



**UNIVERSITY OF
STRATHCLYDE**

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JWMcG/MJP

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Mr J Dixon
Cabinet du President

Dear Mr Dixon

Attached is a copy of our report on Strathclyde Region. One short section (2.2), which includes a brief background description of Strathclyde Region, is missing and cannot be sent until Monday. There are also a couple of figures missing from one paragraph in the text, which we are still waiting for.

Editing and final revision, especially for the concluding sections, has been rather rushed and I may make some further changes to the text over the week-end. I will send you the final version on Monday.

Yours sincerely

PP J W McGilvray
(Professor)

1. Introduction

1.1 The perceived need for regional policy arises because of spatial imbalances in the supply of and demand for resources and levels of economic activity. Such imbalances occur when the demand for a particular region's goods and services falls; there is idle capacity and unemployment, and the region experiences a payments deficit with the rest of the country.

Historically, the emergence of serious and persistent deficit regions has been associated with long-term decline in the demand for the regions' staple export products (coal, steel, agriculture, textiles, etc). There is a "structural" problem and the restoration of long-term balance of payments equilibrium, and increased employment, requires structural adjustment in the region's pattern of economic activity.

Theory suggests that the necessary adjustments should be effected through a combination of factor mobility (labour migration), changes in factor prices and inter-sectoral resource transfers. (This applies whether or not inter-regional exchange rates are fixed or variable). In practice, deficits in particular regions of the UK have persisted for very long periods. Adjustment processes have been slow and partial. Proximate causes of this failure of adjustment include rigidities in factor prices (especially wages), constraints on labour mobility, and autonomous and accommodating financing of deficit

regions by central government through social welfare payments and ~~redistributive transfers.~~

The persistence of regional structural problems, and/or the perceived costs of adjustment, have led to political and social pressures for the development of regional policies to assist the process of structural adjustment in deficit regions. Traditionally, the main thrust of positive regional policy has been on measures to raise the level of industrial investment (particularly manufacturing investment) in the deficit regions. This has been supported by various forms of social and economic infrastructure expenditure and by financial transfers to cover payments deficits.

- 1.2 In the UK, regional policies have been pursued since the late 1930's, though with varying degrees of intensity. Prior to the Second World War, regional policy was largely concerned with efforts to re-structure existing staple industries, such as coal, steel, textiles and shipbuilding. Immediately after the war, the deficit regions were substantial beneficiaries of the post-war Labour government's programme of industrial and social reconstruction.

In the 1950's, during which full employment prevailed throughout most of the UK, there was little emphasis on regional policy. However, in the early 1960's the re-emergence of unemployment and evidence that the structural problems of the deficit regions had persisted, led to a revival of concern with regional policy and an "activist" phase which continued throughout the 1960's and 1970's. This phase marked the

introduction of various innovations in regional policy, including measures of industrial relocation, the establishment of new industries, regional wage subsidies and the establishment of various institutions to promote development in the deficit regions. In Scotland, these included the Highlands and Islands Development Board (1965), the Scottish Development Agency (1975), as well as the decentralisation of various policy functions to the Scottish Office. The institutional structure in Scotland was also significantly affected by local government reforms which saw the establishment of Regional Authorities in Scotland (1975) (of which Strathclyde Region is the major authority) with responsibilities for economic development.

In the early 1980's, a change of government, a deep recession which affected hitherto prosperous regions, and a much more market-oriented philosophy of economic management led to a reappraisal of regional policy. Areas eligible for regional aid were reduced, and scales of assistance were cut. On the positive side, more emphasis has been given to training and other supply-side measures, and more recently to policies for the regeneration of inner cities and other urban areas. At the same time, however, expenditure on regional development is subject to more stringent controls.

- 1.3 It is generally accepted that regional policy has made a significant contribution to employment in Scotland, and it is widely accepted that regional policy has added to national employment and GDP through a better spatial allocation of resources.

However these achievements seem modest when set against the persistence of regional problems in the UK. Of course, this is not necessarily due to a failure of regional policies, but may be rooted in more fundamental problems or distortions in market adjustment mechanisms, which regional policy can only partially address. Nevertheless the absence of convergence between the deficit and surplus regions of the UK is testimony to the scale and complexity of the problem.

2.1 Context of the Study

Between nation-states, disequilibria are reflected in balance of payments deficits or surpluses. Persistent payments deficits in one country require, sooner or later, policy measures to eliminate the payments imbalance and restore equilibrium.

The degree and nature of policy intervention depends upon the prevailing international monetary regime. Under the old gold standard, adjustments were (at least in principle) automatic and required little policy intervention; deficit countries experienced a loss of gold (reduction in the monetary base), leading to a reduction in the flow of money and credit, a fall in domestic demand and eventually in incomes, wages and prices. Eventually, payments equilibrium would be restored.

