GEOGRAPHICAL INCOME DISPARITIES WITHIN COUNTRIES:
IS REGIONAL DEVELOPMENT POLICY THE ANSWER?

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I. INTRODUCTION

Regional policy exists because policy makers believe that regional disparities in income and unemployment are a problem. They are also persuaded by (some) academics and by their policy advisers that policies can be devised to reduce these disparities. This paper attempts to explain why policy makers believe that regional policy is desirable and what policies exist for helping lagging regions to improve their economic performance. It should be pointed out at the outset that the author agrees with those academics and policy advisers who believe that regional policy is worthwhile, and that it is capable of improving the performance of lagging regions efficiently and effectively. This is not meant to imply that devising a regional policy is easy or that regional policy has been highly successful in the past. But it does mean that the author is convinced that regional policy, if properly implemented, is capable of delivering substantial net positive benefits.

The paper begins in section II with a brief definition of regional policy and how this has changed over time. This is followed in section III with a review of the arguments used to support the case for having a regional policy. Section VI discusses the broad options facing policy makers in deciding on an appropriate form of regional policy, and section V discusses the successes and failures of past regional policy instruments. Some lessons learned from past policies are then identified in section VI. Section VII concludes.

II. WHAT IS REGIONAL POLICY?

UK regional policy began as early as the 1920s when policy makers decided to help unemployed miners to migrate from areas of high unemployment to areas of low unemployment. This was the first attempt to tackle the problem of localised unemployment. The onset of the 1930s' depression made matters much worse for certain regions, however, and policy makers decided that labour migration on its own was unlikely to be very effective. They subsequently decided to encourage firms to move into areas of high unemployment by creating industrial estates in designated Special Areas. Regional policy did not get off the ground in any serious way, however, until after the Second World War when controls on the location of industry were used to divert manufacturing investment from the labour scarce southern regions to the labour abundant northern regions.

Regional policy is no longer just about inducing capital and labour to move in opposite directions. A much broader view is now taken about the objectives of regional policy and a wide range of policy instruments are now available to policy makers to help them to achieve these objectives. Member

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1 See Armstrong and Taylor (2000) for a more detailed discussion of these early attempts to re-allocate capital and labour.
states of the EU, for example, use an extremely wide array of policy instruments in order to stimulate economic development in their poorest regions. Regional policy is now much more about inducing indigenous economic development by encouraging new firm formation and the growth of small firms. It is about stimulating the expansion of productive capacity from within low income / high unemployment regions rather than relying entirely on inward investment to solve the problem. It is also about getting local people and local organisations integrally involved in the process of economic development by encouraging partnerships and by providing appropriate institutional mechanisms for creating a stronger regional economy.

Regional policy has not only become much more diverse in the policy instruments that are used, but has also become more diverse in the way in which it is now operated. Initially, regional policy was entirely in the hands of the central government and the regions themselves had no input into the form or execution of regional policy initiatives. This is no longer the case. The traditional tight grip of the central government on regional policy in EU countries has been challenged, and loosened, from two sides. First, the European Commission has gradually acquired greater control over the regional policies of its member states. This is best reflected by the imposition of maximum grant levels permitted under EU regulations and by the control exerted over the delimitation of EU-designated assisted areas. From the opposite side, central governments have begun to respond to the demands of local and regional authorities for a greater say in regional economic development. Local and regional involvement in the design and implementation of regional development strategies (encouraged by the EU's Structural Funds approach to regional policy) is now becoming more widely accepted, even by central governments which are very reluctant to relinquish control. This is reflected in the UK, for example, by the move towards devolved regional governments in recent years.

III. REGIONAL INEQUALITIES: DOES REGIONAL POLICY HAVE A ROLE?

The case against regional policy

According to mainstream neo-classical economics, regional income disparities will automatically decline over the long run. Regional income convergence is a natural outcome of the migration of capital and labour to those regions offering the highest rates of return (Barro and Sali-i-Martin 1991). Sudden unexpected shocks may cause regional income divergence to occur but the convergence process will quickly reassert itself and so government intervention through regional policy is unnecessary. Indeed, government intervention could even be harmful in so far as it encourages firms to locate in areas they would not normally choose. It may also discourage the unemployed from migrating to areas where jobs are available by providing subsidised housing in their present high unemployment location. According to this view, regional policy is just another way in which government intervention results in a less efficient economy.
Whether regional income disparities will automatically decline over the long run, and the speed at which such convergence occurs, is still a very open question and subject to much debate and empirical testing. There is indeed evidence of regional income convergence within many developed economies, though the speed of this convergence has proved to be extremely slow (Table 1). Furthermore, the convergence process appears to have slowed down considerably in the last two decades despite the continued increase in goods and factor flows. Indeed, the convergence of regional incomes is far from being universal. There is little sign of any convergence, for example, either in India or China, and the convergence process appears to have come to a halt in many European countries (Table 2).

The neo-classical response to the failure of regional incomes to converge in countries such as India, where these disparities are immense, is that governments should make it easier for low-income (and unemployed) workers to migrate to regions where job prospects are better. The problem with such a policy is that many workers are simply not prepared to move away from their home districts. Large migration flows from low-income to high-income regions may also be undesirable because they could adversely affect the geographical balance of the population. In other words, there may be substantial external costs resulting from the heavy geographical concentration of the population in the most rapidly growing regions, such as capital cities and other agglomerations.

Critics of regional policy might reasonably ask why regional income disparities have failed to narrow substantially in those countries with long-established regional policies, such as the UK and Italy. There are two explanations for this lack of correlation between convergence trends and the longevity of regional policy. First, regional policy would have to be very powerful to have a marked effect on regional income disparities. Germany provides an excellent example of how GDP per capita in lagging regions can be rapidly increased as a consequence of appropriate policy action. Massive income transfers and large-scale investment by both the public and private sectors have helped to reduce the productivity gap between East and West Germany substantially (Barrell and Velde 2000). Commitment to regional policy has been much weaker in the UK and Italy, as indicated by regional policy expenditure as a proportion of GDP (Figure 1), and cannot therefore be expected to have made much impact on regional income disparities. In any case, regional income disparities are much more likely to be affected by government fiscal transfers than by regional policy expenditure, which has generally been very small as a proportion of GDP in countries such as the UK and Italy.

