

## **Lecture 8a: RELOCE. 2010**

**Return to classical prescriptions: UK regional policy from 1979**

## Return to classical prescriptions: The UK regional policy from 1979

### Introduction

1979 was a *watershed for regional policy*. Regional policy had been conducted as a *top down instrument of Government* (with varying degrees of intensity).

The period after 1979 saw a shift in emphasis to a *bottom up, supply side driven approach*. Assistance was:

Targeted at a smaller number of locations, financial assistance tied to outputs, more competition for resources, EU assumes a prominent role.

Ideology also changed from interventionist to more libertarian free market approach, new forms of policy emerged such as: intense *Urban* policy, *Local* regeneration, *Enterprise* zones and *Freeports*.

### Why was there such a sea change after 1979?

Political - changing the balance of power in favour of business. Economic realities see **Gudgin** writing in Townroe, P, & Martin, R, (1992) *Regional Development in the 1990s, - The British Isles in Transition* suggest that it was in response to a number of particular economic factors:

- *Growth in the UK economy slowed after 1973 in line with international trends*
- *At the same time the economy was facing greater exposure to increasing free trade*
- *UK's Lack of international competitiveness*
- *The impact of the EU*

### Government thinking

This can be best illustrated by the way the new government approached key element of policy that had been in place prior to them taking office. Their view of these gave a rationale for change.

- Location controls may have encouraged investment in locations that were inefficient.
- Automatic capital grants were more likely to lead to deadweight loss and displacement
- Policy had been biased towards “inward investment” plants and not enough focus was placed on the indigenous potential of smaller local plants

However Armstrong & Taylor maintain that without “traditional” regional policy DAs would have been considerably worse off. And they point out that investment subsidies were still available to both immigrant and indigenous firms for a long time after the Conservatives returned to power.

### Consequences of the new thinking

- Abolition of Industrial Development Certificates.
- Move from automatic to job related/selective capital grants.
- Large reductions in areas where grant-aid was available.
- Large decline in regional budget.
- Urban policy becomes more favourable.
- Move towards helping regions achieve self-sustaining growth.

### Inward Investment

Whilst there had been a strong push for inward investment prior to 1979, in the period that followed inward investment opportunities in the UK became attractive to Foreign Direct Investment on two main grounds.

- Less regulation and an end to punitive taxation levels
- Access to the European Union market

There are two opposing hypotheses regarding inward investment

#### Dependency

1. Branch plants have an unequal trading relationship with supply side local firms and the emphasis is on cost minimisation.
2. Contracts are short-term and there is a weak commitment to local firms

3. Weekly embedded in the local economy with day-to-day control exercised from outside the local area
4. Local inputs low-tech, low skill requirement from local workforce
5. Growth is dependant on the strategic decisions made outside the region by multinational firms

### **Developmental**

1. The FDI firm wishes to establish a collaborative enterprise based on the latest technology and build up trust with other local firms for mutual benefit.
2. A long-term partnership is established with close relationships with local suppliers and a commitment to product development.
3. The immigrant firm wishes to become "embedded" in the local economy has local autonomy.
4. Is willing to transfer technology and expertise to local firms and involve them in product development, able to provide a range of jobs including highly skilled.
5. The immigrant firm views its "new" location as a base for self-sustained growth through expansion.

Given the new government was more inclined to the second hypothesis. The UK has been particularly successful at attracting inward investment over the period since 1979. Much of that activity is now co-ordinated through the Invest in Britain Bureau.

### **Indigenous growth**

The Thatcher government was particularly keen to see the emergence of a strong small firm sector. Armstrong and Taylor suggest 5 main arguments for targeting small firm growth as part of regional policy.

- The ability to create a large number of new jobs
- More flexible labour market (less union presence, more wage and job flexibility) and a superior working environment (*for employees*).
- Creating a diversified and flexible industrial base with entrepreneurs willing to take risks,
- Stimulate competition throughout the economy leading to an enterprise culture,
- Their ability to introduce new products and processes (innovation)

Armstrong and Taylor suggested that the small firm revival of the early 80's might be a temporary phenomena partly explained because total employment was falling faster in large firms than small ones and partly by recession-push factors. Push factors include

- Redundancy or the threat of redundancy
- Redundancy lump-sum pay-offs
- Availability of cheap second hand machinery and premises (reduce barriers to entry)
- Big firms outsource (niche markets)
- Sell off peripheral activities (management buyouts)

The fact remains that since the 1970's small firm growth has occurred during both recession and recovery periods suggesting that a fundamental shift is occurring in both productive and service sectors.