In a regime of independent monetary authorities and managed exchange rates adjustments are not automatic but require accommodating policy measures by the authorities. The simplest and most obvious policy measure is a change in the exchange rate, which has the immediate effect of reducing real wages (and other factor prices) in the deficit country. Other measures may however be implemented, either instead of or in support of an exchange rate change. These include trade restrictions and exchange controls, monetary and fiscal policies to reduce demand in the deficit country, and other devices such as incomes policies.

On the whole, the prevailing international monetary system has coped successfully with payments disequilibria, at least within and between the developed countries. It has been less successful with respect to the ~~developing countries. For instance, which since does not permit us to explore~~ here, but which in some degree are echoed in the experience of certain problem regions in the developed countries.

Within a monetary union, persistent regional balance of payments deficits (or surpluses) will also necessitate adjustments, but the policy instruments available to intervene in the adjustment process, and the dynamics of adjustment itself, are different. Most obviously, adjustment of real factor prices through exchange rate changes and/or trade restrictions are not possible. Secondly, since for social or institutional reasons there is likely to be less flexibility in real wages between regions than between nation-states, measures such as capital and labour subsidies may be considered necessary to reduce factor prices in deficit regions. On the other hand, there may be greater potential for adjustment through factor migration.

The most striking point to emerge from a comparison of national and regional adjustment mechanisms and processes, however, is the fact that the process of regional adjustment can be prolonged almost indefinitely. Provided the national government is prepared to support it through loans, grants, transfers and other forms of aid, deficit regions can continue to sustain balance of payments deficits. This indeed has been the UK experience. While regional policy has been pursued, with varying degrees of intensity, for the last 60 years, the list of deficit regions (and their

characteristics) has remained virtually unchanged throughout the whole of this period. We believe the experience of other EC countries is similar. It is not the purpose of this paper to analyse the reasons for this phenomenon, but unless EC Regional Policy is to be viewed simply as a redistributive mechanism, it implies a very careful approach to the development of regional policy objectives and instruments within the Community.

In this context, it is instructive to examine the actual experience of regional policy within a single monetary jurisdiction, and the following section of this paper is devoted to a case study of Strathclyde Region.

2.2 Strathclyde Region

3.1 Types of Regional Policy Measures

This paper reviews the range of regional policy instruments in use or developed in Strathclyde over the past five years or so, and attempts to evaluate the significance and efficiency of these instruments as means of alleviating regional disequilibria within a monetary union. Within the typology of policy measures, a distinction is also made between policy intervention levels - for example, measures which reflect the implementation of national policy adjustment instruments (e.g. investment grants), and measures which originate in, and are implemented by the region concerned (e.g. local enterprise initiatives).

We begin with a summary description of the major types of regional policy instruments, which serves as both the practical framework for the assembly of data on Strathclyde, and as the analytical framework for our subsequent evaluation.

A. (i) Measures designed to achieve flexibility in factor prices.

Such measures can include wage/employment subsidies, designed to reduce the cost of labour to employers and hence improve regional competitiveness; capital grants and subsidies which reduce the cost of capital to employers; and grants and subsidies on land (subsidised rates/rentals or land purchase).

- (ii) Measures designed to assist labour mobility.

Measures (such as transport and housing assistance) designed to help labour move from areas of high unemployment to areas of low unemployment, distinguishing between intra-regional mobility and inter-regional mobility.

Note: Within a monetary union, capital is totally mobile and there is no place for measures to encourage capital mobility per se. Land is by definition immobile.

If we regard it as a distinct factor of production (in addition to land, labour and capital) we could also include here measures to improve entrepreneurial mobility e.g. measures to attract HQ functions. These however overlap with some other types of measures described below.

The above instruments are essentially directed towards a more effective operation of a general equilibrium market system, in which disequilibria are removed by changes in relative factor prices and in the spatial reallocation of resources. We now turn to a second group of policy measures which are designed to improve regional competitiveness (or regional comparative advantage) by changing the quality of the regional resource base.

B (i) Measures designed to improve the quality of labour.

All types of labour skill-training schemes.

(ii) Measures designed to improve the quality and volume of entrepreneurship.

Business start-up schemes, subsidised management training, etc.

(iii) Measures designed to improve the volume and quality of economic infrastructure.

Grants and assistance for roads, airports, site development, etc.

Like A, this group of measures are "market-oriented" in that they are directed towards competitive improvement within the framework of a freely-adjusting general market system. They are more activist (interventionist) however, in attempting to change the quality of the region's resource base, by "supply side" policies. (EC Structural Adjustment loans fall into this category.)

The third group of measures may be described as "Keynesian" since they are designed to offset or redirect the consequences of market processes. These measures are mainly effected through central (budgetary) mechanisms.

C. (i) Redistributive transfers through the tax and social security systems.

- (ii) General purpose equalisation grants.

- (iii) Specific-purpose measures directed to social and environmental projects.

Employment (public works) schemes, social infrastructure improvements, leisure and recreational schemes, etc. There is an overlap here with "supply-side" measures e.g. certain projects may attract more tourists and hence improve the economic base of the region, and a better environment may attract entrepreneurs to Glasgow.

