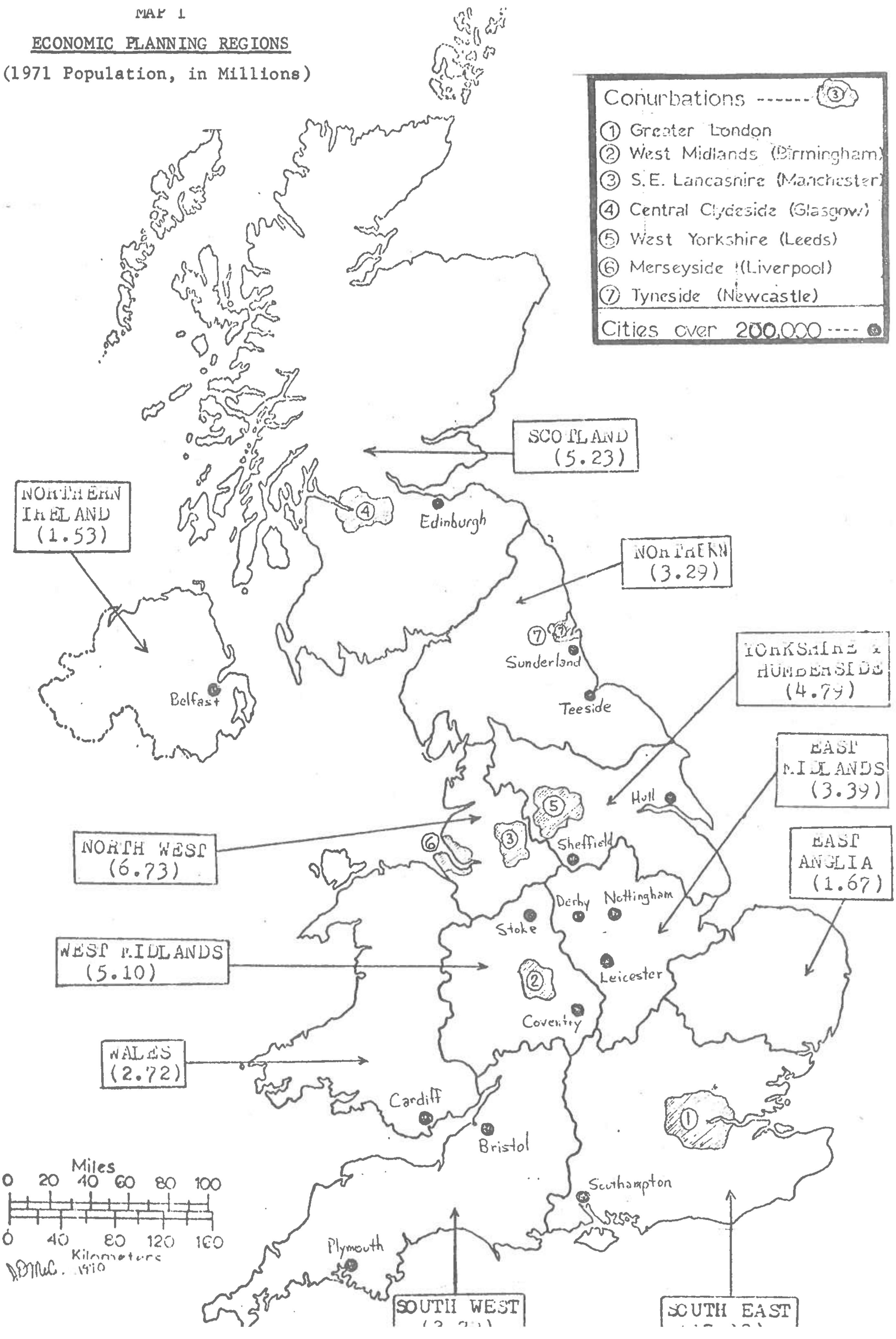
| | | Scottish controlled plants | External controlled plants | All plants |
|---|---|---|---|---|
| 1. | Employment Growth | + 32,192 | + 50,518 | + 82,710 |
| 1.1. | In Existing Plants | + 19,908 | + 29,350 | + 49,258 |
| 1.2. | In New Plants | + 12,284 | + 21,168 | + 33,452 |
| 2. | Employment Decline | - 46,938 | - 57,842 | - 104,780 |
| 2.1. | In Existing Plants | - 18,900 | - 30,260 | - 49,160 |
| 2.2. | In Plant Closures | - 28,038 | - 27,582 | - 55,620 |
| 3. | Net Employment Change | - 14,746 | - 7,324 | - 22,070 |
| 3.1. | In Existing Plants | + 1,008 | - 910 | + 98 |
| 3.2. | Stock Changes (1.2.-2.2.) | - 15,754 | - 6,414 | - 22,168 |

Source: J.R. Firn "The Sources of Regional Economic Growth" (forthcoming).