Keeble's (1990) work suggest the long term forces at work

- Fragmentation and externalisation of demand - outsourcing
- Changes in market demand – specialised and customised products (niche)
- Technology change – in certain industries biotech, IT
- Competition from newly industrialised countries – hits large firms
- Government policy – supportive of small firms

If small firms are to deliver regional policy there are a number key policy dilemmas to overcome:

- Who to help – new firms? (high turnover rates), or Survivors? (usually grow to 15 but no more)
- Manufacturing or services? (most growth has occurred in services but they depend on local demand (and therefore displacement can occur)
- Where to help? (Enterprise, nodes or uniform).

## **New Technology**

In general it is argued that R & D success leads to:

- Greater current effort,
  - Further innovations, and
  - A widening of the gap between technologically successful firms and their rivals.
- Thus technologically advanced regions will also have a widening gap in respect to their rivals.

Geroski et al (1993) using a panel of UK manufacturing firms found that innovating had:

1. A positive effect on profitability (direct impact)
2. The process of innovation transformed a firms internal capabilities – core competencies, flexibility

Other aspects that are also crucial are that in the last few decades there have been fundamental shifts in the economy.

### ***demand side***

- Rising incomes and
- Changing patterns of demand
- A more fragmented pattern of consumer demand.

And on the **supply side**,

- Use of flexible production technologies.
- Technological push in information and related microelectronic technology.
- Flexible forms of mass production, economics of scope rather than scale.

## **Research and Development**

Technological advancement is closely linked to R&D

Private R & D establishments usually undertaken **applied research**.

**Basic or pure research** on which applied research is based, is concentrated in Universities and government research establishments.

In the UK, private R&D is heavily concentrated in the SE, R&D intensity is also industry specific.

- Pharmaceuticals,
- Aerospace,
- Communications,
- Electrical products

There are a number of reasons why R&D is clustered, these mainly reflect the preferences and ambitions of highly trained, paid and innovative professionals. Malecki (1992) Uses survey data from the US to show that professional labour (including R&D workers) locate in particular areas for both professional and lifestyle reasons. In addition, interpersonal communications and access to external information is vital to R&D success therefore proximity of R&D to a company's head office centre is important, also government and large corporate headquarters are important sources of information. Large cities have the largest and most affluent populations therefore the largest market for new products. Administrative capitals are also important, as much R&D work is government funded.

In the UK the bulk of R & D is located in the South East, but once new products have become established the locational pull of the SE weakens. However there are exceptions: Sunrise industries – IT and biotech – typified by short product lifecycles, with continuous research and product development necessary for survival. Dominated by small firms. Significant clusters of R&D outside SE in Scotland and Wales (high tech inward investors),

- Bristol & M4 corridor (defence),
- Cambridge (small firm biotech and IT),
- Lancashire (defence – aerospace)

However, the outputs from R&D tend to diffuse at different rates:

Process innovations tend to diffuse rapidly product innovations do not.

- Process innovators have a vested interest in others adopting their technology – usually by buying the capital stock, which incorporate the new technology.
- Maintaining secrecy, or protecting the product by patent serves product innovators interests. – it is the product rather than the innovation, which they wish to diffuse.

#### **Case for technology based regional policy**

A technology based regional policy is attractive to regional policymakers:

- 1. key element in regional growth,**
- 2. clean,**
- 3. dynamic,**
- 4. high quality,**
- 5. high-wage jobs.**

Technological advancement through national policies/strategy tends to reinforce the technology advantage of advanced regions. National policy might include:

- Provision of **technical education,**
- **government support** for R&D (tax breaks),
- **technology transfer,**
- **protection** for high-tech industries such as telecommunications & aerospace.