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4 Between 1991 and 1997, labour productivity in East Germany increased from 18.8 to 29.1 compared to an increase from 57.0 to 65.2 in West Germany (Barrell and Velde 2000).
Second, regional income disparities are also far more likely to be affected by the performance of the macro-economy than by regional policy. The reason is obvious. Regions specialise in different commodities and the growth in the global demand for these commodities will determine the performance of the regional economy. A region's industrial structure has a major impact, for example, on its unemployment rate (Taylor and Bradley 1997).

We must therefore conclude that long-run trends in regional income convergence provide no information about the effectiveness or otherwise of regional policy. It is quite possible, for example, for regional incomes to diverge even if regional policy has been very effective in achieving its objectives and given the resources devoted to the policy. If regional policy is to be accurately evaluated, it is essential to begin by measuring the direct and indirect impacts of individual policy initiatives over specific periods of time. Much effort has gone into developing a reliable and convincing framework for evaluating regional policy and it is these techniques that provide crucial information about which policy instruments have been 'successful' and which have not (Taylor 2002).

**The case for regional policy**

An underlying assumption of regional policy is that substantial disparities in economic performance between regions can have undesirable consequences and that there is a strong case for government intervention. Governments therefore have a responsibility to speed up income growth in low-income regions. The proponents of regional policy go even further. They argue that regional income convergence is far from inevitable and that there are powerful divergent processes at work that drive a wedge between high and low-income areas, causing long-term persistence in regional income disparities. There is considerable evidence to support this assertion, particularly in the developing economies. India is a prime example of where regional income disparities are not only immense but have also been increasing over several decades (Rao et al. 1999). A similar picture emerges for China, which has seen a growing income gap between the coastal regions and the regions of the interior since the 1978 reforms.

The case for regional policy is based on economic, social and political considerations. The main arguments are as follows:

1. Perhaps the prime argument for regional policy is that persistent and substantial regional income disparities are unacceptable on equity grounds in democratic societies. This is just an extension of the inter-personal equity principle. Sensitivity to such disparities is even greater if they coincide with corresponding cultural or ethnic differences between regions, as they do in many developing economies (Hill 2000).
2. The main economic justification for regional policy is that creating jobs in areas of high unemployment will raise national output. The benefits of this increase in output would accrue directly to the unemployed themselves through raising incomes as well as to taxpayers in the form of reduced transfer payments. Furthermore, the long-term economic prospects of high unemployment areas will be enhanced if unemployment can be reduced since high unemployment is associated with low educational attainment, low skills and a lack of competitiveness (Bradley and Taylor 1996).

3. Reducing unemployment in high unemployment areas has wide-ranging social benefits. Unemployment not only impoverishes but also demoralises and can have harmful effects on the health of those who are unemployed for long periods. The geographical concentration of unemployment can also impose severe costs on all residents of high unemployment areas due to its positive effect on crime rates and the poor quality of housing and amenities.

4. The existence of a cumulative causation mechanism may reinforce regional income disparities. The migration of labour from areas of high income to areas of low income may not have the equilibrating effects predicted by economic theory due to the selectivity of migration flows. Young and highly skilled workers are by far the most mobile, which means that net migration flows are likely to result in a depletion of the skill level of low income regions while the skill level of high income regions is simultaneously being enhanced. This may act as a disincentive to inward investors as well as stunting indigenous development. The selectivity of migration may also have adverse consequences on the economic performance of low-income regions over the longer term through the intergenerational transfer of skills. The educational outcomes of localities are highly correlated with their socio-occupational mix and any depletion in a region's skill level will leave it at a disadvantage compared to regions with a rapidly improving skill level.

5. Inward migration into rapidly growing regions may result in severe economic costs due to the generation of negative externalities. Large-scale inward migration into rapidly growing regions, such as major urban centres, over relatively short time periods can result in severe pressure on fixed infrastructure. The traditional response to increased pressure on fixed infrastructure such as transport routes is to relieve it by expanding capacity, but the relief is often short-lived as the extra 'supply creates its own demand', giving rise to a persistent cumulative spiral of excess demand.

6. Spreading the benefits of economic development to all regions is necessary if the nation state is to be politically cohesive. The persistence of large regional disparities in standards of living is divisive and may cause resentment because of the feelings of unfairness that such disparities engender. This is particularly strongly felt in the EU, where regional income disparities are seen to be a potential source...
of resistance to further integration. The impending accession of the transitional economies of Eastern Europe has led to a strengthening of the political case for an effective regional policy for the EU as a whole.

Governments have not always been convinced that there is a strong economic case for regional policy. In the 1980s, when unemployment rates in Europe reached record levels, regional policy was regarded as a zero-sum game in which one region's benefit was another region's loss. The crudest version of this view is that jobs created in assisted areas simply displace jobs in non-assisted areas. The only benefit of regional policy in this case is that it achieves a more equitable balance of job opportunities but there are no efficiency gains for the economy as a whole.

A more positive view of the benefits of regional policy emerged in the 1990s, particularly as a result of the strengthening of EU regional policy through the creation of the Structural Funds in 1989 in response to concern over the effect of economic and monetary union on regional income disparities. It has become increasingly recognised that the less well off regions could make a substantial contribution to a country's competitiveness. Regional policy has consequently been re-focused on the economic benefits that are expected to result rather than relying exclusively on the social and political benefits of the policy.

IV. REGIONAL POLICY OPTIONS

There are three different approaches to reducing regional income disparities: (i) a market-based approach, which focuses on correcting failures in the labour market due to wage inflexibility, immobility of labour and capital constraints; (ii) an interventionist approach based on government attempts to stimulate investment in lagging regions; (iii) fiscal transfers based on automatic stabilisers (such as unemployment benefit), block grants and discretionary spending by the government. The focus here is on government action to increase investment in lagging regions since this is more directly concerned with regional policy as conventionally defined. This does not imply that the market-based approach and fiscal transfers are unimportant ways of reducing regional income disparities, but it does allow us to focus more directly on traditional regional policy instruments. Indeed, fiscal transfers are an extremely important re-distributive mechanism for reducing regional income disparities in federal states but these are based on equity considerations whereas regional policy instruments are designed to alter the spatial configuration of economic activity in order to achieve greater economic efficiency.\(^5\)

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\(^5\) Coulombe (2001) has estimated that transfers from the Federal Government to the Canadian Provinces had the effect of reducing the dispersion in per capita income (defined as the log of the standard deviation of income per capita) from 16.8% to 10.8% in 1996.
The interventionist approach to regional policy argues that policies are required to achieve a more optimal spatial distribution of economic activity. Low income and high unemployment are explained by a lack of competitiveness due to low productivity compared to competitors in other regions and other countries. Regional policy should therefore aim to improve the competitiveness of lagging regions through encouraging new investment in both human as well as physical capital.