Measures under C.(i) will not be discussed further in this paper, since they are not distinctive to any one region and, while they may constitute an important source of support to particular deficit regions, are not primarily intended as regional policy instruments. Likewise while general-purpose equalisation grants have a region-specific dimension, and can be an important source of revenue to local authorities in deficit regions, as part of the national system of redistributive transfers, rather than active instruments of regional adjustment, they are not considered further in this case study.

Some policy measures contain elements of all three of the classification criteria listed above. An example is the long-standing policy of attracting "inward investment" into the deficit region, either

from other (surplus) regions or from abroad. To the extent that this involves various types of grants and subsidies, the policy may be subsumed under Category A. Since it is also designed to enlarge the productive capacity of the region, it can be classified as a "supply-side" measure. And to the extent that it is supported by administrative measures designed to prevent a firm investing in or expanding in a surplus region, it falls under Category C.

Another type of criterion by which regional policy measures may be classified relates to the level of policy formulation and implementation. Traditionally in the UK, regional policies were evolved by central government and administered either by central government departments or local branches or agencies of central government (there were some exceptions, notably New Towns Corporations). In the last decade, there has been a growing emphasis on devolving initiatives for policies of regional development and regeneration, often accompanied by institutional changes in policy-making and implementation. A recent example is the establishment of Urban Development Corporations (UDC's) in England and Wales to plan and manage redevelopment in urban industrial areas. Scotland provides a particularly striking example of this trend; at national (Scottish) level, the establishment of the Scottish Development Agency (SDA), and at sub-regional level the establishment of Regional Councils (of which Strathclyde is one) with scope for the development of regional initiatives. A relevant question here is whether this decentralisation of policy-making and implementation has improved the effectiveness of regional policy.

3.2

A - 1 Measures designed to achieve flexibility in factor prices

(i) Wage and employment Subsidies

In line with the Council's policy of addressing labour market problems in the region, local employers are encouraged to hire the unemployed, with wage costs subsidised for 6/12 months by the Regional Council. The "Employment Grants Scheme" (EGS) is jointly funded by the Council and by the European Social Fund. By 1987/88, the Regional Council had received ESF grants up to £31.7m (covering a range of programmes) with the EGS directly assisting the placement of 18,500 workers, (see Appendix 1 for summary of EC assistance to Strathclyde region).

The Scottish Development Agency (SDA) also operate the Training and Employment Grants Scheme (TEGS). A wage subsidy can be paid to employers for recruiting unemployed labour in the main SDA initiative areas throughout the Region: in Glasgow (GEAR and Govan), Clydebank, Inverclyde, Glengarnock, Central Ayrshire, Motherwell and Coatbridge. The SDA will pay up to 60% of wages (plus necessary course fees) for 6 months. To be eligible, those unemployed must be resident in the areas concerned and must have been out of work for 13 weeks+ (17-24 years olds) or for more than 12 months (25 years and over). Between 1982 and 1987, TEGS has involved 1500 companies, hiring more than 5000 people from areas with the highest levels of unemployment.

(ii) Capital Grants and Subsidies

The principle capital grant scheme payable directly to local companies is funded by the UK government, operated in Strathclyde by the local office of the Industry Department Scotland (IDS). Recent changes to UK regional policy have radically altered the scale and style of grants available to industry in the "assisted areas". From April 1988, firms with less than 25 employees may apply for Regional Enterprise Grants. This pays 15% of expenditure on fixed capital assets, up to a ceiling of £15,000. Grants for "innovation projects" attract 50% of eligible costs up to a maximum of £25,000. These grants only apply in Development Areas -- NB the whole of Strathclyde with the exception of Ayr, Girvan and the old County of Argyll, falls into this designation.

Firms located in Development and Intermediate Areas may apply for Regional Selective Assistance (RSA). Eligible projects must be commercially viable, create or safeguard employment, demonstrate a need for assistance and offer a distinct regional and national benefit.

Traditional UK Regional Policy (combining "automatic" Regional Development Grants (RDG) and "discretionary grants" in the form of Regional Selective Assistance) was previously amended in 1984. This change reduced the number of eligible areas, cut the level of grant available and placed a ceiling on the amount of RDG any single project could receive. Under this system, total assistance from UK regional

policy for business in Strathclyde region in 1987 fell by 39% as compared to the level of support in 1986, (see Appendix 2 for details of UK Regional Policy assistance to Strathclyde Region).

Examining data across the three main schemes: "old RDG", "new RDG" and RSA, more than two-thirds of assistance went to British owned companies, less than a third to foreign-owned firms, and a very small proportion to the public sector. Foreign companies attracted a disproportionate share of RSA, attracting 40% of funds available. In 1987, the Office Machinery and Computers industry received the largest amount of assistance: £7.5m or 13.7% of all payments. Next came the Mechanical Engineering industry with £5.9m (10.7%), Electrical Engineering with £5.7m (10.4%), and Food and Tobacco with £4.3m (7.8%).