On the other hand if the benefits of technology are to be spread more widely through the less prosperous regions more proactive policies are required such as:

- **technology transfer agencies** (regionally based),
- **investment grants**, (which allow firms to buy in to process innovation)
- **science and research parks** (linked to universities),
- **venture capital initiatives** (SME high-tech firms are high-risk operations, they required to overcome inadequacy of market provision, where London dominates the venture capital market)
- **improved infrastructure** provision (improved urban and environmental conditions).

Begg & Cameron, (1990) suggest a number of policy prescriptions to induce a large increase in R&D

1. Tax breaks,
2. National fund for innovation,
3. Free technical consultancy for (SMEs),
4. High-grade vocational training,
5. Advanced management training,
6. Centralised technology forecasting and
7. Better co-ordination of technology initiatives.

They suggest a key role should be given to regional development agencies.

But the crucial policy question remains who to target

- Companies just starting
- Firms at crucial growth thresholds
- Technological transformation of older firms
- Inward investors
- Spinout of defence innovations for civilian application
- Better links between HE and private industry

**Armstrong and Taylor conclude that** *“The south has immense inherent advantage for small firms and innovation. It will take many decades to create similar conditions in the depressed regions. The benefits will be hard won and a long time in coming”* A & T Chapter 11 (1993)

#### **Urban Policy**

The switch to a more pro-active urban economic regeneration policy has its roots slightly before 1979. The previous Labour government published a White Paper (*Policy for the Inner Cities*) this argued that solving economic problems was crucial to urban areas and that economic support was as important as social support for run-down communities.

Conservative policy for urban areas followed three main themes: **Co-ordination, enterprise and development.**

#### **Co-ordination**

City Action Teams and Task Forces were intended to integrate public and private sector activity within cities.

#### **Enterprise**

It was suggested that enterprise had been 'crowded out' of urban areas by public sector intervention, regulation and control.

#### **Development**

Urban development or regeneration was a key part of urban policy.

As regeneration projects spread out from the urban cores, under the **Single Regeneration Budget** (SRB) Programme, the typical vehicle to deliver the outputs were private/public partnerships with local government playing a co-ordinating role.

*For a good rounded discussion on urban problems see Temple M, (1994), Regional Economics, St Martin's Press, New York, Chapter 7.*

#### **Community Economic Development (1990 onwards)**

Two reasons for its emergence

- Increased numbers classified as socially excluded
- Theories of local and regional development based on *Social Capital*, close community bonds and networking

What differentiates CED from top down Regional or local Development?

**Participation** (active involvement of community at all stages): **Long-term** (nature of instruments) deep seated problems need step-by-step solutions: **Explicit social, political and environmental objectives** - economic development plus social justice and grassroots democracy: **Co-ordination** of all possible policies and sources of help ensuring a holistic approach: **Area-based** programmes linked to specific spatial areas.

#### **Policy instruments**

##### **New types of regional/local policy instruments.**

*Traditional instruments applied in different ways*

**Subsidy** of co-operatives and credit unions - both have been tried before but were now designed to draw local people into the design, management, ownership and operation of the schemes themselves even at the expense of jobs and profitability.

**Financial subsidy, advisory services and managed workspace** - but used to build community capacity and stimulate community development.

##### **New instruments**

**Local exchange and trading systems** (LETS) - local currency or barter system designed to overcome liquidity constraints and allow local services to be delivered by local (unemployed) people. Part of a wider set of CED financial instruments including ; micro-credit schemes (small loans) and social risk capital (similar to venture capital but based on organisations in the social economy).

**Intermediate Labour Market** schemes designed to provide a pathway back to paid employment for socially excluded groups - halfway between employment and unemployment - job, training and personal development support.

**The new agenda has not been without criticism** By the early 1990's Taylor (*Regional Development in the 1990s, - The British Isles in Transition*) was calling for a whole raft of policy changes and U-turns:

- Reinstatement of RDG
- Regionally discriminating business
- More help for smaller firms.
- Training and retraining aimed at school leavers and the long-term unemployed
- Greater role for local authorities.