Three broad types of investment are needed (Figure 2). First, investment in physical capital involves encouraging firms to invest in lagging regions either through inward investment (both domestic and foreign) or through stimulating indigenous growth within the region itself. Possible policies include location controls, investment incentives and providing advice to SMEs.

Second, a region's ability to attract investment will depend on the quality of its public infrastructure (Hill 2000; Begg 2002). The aim of investing in public infrastructure is to remove those characteristics that inhibit potential investors, such as poor transport links, lack of suitable sites for expansion and poor quality infrastructure generally. Other less tangible factors that deter potential investors include the absence of an efficient service sector, high crime rates, poor housing conditions, and an absence of cultural and recreational activities. These are all factors that need to be considered as part of the economic development process since together they may have a substantial influence on investment activity. Economic development is unlikely to occur in the absence of adequate public infrastructure.

Third, a region's competitiveness depends very much on the quality of its workforce. It has been extensively demonstrated that educational attainment and skill level are a powerful force in determining a region's competitiveness. This is indicated by the high negative correlation between a region's unemployment rate and the proportion of high skill workers (Figure 3). Raising educational attainment and skill levels is therefore likely to be of paramount importance in determining the long-run growth prospects of all economies, whether they are local, regional or national, and regardless of their stage of development. Furthermore, educational attainment levels are transferred from one generation to the next through the family and this is a powerful force that leads to persistence in the spatial pattern of skill levels (Bradley and Taylor 1996).

V. REGIONAL POLICY IN PRACTICE: SUCCESSES AND FAILURES

Evaluating the successes and failures of regional policy is not a simple task. One of the main problems is that jobs and incomes are affected by many other factors in addition to regional policy. In addition, regional policy often involves the use of several policy instruments simultaneously and it is not always easy to isolate the effects of specific instruments. This is the case, for example, with regional development programmes supported by the Structural Funds, which use a combination of policy
instruments simultaneously and are used in different ways in different programmes (Turok 1997). A considerable amount of research has been undertaken, however, on measuring the effects of regional policy and it is possible to reach at least some broad conclusions about the effectiveness of specific policies. Some examples are provided based on UK studies in this section.

**Location controls**

The deliberate use of government regulations to influence the regional distribution of investment has a long history. Industrial location controls were a very important component of regional policy in the UK from the 1940s through the 1970s. Investment by manufacturing firms that required an expansion of floor space was deliberately restricted in non-assisted areas by the imposition of location controls. Several empirical studies have indicated that these location controls were extremely effective in diverting manufacturing investment into the assisted areas (Moore and Rhodes 1976; Moore, Rhodes and Tyler 1986; Twomey and Taylor 1985). These controls were also extremely cost effective since the only expenditure incurred by the government was on the administration of the policy.

Location controls were abolished in the early 1980s in the wake of a move to reduce restrictions on industry in order to give firms more freedom to invest in their preferred locations. It was also believed that location controls were having an adverse effect on both domestic investment and on foreign inward investment, thereby reducing national investment in total. Location controls still exist, of course, in the form of land-use planning controls but these are concerned with residential and environmental issues and not regional development.

**Investment incentives**

Investment incentives have been the primary instrument of regional policy in the UK since the early 1960s. At different times over the last four decades, these incentives have had three aims. These are, first, to encourage firms (primarily in manufacturing) to move from non-assisted areas to assisted areas; second, to encourage foreign firms to locate in the assisted areas; and third, to induce firms already located in assisted areas to expand.

Two main types of grant have been available: automatic grants and discretionary grants. About 60% of grant expenditure in the UK during 1960-2000 was on automatic grants and 40% on discretionary assistance (Figure 4). Evaluation of these grants during the 1970s and early 1980s convinced policy makers that automatic grants were far too expensive in terms of the cost per direct job created in the

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6 These were the automatic Regional Development Grant (RDG) and Regional Selective Assistance (RSA), both of which were made available by the Industry Act (1972). The RDG was abolished in 1988. The RSA is now the main form of financial assistance to firms employing over 250 workers. Small automatic grants are available for firms employing under 250 workers (up to 15% of project costs with a maximum grant of £75,000 per project in 2002).
assisted areas and were subsequently abolished. The two main findings of these studies were as follows:

• a large proportion of grant expenditure went to support capital-intensive projects, such as those to large manufacturing firms in the chemical industry (Wren 2002)
• many of the supported projects would have gone ahead without the grants (referred to as 'deadweight').

The consequence of these findings was the abolition of automatic investment grants in the 1980s and increased reliance on discretionary assistance (Wren 1996). Moreover, since the government has been keen to constrain the cost per job created, strict eligibility criteria have been imposed on the award of discretionary grants. The drawback of these criteria is that grants may be wrongly refused to a project that would have resulted in additional jobs being created (or safeguarded). Surveys of the recipients of discretionary investment grants indicate that the deadweight element in these grants has been relatively small. Only 20% of the projects would have gone ahead without the grant whereas 60% were amended in some way (such as bringing an investment forward in time or increasing the size of the project).

7 The eligibility criteria are currently as follows: (i) jobs have to be created or safeguarded; (ii) the grant per job must be at an acceptable level; (iii) the quality of the direct jobs created must be acceptable; (iv) a grant must be necessary for the project to go ahead; (v) the firm must be viable over the medium term; (vi) there must be no alternative source of the funds required; and (vii) the grant must comply with EU regulations and will not normally exceed 15% of the total cost of the project.
8 No information is available about grant refusals.
9 Surveys indicate that about 35% of the projects would have gone ahead with a smaller grant than they actually received (Wren 2002).

Has the switch from automatic investment grants to selective assistance been successful? The answer to this question depends on how 'success' is measured. In terms of cost effectiveness, the answer is an unequivocal 'yes'. Survey evidence indicates that the cost per job year is about one-third of the annual unemployment benefit, which is an excellent investment for taxpayers as well as offering considerable long-term benefits to the unemployed. On the other hand, the expenditure on selective assistance has fallen to extremely low levels during the 1990s and has been creating only about 10,000 jobs per year, which compares unfavourably with the numbers unemployed in the assisted areas. In fact, the UK's financial assistance to industry has been far smaller than many of its EU neighbours (Wren 2002).