In addition to the capital grants provided by central government, the SDA and local authorities similarly provide a range of supply-side measures to assist the relocation of industry and the expansion of indigenous companies. Appendix 3 demonstrates the level of SDA expenditure across different activities with investment on advance and "bespoke" industrial premises, loan (occasional grant) assistance with plant and machinery and financial support for business development

being priority areas. In the years 1985/87, the SDA invested the following in Strathclyde Region:

Renewing Environment	:	£20,072,000
Accommodating Enterprise	:	£7,931,000
Financing Enterprise	:	£7,705,000
Developing Enterprise	:	£2,221,000
Advising and Informing Enterprise	:	£734,000

(Analysis of this data is confusing as the categories of expenditure now used by the SDA do not accord with their annual Scottish-wide figures presented in Appendix 3).

Within the Region there are also a number of initiatives that serve to combine capital grants and subsidies from different sources. The Clydebank Enterprise Zone is a case in point. Although part of UK policy where the UK Treasury offers business in defined areas a period (normally ten years) of exemption from paying local taxes (rates), the success of this EZ is based as much on the additional investment provided by the SDA and other public agencies. This has paid for substantial environmental and infrastructure improvements, particularly in terms of factory provision. A very significant benefit in the EZ's (more than 50% of the Exchequer costs) has also been the availability of capital allowances that have encouraged speculative commercial property development in all the zones. A second Enterprise Zone in Strathclyde in Inverclyde will become effective in early 1989.

A - 2 Measures designed to assist labour mobility

(i) Intra-regional Mobility

There are no specific programmes currently operating within the region that assist the local mobility of labour. Under the New Towns programme between the late 1940's and the early 1970's there was a policy of assisting the movement of "key" workers from the older industrial areas (especially Glasgow) into the New Towns of East Kilbride, Cumbernauld and Irvine. This coincided with the housing-led "overspill" programme that "exported" households from Glasgow to a series of "importing" communities throughout Scotland. It has been argued that these two policies had a negative effect on the older industrial areas in Strathclyde, ultimately weakening the local labour force and abetting the process of inner-area decline.

(ii) Inter-regional Mobility

Inter-regional population movement has had a significant impact on Strathclyde. Between 1961 and 1981, the Region lost 100,000 people, 7% of the population, mainly to the more prosperous parts of the UK. This was effectively a voluntary migration, based on household perception of economic opportunity.

During the recessions of the early 1980's, the UK government supported a number of small programmes designed to assist voluntary migration. Legislation was introduced to assist movement between

local housing markets, with support for owner-occupation being part of this process. The Job Search Scheme and the Employment Transfer Scheme both offered assistance to individuals and families to relocate within the UK. In 1985/86, the Transfer Scheme helped 578 residents move outwith Scotland; the same scheme enabled 78 people to move into Scotland, (data for Strathclyde are not available). Recently, the Government has supported a Travel to Interview Scheme to help pay the job-search costs of unemployed persons.

(iii) Executive Mobility

Recently, Glasgow Action has been instrumental in developing an HQ policy for Glasgow and the Region as a whole. Working with selected companies, this public-private organisation is attempting to demonstrate the attractions of corporate relocations to Glasgow, arguing that HQ relocation generates the best local multiplier in terms of additional employment. More fundamentally, it is argued that the presence of Head Offices enlarges the pool of senior executive personnel and enhances the possibility of entrepreneurial innovations and new business start-ups in similar or related industries.

For somewhat different reasons, over the past 15 years local government in the Region has supported the transfer of government offices from the SE of England to Strathclyde. Despite Government assurances only two major relocations have been implemented: the Overseas Development Administration in East Kilbride and part of the Ministry of Defence Procurement Office to Glasgow. In total this has

resulted in less than jobs coming to the region but, nevertheless, it has resulted in a total of new jobs. Although the motivation here has more to do with job creation than with "entrepreneurial spin-off", the less tangible benefits of attracting high-level decision-making functions to the Region are also relevant here.

B. Measures designed to improve the region's comparative advantage

(i) Improving Labour Quality

Improving the skill level of the British workforce has been an objective of the UK government throughout the 1980's. National schemes, designed and implemented by the Training Agency (previously the Manpower Services Commission) have attempted to cover both retraining of unemployed labour (the Adult Training Programmes) and improving the skill base of school leavers and the young unemployed (through the Youth Training Scheme (YTS) and the Technical and Vocational Education Initiative (TVEI).

The DE in London has overall responsibility for the Training Agency and for training policy, but the Secretary of State for Scotland approves the Training Agency's annual plan for Scotland and has responsibility for the operation of the Agency in Scotland. Estimated expenditure on training in Scotland for 1988/89 covers: TVEI at £10m; YTS at £115m; Employment Training (ET) composed of off-the-job training and practical training at £175m and a range of smaller initiatives targeted at employers costing some £22m. (See Appendix 4 for expenditure on training in Scotland and in Strathclyde Region).

