

Uneasy feeling of misguided enterprise

IN THE past 10 years there has been a flight from the inner city areas of Britain. Between 1961 and 1981, the resident population of Inner London fell by nearly 1m, almost one-third of the total. There has been a similar exodus from conurbations such as Liverpool and Newcastle upon Tyne.

The people who have remained have borne the brunt of the recession. Unemployment rates are much higher than the national average, ranging from 14.4% in the London borough of Tower Hamlets to 44% in parts of Liverpool.

Since at least 1978, public policy for the inner cities has focused on the need for economic development. Central and local government between them have spawned a wide range of initiatives, such as Partnership Programmes, Enterprise Zones, Enterprise Boards, Enterprise Trusts, and schemes for business advice and "start-up" assistance. What have they achieved? What can they achieve?

Very little, it seems.

This is the conclusion of both the House of Commons Public Accounts Committee (PAC), which has been looking at Enterprise Zones¹, and a research project conducted by the Cambridge University Department of Land Economics, which has, under R.M. Kirwan, produced a report on local fiscal policy and inner city economic development².

R.M. Kirwan has explained why we can expect local initiatives to have only a marginal effect on the economy of the areas which they are designed to help. Kirwan points out that tax-cutting at the local level is fundamentally questionable as a way of stimulating business, because the burden of local property-related taxation is substantially shifted from the users of urban real property to developers and landowners. Hence:

"Adjustments to ground and space rentals will tend to offset any benefits to the users of space from reduced local taxation. Lasting differentials between areas will tend to be capitalised into the value of land and buildings. Tax cuts may create

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short-run benefits for businesses but their psychological impact may be greater than their real economic effect. Subsequent adjustments in property-related prices are likely to defeat any attempt by inner cities to use tax cuts systematically as an instrument of development."

Kirwan concludes that the prospects for inner cities are gloomy, with action being needed at a national level, and his analysis goes a long way to explaining what the House of Commons Committee discovered about Enterprise Zones.

The zones were introduced in 1980 for a ten-year experimental period. Firms enjoy a package of concessions, including freedom from planning control, generous capital allowances and a rates "holiday". Although £180 m has so far been spent and the experiment is halfway through, no-one can tell how successful it has been. Monitoring arrangements were incomplete and inconsistent, and an absence of any pre-set targets made it difficult to form an objective assessment of success or failure, performance or cost effectiveness.

Enterprise zones have not done too well at creating jobs, although that was their main purpose; the Department of the Environment's own analysis showed that ware-

housing, which provides few new jobs, accounted for as much as 46% of occupied space in the zones.

The consultants appointed to monitor the zones for the first three years had found that the zones sucked in firms from other nearby areas; 75-85% of incoming firms would have been operating in the same county or region even if there had been no zones.

The same thing was noted in a report by the Royal Institute of Chartered Surveyors (RICS), which considered that the apparent success of many of the zones had been achieved only at a cost to the surrounding areas.

The RICS discovered that a large part of the benefit to industries attracted by the rates concession had been paid away in the form of higher rent; in comparison to similar premises outside the zones, the differential was as much as 50% in the case of the Hartlepool zone and 20%-23% in the North West Kent and Salford zones.

Since £70m in rate exemptions had unintentionally been handed out to firms already in the zones at the time of designation, it was probably more by luck than judgement that some of the gains from higher rents had stayed in the public coffers; in the first round of 10 enterprise zones, 70% of the land was owned by the local authorities.

The Public Accounts Committee has asked for a full, thorough and objective assessment of the zones, balancing the benefits against the costs and the adverse effects produced elsewhere. Will the lesson sink in?

REFERENCES

1. Committee of Public Accounts report no. 293. *Enterprise Zones*, June 1986. HMSO, £4.00
2. R.M. Kirwan, *Local Fiscal Policy and Inner City Economic Development*, University of Cambridge, Department of Land Economics.