The conclusion to be drawn from these evaluation surveys is that the effectiveness of selective assistance could be considerably increased by raising the amount of grant awarded (up to the limits set by the EU) and by relaxing the eligibility criteria. The consequence of these changes would be a higher cost per job but substantially more jobs would be created in the assisted areas.
Foreign direct investment

World FDI grew extremely quickly during the 1990s, rising from an average of $260 billion per year during 1989-94 to over $1500 billion per year in 2000 (World Investment Report 2001). Some countries have been far more successful than others, however, in attracting inward investment from abroad. Two-thirds of the world's FDI went to the US and the EU, for example, during 1996-2000 (Table 3); and within the EU, the UK and the Benelux countries have been more successful than their European neighbours. A similar picture of geographical concentration is evident in developing economies, with China and Hong-Kong together obtaining one-third of all FDI going to developing countries.

In view of the increasing importance of FDI as a source of investment, it is not surprising that governments in many countries have seen it as a potentially important source of investment, not only for stimulating growth in the national economy but also for improving the competitiveness of lagging regions. Inward investment policies have consequently become a very significant component of regional policy in many countries, and a variety of policies have been used to attract foreign firms into designated assisted areas. These include tax incentives, investment subsidies, the provision of industrial sites and enterprise zones\(^\text{10}\), and the creation of inward investment agencies, which compete vigorously with each other for mobile investment. To prevent this competition for FDI from (wastefully) bidding up financial assistance in the EU, has strict rules on the amount of assistance that can be given so that 'rich' regions cannot use their financial wealth to out-bid 'poor' regions in the intense scramble to attract FDI.

Countries with a 'national' location of industry policy have achieved considerable success in steering FDI into lagging regions. The UK, for example, has relied heavily on FDI to radically change the industrial structure of its assisted areas, such as those located in Scotland, Wales, Northern Ireland and northern England.\(^\text{11}\) These regions have had far more than their 'expected' share of inward investment and this has been a direct consequence of regional policy. Table 4 shows that those regions with assisted areas have attracted twice as many FDI jobs as would have been expected on the basis of their employment levels. Exactly the opposite occurs in non-assisted areas, such as London and the eastern regions. Further analysis at sub-regional level reveals a high geographical concentration of FDI even within regions, with a strong tendency for inward investors to locate in those localities with assisted area status (Taylor 1993).

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\(^{10}\) Enterprise zones are more commonly associated with policies of urban regeneration in countries such as the UK rather than with regional policy.

\(^{11}\) During 1990-2001, for example, firms from abroad were awarded over 50% of the UK's total financial assistance to industry (Wren 2002).
It is clear from various empirical investigations of inward investors that financial incentives are only one of many influences on the location decision (Table 5). These include labour availability (rather than labour costs), access to markets, the desire for a greenfield location, and the presence of other (related) firms in the area. According to US research, the pull of existing firms in the same industry on new plants is due to the agglomeration economies that arise as a consequence of the locational clustering of firms (O’Huallachian and Reid 1997; Head, Ries and Swenson 1995). Similar clustering of inward investors has been observed in the UK among Japanese inward investors. Once an area attracts a core of inward investors, this tends to attract further inward investors into the area. There appears to be a clear migrant stock effect in operation.

Evidence of the factors influencing inward investment in developing economies is less abundant. What evidence there is, however, indicates that a similar range of factors to those identified in the US and the UK has been influential. Inward investment into China, for example, has increased phenomenally during the 1990s and investigations of its geographical distribution demonstrate the domination of the coastal regions. Econometric studies indicate that the coastal Provinces have been favoured for several reasons (Sun 1995, 1998; Sun and Dutta 1997; Wei et al. 2000; Zhang 2001):

- An advantageous location in relation to international trade routes
- Past experience in exporting to other countries
- The geographical concentration of workers in major coastal cities
- A workforce with experience in the manufacturing sector
- Preferential treatment of the coastal Provinces by the government in the provision of infrastructure

Perhaps it should not be so surprising that inward investors into China have located in the coastal regions, especially since the government has encouraged this to happen through the establishment of economic development zones, which have offered tax concessions to inward investors producing for the export market.12 The rising disparities in income levels and employment opportunities between the coastal and inland regions have predictably led to substantial labour migration from the interior to the major coastal cities in which FDI has been heavily concentrated. If these increasing disparities are to be addressed, policies to attract investment into the poor interior regions are urgently needed. But this will require the government to lay the foundations by improving transport networks and investing in the economic infrastructure of these remoter regions. Lower labour and land costs in the poorer interior regions are unlikely in themselves to have much effect on the location decisions of inward investors until the necessary infrastructure is built.

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12 These include lower income tax for foreign firms locating in designated economic zones and other tax reductions or exemptions. See China's Attracting Foreign Investment Policy (www.moftec).
The available evidence therefore indicates that although regional policy measures, including financial incentives, have not been the only factor affecting the location decisions of inward investors, such incentives have certainly had a major role to play. In particular, there seems to be ample evidence that regional policy has had a positive impact on the geographical distribution of FDI once a decision to locate in a particular country has been made.

**Indigenous regional development**

A major shift in regional policy occurred in the 1980s. Traditional regional policy had been very heavily based on inducing the geographical relocation of industry from non-assisted areas to designated assisted areas. The recession of the early 1980s, however, led to the contraction of many large firms and there was little scope for inducing firms to move into the assisted areas. Policy makers therefore decided to encourage indigenous growth from within the assisted areas rather than relying on encouraging firms to move from non-assisted to assisted areas.

This switch in policy from extraneous to indigenous development coincided with a growth in interest in small firms. Birch (1979) had already discovered that small firms had been important in creating jobs in the USA and further empirical studies soon confirmed that this was also the case in other countries (Storey 1983). Governments responded by developing policies to encourage the growth of small firms since these were suddenly regarded as being highly important to a country's economic performance. In particular, they were regarded as being "entrepreneurial", 'flexible' and 'innovative' and were therefore important for improving the economy's competitiveness.

Further studies of the small firm sector soon revealed that SMEs were growing far less rapidly in lagging regions than in high income regions (Keeble and Walker 1994). Policies were therefore developed not only to increase the new firm formation rate in regions where it was low, but also to encourage small firms to grow. Governments have experimented with several different types of policy instruments to achieve these aims. These include: the introduction of investment grants specifically for small firms, loan guarantees to small firms that borrow from commercial banks in order to invest in new products or new processes, the establishing of business advice centres, and the provision of small workshops at low rentals.