- Protection of northern companies.
  - Creation of Regional Development Agencies.
  - A more equitable distribution of government expenditure programmes.
- Having examined the *types* of policy that have been used for regional and urban economic development from 1979 this section seeks to explore how *effective* those policies were. The focus is on four main areas: *inward investment, indigenous growth technology and urban policy*. Much of the empirical evidence is taken from journal articles and up-to-date web sites but references are made to the main textbooks where appropriate.

## The Effectiveness of Regional Policy after 1979

### Inward Investment

Inward investment didn't begin in 1979, there is a long track record of international investment in Britain before that date. What changed after 1979 was that in the eyes of foreign direct investors the UK became a much more attractive investment location for a number of reasons:

1. The UK's previously inflexible labour market had become *much more flexible*
2. *Levels of personal and corporate taxation were falling* and it was much easier to "repatriate" profits.
3. *Regulation and social welfare burdens on firms were lighter.*
4. The UK was firmly *embedded into the EU single market* and as "local" manufacturers companies with head offices outside the UK had preferential access.
5. The UK had *more highly developed capital market in the City of London* than other European countries.

The Invest in Britain Bureau (now UK Trade Investment) was set up in 1979 and is answerable to the DTI and the Foreign Office its web site <http://www.UKtradeinvest.gov.uk/>

Figures from the bureau show that by the late 1990s:

- 1 in 3 companies moving to Europe came to the UK.
- Direct investment in the UK (1998/99) totalled £38.6bn more than 50% of this was from the US.
- The UK attracted 23% of all FDI into Europe with France the next most popular destination.
- The UK is the second most favoured nation for FDI after the US.
- More than 4,000 US companies are established in the UK.

In 2000 out of a total of *652 investment projects, 204 were new projects, 259 expansions* by companies already in the UK and *198 major acquisitions of UK companies by foreign firms.*

It is estimated that these projects created *44,413 new jobs and safeguarded another 74,340.*

Armstrong and Taylor show that in the period up to 1990 the number of jobs associated with manufacturing FDI were in the region of **375,000** of these 60% were located in four regions of the UK: *Scotland, West Midlands Wales and the North West*. Figures since 1991 (Armstrong and Taylor (2000)) show that the previous pattern has continued for manufacturing firms (with the North West falling a little) but when it comes to non-manufacturing investment the South East leads (24.7%) with the West Midlands(14%) and Scotland(13.1%) second and third.

Figures for year 2000 from Invest UK show that 67% of manufacturing inward investment projects were located in the peripheral areas over the last 5 years and 64% of non-manufacturing investment project were located in the core regions SE, East, London and SW. This suggests a clear centre/periphery split in terms of FDI .

Taylor & Wren (1997) point out that the two major recipients of Japanese manufacturing investment are *Wales* and the *North* and that assisted areas were found to be attractive to Japanese manufacturers partly because regional financial assistance was available. They calculate that, on average, foreign owned companies who were offered RSA received **£900,000 on average** between 1991 and 1994 whereas UK owned companies received **an average of £140,000.**

Taylor (1991) used multivariate regression analysis to identify the factors associated with the location of Japanese manufacturing investment in the UK.

Location decisions were strongly influenced by *assisted area status* and *the industry mix*.

Disparities in *labour costs* were not an important factor but *labour availability* was.

However, it should be noted that the availability of RDG and RSA, although important, was not the only deciding factor.

Stone and Peck (1996) carried out a study of FDI in UK peripheral regions. They looked at employment in the Foreign owned manufacturing sector (FOMS) compared to employment in UK owned manufacturing firms and found that employment patterns in foreign owned firms were much more stable. They also found that FDI was more intensive in peripheral regions than the country in general, 17% of manufacturing is in FOMS across the UK but in Wales the figure is 33%.

The same study also looked at the elements of change in FDI plants. These can occur from plants opening or closing, acquisitions or divestments, and employment change in survivor plants.

- They show that in *Wales* and the *North* there was an overall net gain from plants opening or closing.
- In *Northern Ireland and Scotland* there was a net loss.
- *Acquisitions* gave a positive reading everywhere except NI and *in-situ change* was negative in all areas.

Finally they examine the change in employment by country of origin of FDI, this shows that over the period it was US investment that was falling away in all areas and the major growth in percentage terms were from Far Eastern FDI and Non-EC Europe.