MAP 1

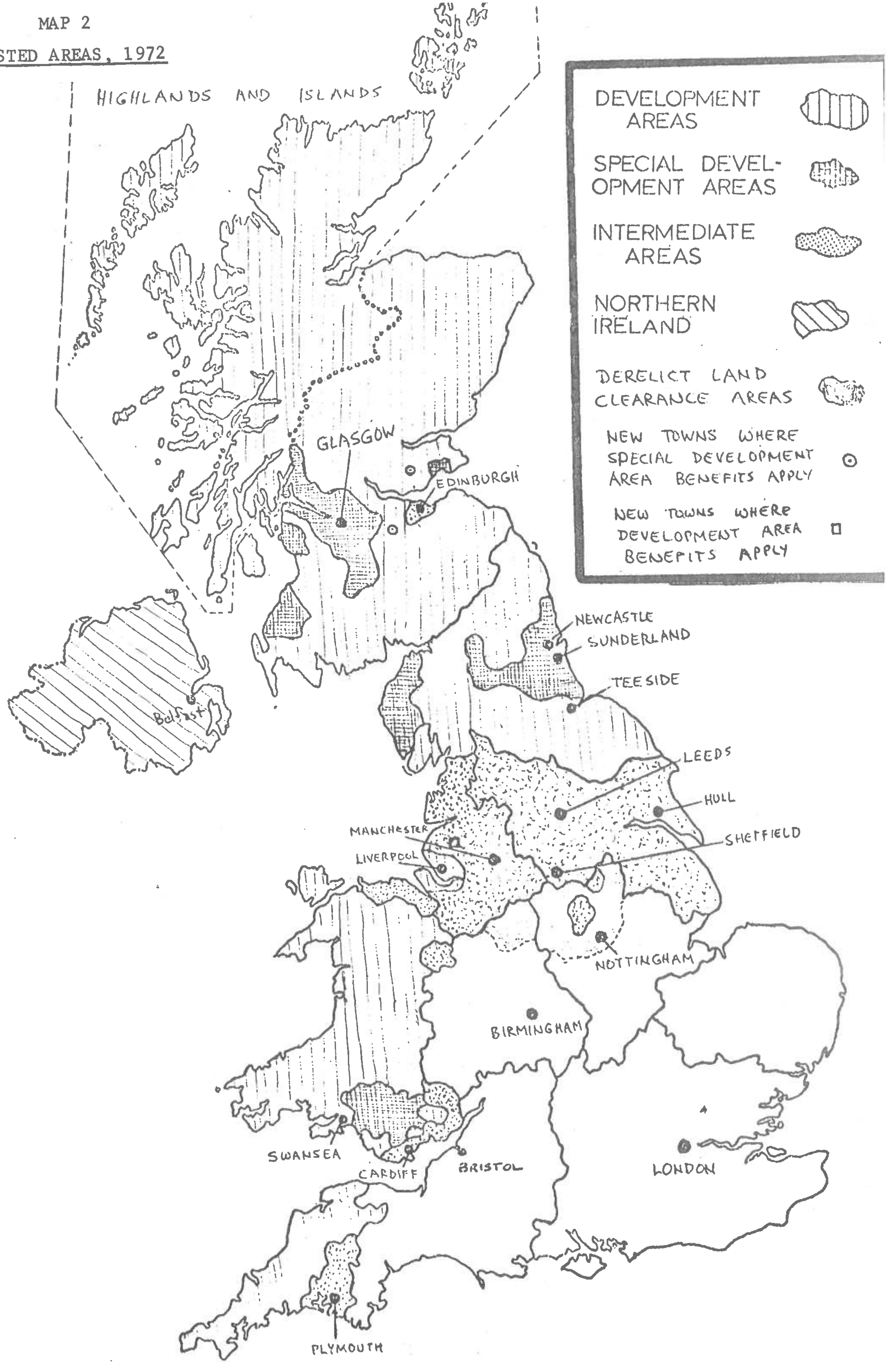
ECONOMIC PLANNING REGIONS

(1971 Population, in Millions)



MAP 2

ASSISTED AREAS, 1972



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# FOOTNOTES

[1]The Department of Employment provides working population forecasts every few years. This data relates to the 1969 forecast.