The problem facing policy makers, however, is a formidable one since the lagging regions are seriously disadvantaged in their ability to generate indigenous growth. New firm formation, for example, is highest in localities with characteristics such as high levels of income, a high proportion of professional and managerial workers, low unemployment and an expanding population (Figure 5). The dilemma is that the fundamental disadvantages of low income regions as incubators of new firms are far too severe to be overturned by the types of policies that have so far been used. There is, in fact,
very little evidence that policies designed to stimulate new firm formation in the assisted areas have yet been effective. Spatial disparities in new firm formation rates in the UK, for example, are highly negatively correlated with the unemployment rate (Figure 6). There has also been no tendency for the new firm formation rate to increase in lagging regions over the long run (Figure 7). There is therefore no evidence that lagging regions have so far benefited from policies designed to stimulate new firm formation or the growth of small firms. The main beneficiaries of these policies have been the more prosperous regions, which have experienced the highest take-up rates of the grants and loans on offer (Wren and Storey 2002).

Community-based Economic Development Initiatives

The latest addition to regional policy is the Community Economic Development (CED) initiative. These initiatives are not new. They have been used as part of urban policy since the 1970s and were incorporated into regional policy for the first time in 1995 when the EU decided to target exceptionally deprived local communities within low-income regions. The CED schemes are therefore a radically new approach as far as regional policy is concerned.

CED schemes deliberately target localities suffering from extreme economic deprivation such as severe long-term unemployment, high dependence on state benefits and low levels of educational attainment. These characteristics of localities are often highly correlated with socio-demographic variables such as deprivation indices, ethnic minorities, incidence of single parent families, high crime rates and lack of local amenities (Social Exclusion Unit 2000). The fundamental aim is to get the people living in these areas directly involved in improving their living standards through a wide range of initiatives driven by the residents of these localities themselves. The key to these CED schemes is therefore the direct participation of the local community in their own economic improvement, a bottom-up rather than a top-down approach. The primary intention is to get the economically excluded into the mainstream economy so that these localities become economically much healthier and more able to support themselves, as well as becoming better places in which to live and work (Table 6).

13 Regressing the log of the new firm formation rate (VAT registrations per capita) for 1994-99 on the log of the unemployment rate (1999) across local authority districts in England, and adding shift dummies for inner and outer London, we obtain an $R^2$ of 0.68. The estimated elasticity on the unemployment rate is -0.41 ($t = -24.0$), which suggests that a 10% increase in the unemployment rate is associated with a 4% reduction in the new firm formation rate.

14 The South East region increased its stock of VAT registered firms from 38.7% in 1980 to 45.4% in 2000. All other UK regions experienced a decline in their share.

15 Whether CED initiatives should be regarded as part of regional policy is a moot point, since they focus on neighbourhoods and localities rather than regions. The fact that the EU has incorporated CED schemes into its Structural Funds programme is the reason for including these initiatives here. See Armstrong et al. (2001) for further discussion.
The problem with top-down schemes is that they fail to engage the local community in the process of local economic development. UK urban policy in the 1980s and 1990s provides several examples of how top-down economic development schemes can result in the local community being by-passed. Top-down schemes directed and controlled from outside of the deprived areas tend to be capital intensive and require highly skilled workers as complementary inputs. The aim of such schemes has been to lever-in as much private capital as possible, rather than directly creating opportunities for local people. New jobs are consequently taken by inward-commuters rather than by local residents. CED schemes based on a bottom-up approach are designed to be more effective since they are aimed specifically at increasing the participation of local residents (McGregor et al. 1995, 1997).

CED initiatives come in different shapes and different sizes. They draw upon the whole array of available policy instruments and include schemes run by local authorities, regional authorities, central government and the EU. The idea is to adapt (or 'bend') existing instruments so that they fit the needs of CED schemes. These include traditional policies, such as investment and innovation grants for existing small firms, business advice for new and small firms, provision of land and premises for new and expanding firms, training schemes for newly employed workers, labour subsidies to firms taking on the long-term unemployed and local tax incentives. A special feature of CED schemes is that they tend to be financed from a wide variety of sources. Locally based organisations have become increasingly adept at funding their activities from different donors, such as a combination of local government, central government, the EU and large firms located in the region.

Less conventional policies that are also being used include the creation of intermediate labour markets, which aim to create a pathway for the long-term unemployed back into the formal labour market. These schemes provide opportunities for learning new skills through work schemes designed to help the local community. There are also many people who have lost contact with the labour market due, for example, to bringing up children or being permanently unemployed and who do not have the skills or knowledge to get back into the labour market. Job clubs and the provision of basic training in computer skills is a cost-effective way of re-engaging these 'discouraged' workers with the mainstream economy. The aim is to get the economically excluded into the job market through a step-by-step approach to acquiring basic skills in a non-threatening environment, such as evening classes in local schools and community centres. Other interesting innovations include the provision of financial help to community-based voluntary organisations; and new payment systems have been introduced based on locally created currencies, such as hours credited for work done, in order to overcome funding shortages (Pacione 1999).

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16 This was the case, for example, with the Urban Development Corporations during the 1980s and 1990s, which were established to rejuvenate the most derelict parts of the UK's inner cities.
But have these CED schemes been successful? The answer is that it is far too early to make a confident judgement. There are several reasons for this. First, CED schemes are expected to have a substantial impact on the competitiveness of deprived areas only over periods of a decade or more. They are long-term policies that are expected to change the basic socio-economic structure of localities only over several years. Second, very few economic evaluations of CED schemes have so far been undertaken, largely because they are still relatively new and also fairly sparse. Third, many of the outcomes from CED schemes are qualitative and cannot be easily measured, such as an improvement in community spirit and a general feeling in the locality that it is becoming a better place in which to live and work. Fourth, it may be difficult to put a value on some of the outcomes even if they can be quantified. An improvement of welfare for the elderly through the provision of better home care and greater security due to more contact with local care facilities are not easily converted into money values even though the benefits may be substantial.

Despite these difficulties, however, there does appear to be some evidence to suggest that CED schemes have had positive effects, such as an expansion of output and jobs (Armstrong et al 2001). Over 50% of businesses aided by CED schemes in a major UK region, for example, claim that assistance was either essential or that the expansion plans would have been delayed in the absence of CED assistance. On the negative side, it has also been found that businesses aided by CED schemes rely excessively on local demand and fail to reach out to markets elsewhere. They also rely heavily on local sources of funding (such as local government). A substantial proportion of the jobs have been filled by people from outside of the immediate locality. A further problem is the absence of expertise to initiate and operate new business ventures in many deprived localities. Expert help and guidance from outside of these localities is desperately needed to get these schemes off the ground.