One of the central criticisms of the training system in the UK is that it represents inflexible central policy, unresponsive to regional circumstances and the needs of local employers. Even the training

Agency in Scotland has had little policy or programme discretion and, until very recently, has been unable to tailor training packages to fit other local economic initiatives. Thus, in addition to these UK policies, different institutions at the regional level have responded by designing smaller training schemes, adapted to suit local labour market conditions. The Regional Council has, for example, developed a range of programmes to assist employers as well as individuals learn new skills, particularly in the field of new technology. Using ESF grants the Council currently funds the following schemes:

"New Technology Training Scheme" (NTTS):
1300 participants + applications for 700 places (1988)

"Youth Employment and Training initiative" (YETI):
250 participants + applications for 100 places (1988)

"New Start Programme":
4500 training places supported + applications for 1900 (1988):

"Linked Work Experience and Training for School Leavers":
5000 trained + applications for 1000 (1988)

Based on support under article 15 of the ERDF, the Regional Council has also launched in collaboration with the SDA and other local authorities, the Strathclyde Business Innovation Centre. This new centre provides a range of business support services for small and medium-sized enterprises - including assistance with new technology, product marketing, exporting and access to a special Venture Capital Fund, supported by the Council's own Superannuation Fund.

It is difficult to gauge the impact of these relatively small schemes on the overall skill level of the region's labour force. What

is significant, however, is the fact that each major joint initiative in the region (linking the SDA with the Regional and District Councils) has included a small training element. And with the development of local Enterprise Trusts (led and part funded by the private sector) matching the skills of the local labour force to the emerging needs of business has become an integral part of local economic development.

(ii) Improving Entrepreneurial Quality

The "Enterprise Initiative" launched by the UK government in April 1988 (administered in Strathclyde by the Industry Department Scotland) offers assistance for business across a range of services required for exporting, research and technology, and, in particular, consultancy help for improving marketing, quality control, design, business planning and for establishing financial and information systems. These services are now offered through the Scottish Development Agency, a function that the SDA has developed over several years. Their primary focus has been to develop the small business sector, providing support (at a local level) for product development, management expertise and improved financial planning.

Improving entrepreneurial quality has also been an objective of Local Enterprise Trusts. With support from the UK-based Business in the Community (a private initiative), local trusts (known as agencies in England) have developed a close working relationship with public agencies in areas of economic decline. Using their network of local

business contacts, these Trusts began to take on the role of small business support and training. In some of the later Project Areas in Strathclyde, as in Inverclyde, the SDA designed their economic and employment initiatives around a series of "Venture Units" that incorporated (in theory) a mixture of local employers. Trusts are jointly funded by the private sector (46%) and by public agencies such as the SDA (54%).

To date some 17 trusts have been launched in Strathclyde. Despite this numerical success, these local private agencies still receive a significant level of support from the public sector (SDA, Regional and District authorities) and there are problems in recruiting local employers to give of their time to serve on local management and advisory boards. Nonetheless, it is the success of the Trust movement that underpins the latest policy development in Scotland: the possible merger of the SDA with the Scottish Training Agency under the title Scottish Enterprise. Combining manpower planning, training and local economic development under one agency, services would be delivered through a series of Local Agencies directed and part-funded by the private sector: "the ultimate objective of these proposals is the creation of a dynamic self-sustaining Scottish economy in which the investment and training are private sector led and financed".

Working through related Enterprise Trusts, the SDA has funded Enterprise Funds for Youth where unsecured loans of up to £5000 may be borrowed by young people wanting to start a business. Taking Scotland

whole, in 1987/88, some 70 loans were approved amounting to £170,000. EFFY has been extended throughout Scotland in conjunction with the Prince of Wales Youth Business Trust.

(iii) Improving Regional Infrastructure

Since the development of the post-war planning system, improving the regional infrastructure has been a key feature of economic planning in the region. Funding major capital programmes: roads, railway electrification, New Town development, advance factory construction, has come from central government, with implementation co-ordinated through a series of public agencies and local authorities. The Scottish Development Agency (created in 1975) has been particularly significant in this area. Its central responsibilities cover the delivery of a range of supply-side measures: removing industrial and environmental dereliction, providing a renewed industrial infrastructure and improving the managerial capacity of Scottish business. As can be seen from the Appendix 3, a significant, sometimes dominant, proportion of Agency expenditure is absorbed by environmental improvement and land reclamation.

While the SDA has altered its priorities since 1975, its concentration of investment in Scotland's industrial heartland - particularly in Strathclyde Region - has remained constant. This policy was formalised in 1981 when an Area Development Directorate was charged with concentrating 60% of annual Agency expenditure in

identifiable target areas. With political support from the Regional Council's designation of Economic Priority Area in 1981, the SDA selected 5 key "Area Projects" within Strathclyde: GEAR in the east end of Glasgow (the largest city within the region), Clydebank, Motherwell, Coatbridge and Inverclyde. A similar initiative in Govan (also part of Glasgow) was added in 1986. The significance of these Projects was that they incorporated and committed local authority expenditure, through informal "Project Agreements", targeting other forms of capital investment (for roads, water, sewage, factory development and other infrastructure) on the selected area.