Munday et al. (1995) examined Japanese manufacturing plants in Wales. Their research provides a *number of interesting findings* about FDI in the regional context. In particular they examine:

- the *quality* of employment offered,
- the *cost in terms of regional assistance* of attracting in FDI firms,
- *their productivity and profitability*, and
- their *propensity to export and use local inputs*.

Japanese owned manufacturing in Wales expanded rapidly in the 1980s in both the number of plants and employees and the number of economic sectors in which they were operating. They were operating across a range of industries from *consumer electronics to plastics and business machines*.

Half the plants were significant exporters (*>40% of output*) but *few carried out R&D*.

- They found that *few* employed significant numbers of *school leavers* but *female rates were high*.
- *Skill levels were generally low* but there were *opportunities to learn new skills* or tasks.
- Wage levels were generally lower than those in *comparable US or European owned FDI companies*.
- Japanese firms display a degree of '*embeddedness*'.

The survey found that the parent company in Japan (or elsewhere in Europe) *maintained tight control with regular contact with head office and Japanese personnel in key positions*. The Japanese were more concerned with *increasing market share* than short-term profitability. Productivity, levels were better than other FDI firms from other countries.

One of the criticisms of FDI is that *local sourcing is low* the study found *as plants matured local sourcing increased* but these components were often the *low value and bulky*. They conclude that Japanese FDI is no worse than that from other foreign investors. Overall it can be said that FDI has been a *success in the peripheral regions of the UK*, the data shows that *some peripheral regions have fared particularly well* from FDI.



## Indigenous potential and SMEs

A number of researchers suggested that regional financial assistance has been more effective in assisting small firms than larger ones, Taylor & Wren (1997) because of cost per job and capacity for further growth. Hart & Scott (1994) examining SMEs in NI suggest that assisted SMEs had lower closure rates and created more jobs than non-assisted firms.

Armstrong and Taylor present evidence of a buoyant job creating UK small firms sector in early 1980s. With small firms (<50 employees) accounting for 98% of all enterprises, 42% of employment and 28% of turnover by 1986.

More recent evidence suggests that the number of enterprises continued to grow throughout the 1980's before a slight downturn in the early 1990's since then there has been a recovery and the figure now stands at 3.7million up from 2.4 million in 1980. The importance of the small firm sector had increased further by 1998 with small firms accounting for 99.2% of enterprises, 44.7% of employment and 38% of turnover.

Armstrong and Taylor provide evidence that the proportion of small firms in the UK manufacturing is lower than most of our major competitors nations. However, evidence from 1998 suggests that the position has changed significantly since 1986, *the percentage of employment in SMEs had risen to almost 50%* and something like *96% of all manufacturing enterprises were SMEs in 1998*, figures were even higher in *London, the East and the South East*.

### Regional dimension to new firm formation

The performance of the small firm sector is also not uniform regionally. Armstrong and Taylor suggest that the South had a more developed and dynamic small firm sector than the North. Additionally smaller towns in rural areas of the south appear to be particularly attractive to new small firms.

However, data from the end of the 1990's suggests that there may be subtle changes underway. During the period 1997-99 the change in the stock of VAT registered firms suggested a resurgence in firm formation for *London and Merseyside* both with stock growth rates of *8% over the two year period*. There is still some evidence of a north south divide but it is much less so than it was in the 1980's.

There is also evidence to show that *survival rates (after 3 years)* may be improving in peripheral areas, with *Northern Ireland (27% above national average), Wales and the South West having better survival rates than the South East*. However, the north is still the hardest place in which to set-up and succeed in a small firm with *survival rates in the North East and North West running at 8% and 5% below the national average* respectively.

Keeble in a study of SMEs finds that although SME growth was higher in the South East and London than in Scotland, Wales and the North in the 90s, this does not suggest that the North is a "hostile environment for SMEs". Their performance is *reasonable*, and they have *relatively high innovation and technological intensity levels*.

The contention that areas outside the SE are not fertile ground for small business growth is misleading. Evidence from 1998 shows that whilst the percentage of enterprises classified as small firms might be marginally higher in the south, the employment creating and output capacity of small firms in the north and Celtic fringes is significantly higher.