The only conclusion we can reach at this stage is that CED schemes offer interesting possibilities but are still of unproven effectiveness. They are interesting because they are firmly rooted in the locality in which they exist and their success depends very heavily on the involvement and commitment of local people. They are also becoming increasingly popular with policy makers, one of the primary reasons being that they do not rely on large capital expenditure. In other words, they appear to be cost effective. CED schemes are aimed primarily at enhancing and utilising the human capital in deprived localities through reconnecting the economically excluded with the mainstream economy. The extent to which this will be possible depends upon the responsiveness of the economically excluded to the opportunities offered by CED initiatives. It also depends on the willingness of policy makers to commit resources to these initiatives.

VI. LESSONS FOR THE FUTURE
What lessons can we learn from past regional policies?

1. Location controls were undoubtedly effective in diverting manufacturing investment into the UK’s assisted areas for nearly three decades. In this sense, they can be considered as having achieved their objective, especially since they were regarded as the backbone of the policy of altering the industrial structure of lagging regions for around three decades. But controls of the type and magnitude of those operating in the first three decades after the Second World War are unlikely to be restored. Location controls belong to an earlier era of strict regulation over the location of large-scale investment and there is certainly little support for a return to this type of policy. It is difficult to see a role for location controls in the future except in the special circumstances where the pressure on land and infrastructure in high growth areas is severe. This may ultimately be necessary in city-regions that continue to grow unabated despite intense pressure on land and public infrastructure. There may come a time when governments decide to aim for a more balanced regional distribution of economic activity on the grounds that the external costs of a free-for-all are simply too great and need to be counteracted by using location controls, or alternatively congestion and pollution taxes.

2. Investment incentives have been both a success and a failure. Automatic grants proved to be very costly in terms of the cost per job created whereas discretionary grants have been found to be very cost effective even when ‘displacement’ and ‘deadweight’ effects are taken into account. Investment grants therefore need to be awarded according to clear criteria in order to avoid wasting scarce resources. There does, however, appear to be a case for small-scale automatic grants to SMEs for the development of new products and new processes. Governments therefore need to steer a course between being efficient in allocating grants to firms and not being excessively strict on setting the award criteria.

3. FDI has become an increasingly important component of regional policy simply because of the phenomenal growth in international flows of direct investment since the late 1980s. Foreign firms seeking a location in a particular country are often highly mobile and can be easily persuaded, especially with the help of financial incentives, to choose a location in an assisted area. A major problem with encouraging foreign firms to invest in assisted areas is that the richest countries have the greatest bargaining power since they can afford to pay the biggest ‘bribes’. The EU exerts its substantial influence to prevent such competitive bidding between its own member states but there is no comparable mechanism for preventing competitive bidding in the rest of the world. Exactly how the developing world can obtain a greater share of FDI is a question still to be resolved, but an obvious possibility is to find ways of restricting the use of financial incentives by developed countries, perhaps through the WTO. How else will developing countries increase their share of FDI?
4. New firms and small firms may be extremely vulnerable to changing economic circumstances but they are nevertheless very important for economic development in various ways, including job generation and the creation of a more competitive environment. There is evidence that policies to help new and small firms have had some success but these have been 'national' rather than specifically 'regional' policies since the aim has been to stimulate new firm formation and the growth of small firms throughout the economy, not simply in lagging regions. It also needs to be recognised that a large proportion of new firms will die within two or three years of their birth and that the vast majority of small firms will remain small even if they survive for long periods (Storey 1994).

In spite of the high probability of failure, it is also the case that some new firms grow rapidly and thrive, and it is therefore necessary to accept that financial and other aid will not always produce successful outcomes. Policy makers will have to take risks if long-term gains are to be obtained. There is therefore a strong case for having a policy directed at the small firm sector, especially in those lagging regions that have the best potential for growth. As far as developing countries are concerned, one way of helping them to develop the small firm sector (recently suggested by the Asian Development Bank) would be to issue bonds in the local currency and to re-invest these funds in the country's poor regions. This would help to generate more local involvement in the development process as well as releasing funds for investment that are very difficult to obtain elsewhere.17

5. The latest addition to regional policy is the Community Economic Development Initiative, which has been gaining in popularity since it was added to the EU’s Structural Funds in 1995. CED initiatives reflect the need for a more 'people-based' approach to reducing poverty through bottom-up rather than top-down policy initiatives. The advantage of CED initiatives in the context of low-income regions is that they focus specifically on the most disadvantaged localities and their aim is to convert economic exclusion into economic inclusion through a wide variety of community-based policies. If fundamental improvements can be achieved in the poorest localities by getting local communities to make a major contribution to their own economic progress (with appropriate help from outside), this will bode well for reducing poverty on a wider scale. Whether this will be achieved is still very uncertain since there is still no firm evidence that these community-based policies are likely to be successful.

6. The policies so far discussed can be described as being traditional in so far as they focus directly on economic activity. Basically, they aim to increase the productive capacity of lagging regions by encouraging private sector investment. But the private sector will not respond to these policies unless it is profitable to do so and this means that lagging regions have to become more attractive locations

17 The issue of bonds in local currencies is a scheme currently under consideration by the Asian Development Bank. See Financial Times, 11 May, 2002, p.5.
for private sector investors. This is likely to mean that public investment will be needed not only in the region's physical infrastructure but also in its human capital, through investment in education and training. The strong relationship between economic success (whether at individual level or at national level) and educational attainment indicates that massive public sector resources will be needed to remove the deeply embedded disadvantages of the poorest regions.

7. Regional policy has been perennially short of resources and this is certain to continue. Indeed, the poorer the country, the less likely are countries able to support a regional development policy aimed at the poorest regions. Since there seems little likelihood of this situation changing, it is clear that scarce resources will have to be used as efficiently and as effectively as possible. This inevitably means that choices will have to be made. In order to take advantage of scale economies there seems little alternative but to identify the locations in lagging regions that possess the best potential for growth over the longer term. Private investors are far more likely to be attracted into lagging regions if they believe that the designated development zones will be able to provide the inputs they require for their businesses to be profitable. A high degree of geographical concentration of government investment may therefore be necessary even though it may lead to greater inequality within lagging regions until the growth spills over into other localities.