While there is some debate as to the extent of "additional" spending delivered through these Area Projects, there is no doubt that they acted as a critical lever in terms of institutional co-operation. In some, as many as 8 different central and local government agencies managed to work in partnership, co-ordinating policy objectives and project delivery. In terms of local government involvement, they also induced a measure of resource reallocation, particularly in terms of capital programmes.

C. Keynesian (Demand-led) Measures

- (i) Redistributive transfers through the tax and social security system

As stated earlier, these national measures will not be reviewed within the range of regional policy measures employed in Strathclyde.

(ii) General purpose equalisation grants

Since 1976, and increasingly after 1979, the UK government has consistently reduced Rate Support Grants (RSG) to local government as an integral part of its overall objective of cutting public spending. In parallel, there has been a deliberate policy to transfer the burden of local spending on to local rate (tax) payers. Hence, the 1980's has witnessed a shift in the proportion of local government spending funded from local rates and from the central Exchequer.

In the case of Strathclyde Region, in 1982/83 more than 60% of total revenue expenditure was funded through RSG; by 1987/88, that proportion had fallen below 50%, with the majority of spending funded by revenue raised locally (see Appendix 4).

At the same time there has also been strict control over capital expenditure, particularly in the housing field. Looking at Scotland as a whole, in 1975/76, local government had consent to borrow more than £1500m (based on 1982/83 constant prices); by 1985/86, that figure had fallen to £650m.

These changes have impacted on the ability of the Regional Council to address the inherent problems of the local economy. Despite the attempts by government to control local tax increases, between 1979/80 and 1985/86, its own policies have effectively doubled the average domestic rate bill and have placed an additional burden on local business. Central control over capital expenditure has in turn

reduced the ability of local government of adding to or effectively maintaining its capital equipment, resulting in poorer services and fewer contracts being placed with local business.

4.1 Evaluation of the Strathclyde experience

A rigorous quantitative evaluation of the effectiveness of the contemporary range of policy instruments employed in Strathclyde is not feasible within the framework of this short study. Nevertheless, as required by its terms of reference, we attempt in the following paragraphs to characterise the main features of and trends in regional policy in Strathclyde, and to suggest some conclusions regarding the effectiveness of these policies.

In reviewing policy measures, we have not regarded employment creation as the major criterion for judging the impact or effectiveness of a policy. Historically, short-term employment creation was the principal target of regional policy in the UK and virtually the sole criterion of its effectiveness. While the political and social imperatives are obvious, it is doubtful whether short-run employment creation is a sufficient or even very useful criterion for evaluating regional policies, particularly where there exists a comprehensive redistributive welfare system to alleviate the most severe social aspects of unemployment. Moreover, at a more practical level many contemporary regional policies do not readily lend themselves to "employment impact" types of measurement.

Since the primary causes of a region's problems lie in its economic structure and competitiveness, policies must be assessed by the degree to which they contribute to the (long-run) elimination of the region's structural deficit. Thus the relevant criteria here are whether a particular measure is likely to bring about an improvement in the region's

competitiveness and potential for growth, in particular after the period of application of the policy. With these essentially qualitative criteria in mind, we summarise below the main features of the review of regional policy initiatives in Strathclyde.

- (i) A notable feature of the present package of policy measures is the emphasis on "supply-side" instruments which are designed to improve the quality of the area's resource base. Most important here are the wide range of training schemes directed towards raising the level of skills in the labour force, and various schemes to encourage entrepreneurship, small business start-ups and management and marketing skills. Such measures are directly targeted towards improving competitiveness and increasing investment in the small-scale private sector.
- (ii) Also based on supply-side considerations, though less directly, is the greater emphasis on environmental improvement in the older urban areas. Though such schemes may be partly influenced by traditional "job-creation" objectives, they are viewed as having potential supply-side effects through
- influencing business location or relocation decisions
 - attracting business conference, leisure and tourism business
 - by achieving a more heterogeneous demographic/social mix in traditional urban areas, widening the market for goods and services and raising the prospects of new investment "induced" by environmental improvements.

(iii) A striking feature of the evolution of regional policy in Strathclyde, and in Scotland generally, has been the development of local institutional structures with decentralised powers over the implementation and initiation of policies. Such institutions include the Scottish Office, the Scottish Development Agency, the Locate in Scotland Bureau, Strathclyde Regional Council and a large number of more local institutions with specific areas of responsibility. Such a degree of decentralisation has made possible a speedier and more flexible policy implementation, greater sensitivity to local conditions and greater opportunities for local initiatives. Though difficult to quantify, we regard this institutional dimension as a fundamental characteristic of regional policy in the area.