Armstrong states that the reasons why the north appears to be a hostile environment for small firm formation are unclear but offers some explanations of the type of area where small firm growth can be expected to be high:

- A culture of small firms because most founders previously worked in a small firm.
- A large proportion of workers with managerial skills
- High relative levels of educational attainment particularly technical and scientific skills.
- A buoyant local economy.
- Easy access to finance high relative house prices.
- The area is not dependent on industries with high barriers to entry.

- Good access to small factory units and workshops.

A composite relative measure is provided by the *index of entrepreneurship* based on such factors as importance of small firms in economy, qualifications, white collar professions, availability of finance (savings, income). See Table 11.5 Armstrong and Taylor (1993) suggests a clear north south divide but as the figures have demonstrated nothing is quite that simple.

Robson, (1998), *Self Employment in the UK regions*, Applied Economics, came up with a similar set of conclusions attaching particular importance to the sector that the self-employed were in (Agriculture, Construction, Distribution and Hotels & Catering) and the effect of real housing wealth. He suggests that recession-push is not a significant factor in male self-employment (unemployment or the threat thereof). Further he suggests that in order to even out disparities in self-employment, policy should be geared to differentiation in loan proportions or interest premiums to compensate for house price differentials.

## **Technology**

Begg I, (1991) shows the regional distribution of high technology and R&D employment in 1981 & 1989 is predominately in the South of the UK. He also compiled a ranking of TTWAs by high-tech LQs which shows a clustering around London. Statistics shown that there is a strong link between high-tech and R&D the South East has the highest proportion of both..

Further analysis shows that the most R&D in the UK is placed by private enterprise (43%), Overseas firms and governments (15%) and Defence (14%). The vast majority of R&D is carried out in business enterprises (64%) with a further significant chunk in higher education (20%).

Trend data shows that over the period 1989 to 1997 R&D (at fixed 1995 prices) has been generally rising, but against this trend defence R&D has been falling whilst civil R&D has been rising. Service sector R&D has been rising at a faster rate than manufacturing although manufacturing still accounts for 77% of the £9.5bn spent in the UK on R&D in 1997.

Within the general trend it is evident that the focus of R&D is switching with pharmaceuticals accounting for the largest proportion of expenditure in 1997, the other major growth areas have been motor vehicles and computing. Whereas aerospace and other machinery have seen the largest falls.

In terms of employment, almost 140,000 people worked in R&D in 1997, a fall of almost 30% since 1981. Most of the losses have been in administrative and technical staff (both down by 50%) whilst the number of scientist and engineers has increased by 10%.

R&D expenditure is also spatially concentrated the, South East accounts for almost 24% of all R&D. This is clearly dependant on who funds research projects. Business funded research is concentrated in the East and South East (48%), government funded in the South East and South West (47%) and academic in London, the South East and Scotland (52%).

### **Science parks and technology transfer**

The vehicle by which technology transfer often occurs between pure and applied R&D companies/organisations and new technology-based firms (NTBFs) is often the Science Park. Henneberry (1992) reviews the operation of science parks in the UK in the early 1990s, at the time of writing there were 39 in operation with a total floorspace of almost 400,000 square meters, accommodating over 1,000 companies and employing 15,000 people. Almost 60% of the committed investment of £300m came from public sources (including universities).

NTBFs are said to exhibit faster employment and sales turnover growth than more conventional firms and also provide greater local multiplier effects and have a tendency to sub-contract out work locally. In addition, NTBFs have minimal displacement effects and are more likely to export (outside the local economy). Little wonder that technology is the darling of the economic development planner.

## **Urban Policy**

Urban policy has a number of facets but we will look closely at 3 - Enterprise zones, UDCs, and Regeneration.