VII. CONCLUSIONS

1. Regional income disparities are often substantial and persistent in many countries. Governments have consequently taken an interest in these disparities for a number of reasons. Regardless of the actual level of income, those living in the poorest regions are obviously keen to reduce the gap between themselves and the richest regions. Individuals within a country have a strong tendency to compare their economic circumstances (especially their income) with their fellow nationals. It is relative, not absolute, deprivation that matters to most individuals, at least once basic needs have been met. Governments have consequently been obliged to take note of regional income disparities on equity grounds. An extension of this argument is that governments take especial note of regional income disparities if dissatisfaction is sufficient to threaten the political cohesion of the nation state.

2. There may, however, be more to reducing regional income disparities than achieving greater equity and political cohesion. Specifically, a convincing case can be made for reducing regional income disparities on efficiency grounds since the existence of lagging regions implies that resources are being under-employed. And one way of improving economic welfare is to put these unused resources to productive use. It follows that national GDP per capita could be increased by raising the productivity of these lagging regions; and regional policy provides a means of achieving this objective. Indeed, this must surely be a major justification for having a regional policy. Ultimately, regional policy must be
shown to be efficient and effective, otherwise we have to fall back on the equity argument for its existence. Its continuation will then depend on the willingness of the richest regions (whichever they may be at any one time) to allow the income transfers to take place. There is no guarantee that such co-operation is inevitable. This makes it all the more important to discover the most efficient ways of improving the performance of lagging regions so that real efficiency gains can be generated.

3. Perhaps we should more be up-front and admit that the 'problem' of regional income disparities can never actually be 'solved'. Regional income disparities are an inevitable outcome of changing economic conditions and will always exist, though not necessarily in the same shape or form. If regional policy is judged to be in some sense 'successful', then it may be necessary to think of it as being a permanent part of the government's economic policy instruments, rather than a policy that will ultimately be dispensable. In other words, regional policy, whether administered by a supra-national authority (like the EU), central government, regional government or even local government, will continue to exist in the foreseeable future in the same way that we expect fiscal and monetary policy to continue to exist.

4. Past experience of regional policy indicates that there is no simple solution to reducing regional income disparities. Fiscal transfers from rich to poor regions may be necessary on equity grounds but if lagging regions are to become less dependent on their richer neighbours, it will be necessary to improve their underlying economic performance by increasing their competitiveness. This will require not simply income transfers but investment in physical and human capital so that these regions can compete more effectively in global markets. In some cases, the most efficient option may be to encourage outward migration from regions suffering from endemic decline, but there will be many more cases where this is simply not desirable, either on economic, social or political grounds. Neither will traditional regional policy instruments be sufficient on their own to reverse the fortunes of lagging regions. In such cases, governments will have to think in terms of the long-term benefits of investing public funds in both the physical and human infrastructure of low-income regions. The task ahead is not an easy one. Choices will have to be made.

5. Some further questions:

Is regional policy a luxury that only rich nations can afford?

Can poor nations benefit from regional policy or should they simply ignore the consequences of their economic development policies for regional income disparities?

Can any country afford not to have a regional policy given the increasing demand at 'regional' level for greater political autonomy?
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TABLE 1. Convergence in income per capita in selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of regions</th>
<th>Time period</th>
<th>Rate of β-convergence (conditional) % per annum</th>
<th>Regional income inequality (σ-convergence)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>1940</td>
<td>1950</td>
</tr>
<tr>
<td>USA</td>
<td>48</td>
<td>1880-1990</td>
<td>1.7</td>
<td>0.35</td>
</tr>
<tr>
<td>Japan</td>
<td>47</td>
<td>1955-90</td>
<td>1.9</td>
<td>0.63</td>
</tr>
<tr>
<td>Europe</td>
<td>90</td>
<td>1950-90</td>
<td>1.5</td>
<td>-</td>
</tr>
<tr>
<td>Germany</td>
<td>11</td>
<td>1950-90</td>
<td>1.4</td>
<td>-</td>
</tr>
<tr>
<td>Sweden</td>
<td>24</td>
<td>1911-93</td>
<td>2.4</td>
<td>0.26</td>
</tr>
<tr>
<td>UK</td>
<td>11</td>
<td>1950-90</td>
<td>3.0</td>
<td>-</td>
</tr>
<tr>
<td>France</td>
<td>21</td>
<td>1950-90</td>
<td>1.6</td>
<td>-</td>
</tr>
<tr>
<td>Italy</td>
<td>20</td>
<td>1950-90</td>
<td>1.0</td>
<td>-</td>
</tr>
<tr>
<td>Spain</td>
<td>17</td>
<td>1955-87</td>
<td>2.3</td>
<td>-</td>
</tr>
<tr>
<td>Canada</td>
<td>10</td>
<td>1961-91</td>
<td>2.4</td>
<td>-</td>
</tr>
</tbody>
</table>

Notes: Data for Sweden obtained from Persson (1997).
Source: Sala-i-Martin (1996).