[2]Although moving people to jobs is not a prominent feature of government policy there was a net movement from assisted to non-assisted areas, under the Department of Employment's transfer assisted scheme, of 6000 workers in 1972/1973 see Second Report of the Expenditure Committee. Session 1973/1974, "Regional Development Incentives" p. 39.

[3]The regions with their 1971 population (mills.) in brackets are as follows: Northern Ireland (1.53), Wales (2.73), Scotland, (5.23) and in England, the Northern region (3.29), North West (6.73), Yorkshire and Humberside (4.79), East Midlands (3.29), West Midlands (5.10), South West (3.79), East Anglia (1.67), and South East (17.13).

[4]Parliamentary Question No. 2929, 20 June 1972. The figures relate to mid-1971 population estimates.

[5]Richard Crum has provided the author with estimates of the net increment to the labour force in Northern Ireland, Scotland and England/Wales for 1970. These show that in Northern Ireland the labour force grew by 1.5%, in Scotland by 0.8%, and in England/Wales by 0.4%. His calculation was

(i) Take all 15 year-olds and subtract all males aged 65 and females aged 60.

(ii) Express research as a percentage of those aged 15-59 (females) and 15-64 (males).

(iii) The resulting percentage represents the approximate net increment to the labour force in 1970.

[6]Yorkshire and Humberside, North West, Northern and Scotland.

[7]These projections are made by the Registrar General and the Government Actuary. The latest forecast is to 1991.

[8]Crosland seemed to argue at one point that the North West was over-populated but later changed his argument. See "Population of the United Kingdom." First Report of the Select Committee in Science and Technology. House of Commons Session 1970/1971. London, H.M.S.O. 1971.

[9]See the chapter on the U.K. in J. L. Sundquist's "Population Distribution Policies in Western Europe" (provisional title), Brookings, forthcoming.

[10]The best discussion of the use of I.D.C. controls is in "The Intermediate Areas" Committee of Enquiry under the Chairmanship of Sir J. Hunt. Cmnd. 3995. H.M.S.O. 1969.

[11]The additional amount is made up of £55 million provided under the local employment acts for schemes which generate additional employment in areas of heavy and persistent unemployment. This type of assistance is due for phasing out almost entirely by 1975/1976.

[12]There is little evidence on the effects of preference but two types of schemes are in operation

(i) In the general scheme, firms in development areas are given every opportunity to tender for public contracts from the government, public bodies and nationalized industries. Where price, quality delivery and other considerations are equal the D.A. firm is given preference.

(ii) In the special scheme, government purchasing departments review the initial competitive tenders and if at least 25 per cent is not awarded to D.A. bidders then an offer is made to the first unsuccessful bidder in the D.A., and provided the overall cost of the project is not increased, an amount up to 25 per cent of the overall purchase can be awarded to this bidder. If he refuses to accept the offer, the next lowest price tenderer is offered a contract and so on.

[13]The regions show different patterns of response to regional measures after 1963. For example, Scotland had a rate of unemployment roughly twice that of the nation between 1953 and 1966 but from 1967 onwards this relatively poor position improves. The same type of improvement occurred in Wales. However the North and North West showed no appreciable change, whereas Yorkshire and Humberside's position deteriorated sharply after 1965.

[14]The evidence suggests that there was no appreciable difference in the closure rates of D.A. branch plants as compared to non-D.A. plants.

[15]That is approximately 60,000 jobs for those currently unemployed and a similar number to cover the re-registration of those currently unemployed but not officially registered as such.

[16]A job multiplier of between 1.15 and 1.20 is assumed.

[17]D.T.I. statistics show that only approximately 12,000 jobs were generated by overseas companies setting up plants in the D.A.'s between 1965 and 1971.

[18]John Firn is presently undertaking research into the formation of new companies in the Clydeside and West Midlands Conurbations with a grant from the S.S.R.C.

[19]In the first year of the Industry Act, the Government has claimed 22,000 additional jobs will flow from Section 7 ("Guardian" June 28, 1973).

[20]These measures include rent rebates, transfer allowances for equipment and personnel and offsets for relocation costs.