### ***Enterprise zones***

The DETR's Urban Research Summary No. 4 (1995), by P A Cambridge Economic Consultants, evaluates 22 of the 25 enterprise zones set up in the first two rounds beginning in 1981. The key findings are that:

- There were over 5,000 companies on the 22 Zones by 1990, employing nearly 126,000 people, half of which were in urban areas. It was estimated that about 58,000 (46%) jobs were additional to those, which would otherwise have been created in the local areas. Such 'additionally' was highest amongst manufacturing industry and lowest for retailing and distribution activity.
- Between 1981/82 and 1992/93 the total public sector cost of the 22 Zones is estimated to have been between £798-£968 million. Rates relief accounted for some 46% of the total cost, enhanced capital allowances for 45 % and infrastructure and land acquisition for 9%.
- By 1990 about 6,700 acres of land had been developed and about 6,000,000 square metres of floorspace built, with about 80% of the available land developed over the Zones' lifetimes.
- More than £2 billion (1994/95 prices) of private capital was invested in property on the twenty two Zones between 1981/82 and 1992/93. This represents a public to private leverage ratio of about 1:2.3.
- There has been considerable environmental improvement in the Zones through the removal of dereliction and this has had an influence on companies' decisions to move to the Zones.

### **Urban Development Corporations**

Oc and Tiesdell (1991) review the creation of the London Docklands Development Corporation (LDDC). They show how this was pursued with the single objective of wealth creation. Any benefits to the indigenous community would be from "trickle down".

They review the success or otherwise of LDDC from three standpoints, housing, job creation and transport infrastructure. Most of the land earmarked for development had previously been designated for mixed housing development with a strong bias towards public and mixed tenure, in the event 80% was built for sale, local residents could not afford to buy. Despite claims that up to 200,000 jobs would be created in "Docklands" by 2000 they report that by 1987 the tally was less than 8,000 and only 36% of these were new the rest had been transferred from outside the area. Initial transport planning for the area was inadequate particularly the provision of public transport and expansions have only occurred because of extensive private sector injections from the developers of Canary Wharf.

They suggest that the second generation UDCs have learnt from the experience of the first wave and the new framework is broader with strategic economic and planning considerations and more integrated with host local authorities.

Criticisms, similar to those made of the LDDC, were made about the Cardiff Bay Development Corporation (CBDC) by Rowley in a 1994 article in Geoforum.

Regeneration Research Summary No. 17 (1998) - URBAN DEVELOPMENT CORPORATIONS: PERFORMANCE AND GOOD PRACTICE by Roger Tym and Partners

Key findings of a study which reviews the activities and performance of Urban Development Corporations (UDCs), in Birmingham Heartlands, Black Country, Merseyside, Plymouth, Sheffield, Teesside, Trafford Park and Tyne & Wear and draws good practice lessons for future regeneration programmes in general and the proposed Regional Development Agencies (RDAs) in particular.

- UDC areas were characterised by large-scale vacancy and dereliction, marked by a degraded environment and inadequate infrastructure they had low resident populations but all were surrounded by residential areas suffering severe economic and social disadvantage, with exceptionally high unemployment rates.
- The eight UDCs covered by the study were able to claim at the end of their lifetime 143,937 jobs in new development, 326 km of road built or improved, 2,389 hectares of land reclaimed, 5,029,000 sq m of new commercial floorspace, £6.87 billion private sector investment in land and

buildings and 14,703 new housing units. The total in-year public expenditure cost of the eight UDCs over their lifetimes was £1.99 billion.

- Many UDCs were initially resisted and opposed by local interests. However, as they matured, the Corporations' achievements in transforming their designated areas were increasingly acknowledged, and hostility diminished over the years.
- The experience illustrates the need to kick-start investment and economic activity in areas suffering severe physical degradation and confirms that site assembly and reclamation by the public sector are critical in overcoming failures in land and property markets.

### **SRB Challenge**

SRB competitive bidding for smaller scale regeneration projects at a local scale  
Regeneration research summary no. 13, 1998, The distribution of SRB challenge fund resources in relation to local area needs in England, carried out by the Department of Land Economy, University of Cambridge by Dr Peter Tyler, John Rhodes and Angela Brennan.

The study is based on cumulative expenditure data for the 555 successful bids across rounds 1, 2 and 3 of the Challenge Fund, analysed at the Local Authority District level. The key findings were that:

- There is a positive relationship between the degree of deprivation at the district level and of expenditure in relation to the allocation of local area need. The cumulative analysis of round 1-3 expenditure shows that the vast majority of deprived areas (as measured by the Index of Local Conditions) have now received funding.
- The 20 most deprived LA Districts in England received almost one-third (30%) of total SRB CF equivalent to expenditure per head of £174. The 56 most deprived authorities received almost two-thirds (63%), equivalent to £138 per head.