TABLE 2. Convergence of income per capita in the EU

<table>
<thead>
<tr>
<th>Period</th>
<th>Barro and Sali-i-Martin</th>
<th>Armstrong</th>
<th>Martin</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-60</td>
<td>1.8</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>1960-70</td>
<td>2.3</td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td>1970-80</td>
<td>2.0</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>1980-90</td>
<td>1.0</td>
<td>0.2 (1981-93)</td>
<td>0.2</td>
</tr>
<tr>
<td>1986-98</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1950-90</td>
<td>1.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1975-93</td>
<td></td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>1975-98</td>
<td></td>
<td>0.4</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>$ billions (US)</th>
<th>% of world total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrialised countries</td>
<td>561.8</td>
<td>72.0</td>
</tr>
<tr>
<td>Developing countries</td>
<td>198.1</td>
<td>25.4</td>
</tr>
<tr>
<td>Russia, Central and Eastern Europe</td>
<td>20.3</td>
<td>2.6</td>
</tr>
<tr>
<td><strong>EU and North America</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU</td>
<td>322.8</td>
<td>41.4</td>
</tr>
<tr>
<td>USA</td>
<td>191.8</td>
<td>24.6</td>
</tr>
<tr>
<td>UK</td>
<td>68.2</td>
<td>8.7</td>
</tr>
<tr>
<td>Germany</td>
<td>57.5</td>
<td>7.4</td>
</tr>
<tr>
<td>Belgium and Luxembourg</td>
<td>50.5</td>
<td>6.5</td>
</tr>
<tr>
<td>France</td>
<td>32.9</td>
<td>4.2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>32.2</td>
<td>4.1</td>
</tr>
<tr>
<td><strong>East Asia</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>41.1</td>
<td>5.3</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>25.1</td>
<td>3.2</td>
</tr>
<tr>
<td>Singapore</td>
<td>8.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Thailand</td>
<td>4.6</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Latin America</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>24.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Argentina</td>
<td>11.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>11.7</td>
<td>1.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Origin</th>
<th>Total jobs created or saved (in thousands)</th>
<th>% of UK</th>
<th>Employment (in thousands) 1999</th>
<th>% UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>46</td>
<td>3.4</td>
<td>3284</td>
<td>12.1</td>
</tr>
<tr>
<td>South East</td>
<td>197</td>
<td>14.5</td>
<td>3946</td>
<td>14.6</td>
</tr>
<tr>
<td>Eastern</td>
<td>63</td>
<td>4.6</td>
<td>2616</td>
<td>9.7</td>
</tr>
<tr>
<td>South West</td>
<td>54</td>
<td>4.0</td>
<td>2354</td>
<td>8.7</td>
</tr>
<tr>
<td>East Midlands</td>
<td>53</td>
<td>3.9</td>
<td>1992</td>
<td>7.3</td>
</tr>
<tr>
<td>Non-assisted regions</td>
<td></td>
<td>30.4</td>
<td></td>
<td>52.4</td>
</tr>
<tr>
<td>Yorkshire and Humberside</td>
<td>120</td>
<td>8.8</td>
<td>2258</td>
<td>8.3</td>
</tr>
<tr>
<td>North West</td>
<td>129</td>
<td>9.5</td>
<td>3018</td>
<td>11.1</td>
</tr>
<tr>
<td>North East</td>
<td>115</td>
<td>8.5</td>
<td>1035</td>
<td>3.8</td>
</tr>
<tr>
<td>West Midlands</td>
<td>237</td>
<td>17.4</td>
<td>2438</td>
<td>9.0</td>
</tr>
<tr>
<td>Scotland</td>
<td>151</td>
<td>11.1</td>
<td>2273</td>
<td>8.4</td>
</tr>
<tr>
<td>Wales</td>
<td>122</td>
<td>9.0</td>
<td>1216</td>
<td>4.5</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>73</td>
<td>5.4</td>
<td>676</td>
<td>2.5</td>
</tr>
<tr>
<td>Assisted regions</td>
<td></td>
<td>69.6</td>
<td></td>
<td>47.6</td>
</tr>
<tr>
<td>UK</td>
<td>1360</td>
<td>100</td>
<td>27107</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Notes: (i). The jobs created or safeguarded refer only to the jobs directly associated with the inward investor. No allowance is made for displacement or multiplier effects or for the effect of the inward investors on the employment level of their suppliers or customers. (ii) The regions of the UK have been divided into assisted and non-assisted areas on the basis of containing a substantial number of assisted areas within their borders. The South West had assisted areas in two counties (Devon and Cornwall). (iii). 8,000 jobs created or saved could not be allocated to a specific region.
TABLE 5. Factors affecting the location decision of foreign inward investors

(\textit{Note:} + = positive effect; - = negative effect.)

\begin{tabular}{ll}
1 & \textbf{Access to markets} \\
 & \quad • access to road, rail and air links (+) \\
 & \quad • access to a port (+) \\
 & \quad • access to the US market (+) \\
2 & \textbf{Labour market conditions} \\
 & \quad • labour costs (-) \\
 & \quad • labour availability (+) \\
 & \quad • labour productivity (+) \\
 & \quad • unionisation of the labour force (+) \\
3 & \textbf{Promotional activities of the state} \\
 & \quad • state expenditure on economic development (+) \\
4 & \textbf{State taxes (-)} \\
5 & \textbf{Access to land (+)} \\
6 & \textbf{Industrial structure at the new location} \\
 & \quad • manufacturing employment density (+).
\end{tabular}

TABLE 6. Community-based economic development initiatives

<table>
<thead>
<tr>
<th>Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>• High geographical concentration of poverty inner cities, housing estates and local districts</td>
</tr>
<tr>
<td>• Poverty largely a consequence of low educational qualifications and low skill levels</td>
</tr>
<tr>
<td>• Concentration of poverty among specific groups of economically excluded (economically inactive,</td>
</tr>
<tr>
<td>single parents, ethnic minorities)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Aims of CED initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>• To provide opportunities for the economically excluded to become economically included</td>
</tr>
<tr>
<td>• To ease the process of getting into the formal labour market through a step-by-step approach</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>• To raise the skill level of the local population</td>
</tr>
<tr>
<td>• Use a bottom-up approach based on ownership and involvement by the local community</td>
</tr>
<tr>
<td>• Help for start-ups and small firms (small grants, business advice, workshops)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Setting up community-based building and renovation projects (housing schemes, recreation)</td>
</tr>
<tr>
<td>• Labour subsidies for taking on the long-term unemployed</td>
</tr>
<tr>
<td>• Subsidies for voluntary organisations that provide jobs or work experience (intermediate labour</td>
</tr>
<tr>
<td>markets)</td>
</tr>
<tr>
<td>• Environmental projects</td>
</tr>
<tr>
<td>• Improved access to jobs in other localities through improved transport links</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>• To early to say due to effects of CED initiatives being long-term (e.g. 5 to 10 years)</td>
</tr>
</tbody>
</table>
Figure 1 Member State and EU Regional Assistance

Notes: Direct financial support to firms in Objective 1 / Tier 1 Assisted Areas. Annual averages 1996-98.
Government policy

- transport
- communications
- recreation

- location controls
- investment incentives
- labour subsidies
- business advice

Infrastrucure  FDI  Indigenous growth  Human capital

- productivity
- unit labour costs

COMPETITIVENESS

Income level

Figure 2  Government policy and regional competitiveness
Figure 3  % unemployed v. % highly qualified in English districts

Note: Excludes London districts. Highly qualified = NVQ4 or over.
Figure 4  Expenditure on Regional Assistance, 1960-00

Figure 5  New firm formation and % highly qualified, English districts

Note: new firm formation = new registrations / 10000 working population.
Figure 6  New firm formation and % unemployed, English districts

Note: new firm formation = new registrations / 10000 working population.

% unemployed (logged), 1999

New firm formation, 1994-99
Figure 7  New form formation rate: 1980-84 and 1995-99

New firm formation rate = new registrations / initial stock (%)