(iv) Although "inward investment" (either from other parts of the UK, or from abroad), is still a critical instrument of regional policy, it now receives relatively less emphasis, in favour of a more holistic view of regional development which includes supply-side measures, environmental/social improvements and specially-designed development schemes of urban renewal and redevelopment. Such Integrated Development Programmes are important components of regional development policy in Strathclyde, and reflect changing views of the dynamics of urban regeneration. The shift in reliance on inward investment also owes something to other factors, including the decline in national or international mobile investment in the 1980's, the relative decline in manufacturing industry, and realisation that inward investment

alone could only alleviate, but not reverse the problems of industrial regions in structural decline.

- (v) Inward investment policy itself and the industrial development policy of which it is a component, has become more selectively targeted towards sectors (including service sectors) which improve the region's competitiveness and demonstrate growth potential. Though this is a Scottish rather than a specifically Strathclyde phenomenon, it is an important characteristic of contemporary regional policy.
- (vi) Another significant feature has been the effort to involve the private sector in both the development of and the implementation of regional policy initiatives. Although the actual financial contribution of the private sector has so far been relatively modest, it may be seen as an effort to harness the interests and commitment of the sector to the development of Strathclyde, and the creation of an environment conducive to investment. Moreover, joint public-private ventures offer the possibility of additional sources of development funds.

Paradoxically, the innovative developments in regional policy in Strathclyde (as in other parts of the UK) may be viewed as a response to a government philosophy less supportive of the merits of traditional instruments of regional policy (though there is strong evidence that these instruments had a significant effect on regional performance). The practical manifestation of these innovative developments however is largely

due to two circumstances; firstly, as suggested above, the creation of local institutions with the powers and creative talents to develop innovative concepts and reactivate local resources and energies; and secondly, access to sources of funding outside, and in addition to the traditional channels of central government support.

It is clear that while monetary union prevents or limits the use of particular adjustment mechanisms at regional level, this has not prevented the emergence of a wide range of alternative policy instruments. Indeed considerations of equity and competition policy are probably more important constraints on regional policy than those imposed by monetary union.

Viewed in historical context, regional policy in the UK cannot be judged very successful, insofar as the problem regions have remained unchanged throughout half a century of (admittedly variable in intensity) regional policy. While apologists may argue that problems of poverty and employment would have been worse in the absence of regional policy, the process of structural adjustment has been painfully slow, and the view has been expressed (though with little scientific support) that a "dependency culture" engendered by continuous reliance on the redistributive mechanisms of regional policy may in fact have retarded the adjustment process.

While the above view seems fanciful, there is equally little evidence to support the notion that monetary union within the UK has frustrated adjustment (Ireland, for example, which is essentially a region of the UK economy, has not fared notably better since the break with sterling in the mid-1970's).

A more plausible explanation lies in the political-administrative and intellectual climate within which regional policy was formulated and implemented; the lack of attention to evolving appropriate local institutional agencies for regional development, the lack of attention to the development of human and environmental resources, and the failure to realise that the regeneration of urban industrial areas like Strathclyde required a holistic approach which embraced economic, social, political and physical transformations.

Although the evolution of the Single Market carries profound implications for the regions of the Community, monetary union in itself is not an obstacle to the formulation and implementation of effective regional policies, in support of which the United States provides the most striking and instructive example. In fact the benefits from greater factor mobility may well outweigh the theoretical disadvantages of fixed inter-regional exchange rates.

More challenging is the articulation of an effective regional strategy for the Community, of which the institutional framework, including the balance between EC and national financing mechanisms, is a critical part. A particular aspect of strategy, which is not peculiar to Strathclyde but is of general significance to regional policy, is the potential conflict between regional policy and industrial and competition policy. For example in Strathclyde, as in other UK Regions, mergers and takeovers, while perhaps enhancing efficiency, have led to a substantial degree of external control of the Region's industry and, more important, to the loss of "Head Office" functions to outside the Region. It is widely believed that this

loss of managerial and entrepreneurial talent is detrimental to the Region, and that reviews of proposed mergers or takeovers should give explicit attention to the regional dimension. Whatever the strength of this particular argument, there are and have been conflicts and inconsistencies between competitive policy and regional policy, and these will certainly arise within the Community during the process of industrial adaptation which has already started. There is therefore an urgent need for a coherent regional component in the process of Community integration.

4.2 Conclusions

It is too early to judge the effectiveness of regional policy in Strathclyde. Many new policy instruments have been introduced in the last two years, and further changes are in the offing in the light of the Government's proposals to merge the functions of the Training Agency and the Scottish Development Agency.

There have been significant changes in the philosophy and management of regional policy in the UK, with greater emphasis on improving indigenous capabilities for growth, and the devolution of responsibilities for the implementation of policy. The impressive record of Strathclyde in recent years owes much to the existence of a local institutional structure which has provided expertise and leadership in innovation and methods of implementation. This institutional dimension is in our view a critical element for successful regional policy.

Monetary union has not posed a handicap to the process of regional adjustment - indeed in some respects has facilitated the process - but there is a need for clearer strategic thinking on the resolution of potential conflict between industrial and competition policy and regional policy, including industrial incentives, mergers and takeovers, rationalisation and public procurement.