### **Concluding remarks**

1979 watershed moving from “top down” blanket intervention, to “bottom up” targeted assistance. The reason for change was a mixture of political & economic reasons, most importantly competition. Goodbye to controls, deadweight, displacement & branch plants and welcome to innovation, entrepreneurs, de-regulation, value for money & technology. Inward investment poses a crucial dilemma - indigenous growth the touchstone - new technology the crucial challenge - the emergence of an integrated approach to urban and local problems. The new emerging challenge is community development.

Although not an explicit part of regional policy, inward investment has had a profound impact on the regions. Manufacturing is concentrated in the periphery, and FDI firms are increasingly embedded, high tech & high value. SME growth was significant after the 70s, but tends to favour southern regions, some evidence that entrepreneurship is spreading, growth in self-employment also important. Spreading technology and R&D to the regions, currently highly concentrated in the South and large firms, seen as important. There was a need to spread out via, technology transfer (pure to applied) and new technology based firms, some evidence of success in this area. Urban policy, massive expansion, more focus on property development with less emphasis on permanent jobs and training, needs to become more holistic and focused on host communities.

### **Reading**

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## Annex Chronology of policy change

The period 1979 – 91 saw major changes to both the geographical coverage and instruments of regional policy. This was in three main periods 1979-83, 1984-87 1988- 1991

### *Cuts in expenditure*

- 1979 Planned cuts in the regional budget of £233m by 1982/3
- 1984 Further cuts of £300m in annual expenditure by 1987/8
- 1988 Level of expenditure to remain unchanged

### *Eligible areas*

- 1979 Redrawing of the assisted area boundaries to reduce the percentage of the working population covered, from 47% to 28% by 1982
- 1984 SDAs abolished and merged into DAs the boundaries were again redrawn to a position where 15% of working population in DAs Intermediate areas)

### *Grants*

- 1979 **Regional Development Grant** (RDG) the value of RDG was maintained in SDAs (22%) but cut it in DAs (15%) and abolished in Intermediate Areas. **Regional Selective Assistance** (RSA) maintained but provided only “where necessary” to allow a project to go ahead (attention to the provision of more productive and secure jobs). RSA was mainly a fixed and working capital subsidy.
- 1984 RDG extended to certain service industries and cost per job limits imposed (although employment subsidies had been abandoned in 1977 as part of RDG between 1984 and 1988 a marginal employment subsidy was available).
- 1988 RDG abolished (although pre-commitments were honoured) – money switched to RSA. Introduction of **Regional Enterprise Grants** (REG) available in DAs for small firms <25 employees (investment or product/process innovation). **Consultancy Initiatives** all assisted areas <500 employees claim back (66%) cost of hiring consultants also available at lower rate (50% in non-assisted areas).

### *Others*

- 1979 **Scottish and Welsh devolution** abandoned. **Regional Economic Development Councils** abolished. **Office Development Permits** scrapped, **Industrial Development Certificates** IDC not required in intermediate areas, floor space limits were eased (raised) in non-assisted areas. IDCs abolished in 1982.
- 1980 Nine **Enterprise Zones** created (benefits to firms exempt local rates and Development Land Tax, fast-track planning applications, reduce requirement to provide info (labour market) to government).
- 1984 Six **Freeports** introduced at dockland and airport sites (outside UK customs jurisdiction duty liable if imported into UK or other EU country)
- 1985 **City Action Teams** 8 established to co-ordinate government department’s activities in the designated areas
- 1986 **Inner City Task Forces** extend the co-ordination of action teams to include the local “community” and the private sector, usually these had a short life-span of 2-3 years.
- 1988 **Development Agencies** renamed (Scotland) Enterprise emphasis switched to industrial investment and training from the previous property led focus.
- 1992 **City Challenge and Coalfield Areas Fund**, the former was to enable competitive bid projects to go ahead and the latter was a short-life scheme with a value of £2m pa.
- 1993 **English Partnerships** formed as an umbrella organisation to facilitate urban regeneration answerable to the Secretary of State.