In addition to this proposed strategic function, the availability of discretionary EC funding has been critical in supporting local initiatives and in leveraging counterpart funds from national governments. As long as

such support is not open-ended, and particular policy measures are subject to careful appraisal, the availability of funding can encourage the development of innovative and cost-effective local initiatives. Such measures are more likely to be relevant to local conditions and needs than standard regional policies developed and implemented at national or Community level.

Appendix 1Summary of EC Assistance to Strathclyde Regional Council 1975 - 1987

ERDF (Project Award)	£m 86.5
ERDF (Glasgow Programme)*	25.0
European Social Fund (Approvals)	31.7
Total Grants	<hr/> 143.2
European Investment Bank Loans	<hr/> 154.0
Total Value of EC Assistance	<hr/> 297.2

*Estimate

Source: Strathclyde Economic Trends No.19, June 1988, SRC

Appendix 2

Government Regional Assistance in Strathclyde (1982 - 1987)
(Current Prices)

<u>Year</u>	<u>Old RDG</u>	<u>New RDG</u>	<u>RSA</u>	<u>Total</u>
	£m	£m	£m	£m
1982	65.4	-	15.6	81
1983	37	-	16	53
1984	38.9	-	26	64.9
1985	45.8	2.9	41	89.7
1986	64.5	11.5	13.6	89.6
1987	17.4	14.5	23	54.9

Source: Strathclyde Economic Trends, 1983-1988, SRC.

Government Regional Assistance in Strathclyde (1982 - 1987)

(Constant 1987 Prices)

<u>Year</u>	<u>Old RDG</u>	<u>New RDG</u>	<u>RSA</u>	<u>Total</u>
	£m	£m	£m	£m
1982	88.0	-	21.0	109.0
1983	46.4	-	20.1	66.5
1984	46.8	-	31.2	78.0
1985	51.8	3.3	46.3	101.4
1986	68.8	12.2	14.5	95.5
1987	17.4	14.5	23.0	54.9

Source: Strathclyde Economic Trends, 1983-1988, SRC.

Appendix 3

Scottish Development Agency Annual Expenditure

(Current Prices, £000)

<u>HEADINGS</u> :	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u>
Property Management	18,309	22,000	28,407	28,047	27,108
Investment Management	4,956	7,247	5,423	5,645	7,979
Advisory Services	4,215	4,303	4,713	5,971	5,995
Land and Environment	30,015	36,814	45,050	41,821	52,862
Marketing	7,221	9,635	8,770	7,052	7,822
Development Planning	7,843	11,254	22,543	25,270	24,182
Total	72,559	91,253	114,906	113,806	125,948

Source: Annual Reports of the SDA, 1984 - 1988.

Appendix 4

Training Programmes funded by the Manpower Services Commission (now Training Agency)

(Current Prices)

SCOTLAND

YEAR	COMMUNITY PROGRAMME		ADULT TRAINING SCHEME		YOUTH TRAINING SCHEME		NEW JOB TRAINING SCHEME	
	Entrants	Exp.	Entrants	Exp.	Entrants	Exp.	Entrants	Exp.
84/85	-	-	-	-	43,688	£70.2m	-	-
85/86	31,789	N.A.	22,745	£17.0m	45,100	£78.4m	-	-
86/87	37,790	N.A.	42,005	£21.0m	42,100	£83.2m	-	-
87/88	37,208	£138.6m	43,406	£20.1m	37,900	£93.4m	11,703	£2.5m

Source: Unpublished figures provided by the Training Agency (Scotland)

STRAITHCLYDE

YEAR	COMMUNITY PROGRAMME		ADULT TRAINING SCHEME		YOUTH TRAINING SCHEME		NEW JOB TRAINING SCHEME	
	Entrants	Exp.	Entrants	Exp.	Entrants	Exp.	Entrants	Exp.
84/85	-	-	-	-	17,185	£30.4m	-	-
85/86	15,214	N.A.	10,865	£7.9m	20,024	£34.9m	-	-
86/87	19,180	N.A.	19,879	£10.3m	19,512	£34.8m	-	-
87/88	20,441	£71.3m	18,170	£9.7m	15,709	£36.9m	5,348	£1.0m

Source: Unpublished figures provided by the Training Agency (Scotland).

Appendix 5

Strathclyde Regional Council

Revenue Account (Income) 1982/83 - 1987/88

(at 1987 Constant Prices)

YEAR	RATE SUPPORT GRANT		RATES	
	£(000)	%	£(000)	%
1982/83	911,636	60.5	595,228	39.5
1983/84	923,276	60.7	597,235	39.3
1984/85	836,217	59.4	572,365	40.6
1985/86	781,621	55.8	619,283	44.2
1986/87	696,057	52.1	639,040	47.9
1987/88	759,296	48.9	794,058	51.1

Source: Chartered Institute of Public Finance and Accountancy,
Rating Review - Actual Income and Expenditure: Survey
Volume, 1984-1988.