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50 The effectiveness of current regional policies : are they relevant to the problems of the upland areas ?

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BACKGROUND

According to McCrone (1969), "The regional problem in Britain is predominantly one of depressed industrial areas". Areas of rural depopulation are covered by regional legislation, but the more important measures were designed to ease the problems of structural adaptation in regions with an established industrial tradition but uncertain industrial future. The concentration on industrial areas is largely a matter of numbers; long before regional development policy became important the drift from the land reduced the importance of the smaller towns and villages. It is also partly a matter of development philosophy. In the depressed industrial areas there may be problems of adjustment, but there is at least a tradition of factory employment and a reservoir of skills. The infrastructure may not be ideally suited to the growth industries of the present, but the concentration of population in reasonably large settlements and a developed system of transportation are clear attractions to industry. The difficulties experienced by agricultural, and particularly upland, areas are altogether greater; the problems involved in encouraging the initial growth of a modern economy are substantial.

The single most important influence on employment and population distribution is the content of economic activity. Broadly speaking the gainfully occupied population can be divided between extractive industries (agriculture, forestry and mining), manufacturing and the various services. The process of economic growth has involved a great reduction in the importance of the extractive sector; an increase, until recent years, in the proportion of employees absorbed by manufacturing and a continuous rise in the proportion occupied in the service trades, as shown in Table 1 over:

Table 1
THE DISTRIBUTION OF THE EMPLOYED POPULATION OF THE UK
BETWEEN SECTORS, 1931-1975 (per cent)

	1931	1951	1961	1966	1971	1975
Extractive	13	8	6	4	4	3
Manufacturing	41	42	39	38	36	33
Services	46	50	55	58	60	64

Significant shifts in the employment structure both create the regional problem and influence the nature of the policy response. For example, the relative importance of extractive, manufacturing and service industries is critical because of the varying degree to which the location of different branches of economic activity is fixed or subject to a degree of discretionary adjustment.

Agriculture and the other extractive industries are necessarily tied to the resources they exploit. Many service activities stay close to the consumer, ie employment is distributed according to population or income, with expansion depending on success in other sectors. Those service activities that cater for a wider market tend to congregate in the larger urban centres and particularly in or close to capital cities. The location of manufacturing activity is not so simply summarised. Some manufacturing activities are strongly market-orientated with the need to satisfy local markets distributing employment in rough correspondence to population levels. The products of such manufacturing industries cannot be transported for long distances, either because they are perishable, or because they are expensive to transport. Other parts of the manufacturing sector carry out repair and maintenance facilities which demand proximity to the consumer. Some manufacturing trades are tied to raw materials or to power sources. In these industries, loss in weight during the process of production pulls the industry towards the resources consumed in production and severely limits the range of location choice. In most manufacturing industries however, location choice is not strictly limited by any single, all powerful consideration. The degree of discretion has been notably increased by transport improvements, economies of scale, the introduction of flexible power sources and the general trend towards more effective utilisation of materials. The liberating effect of electricity, oil and gas is fairly obvious while the general trend towards more effective utilisation of materials has reduced transport costs by creating products with high value-added content and therefore a high value to weight ratio. The strong interaction between transport costs and economies of scale has added to the importance of plants that cater for national or international rather than local markets.

As a result of these and other trends, the room for compromise in the location decision has increased and the degree of locational disadvantage between broad regions has narrowed. Greater flexibility provides the rationale for regional policy, but the argument must be treated with care. The returns to regional policy are likely to be gradual and cumulative rather than dramatic. The strength of the response to regional policy will depend not only on long term trends, but also on the current economic situation. Lack of expansion in years of slow growth makes it difficult to steer a significant number of projects to the assisted regions. Moreover, while Luttrell's (1962) research into factory location and industrial movement suggests that difficulties caused directly by location "were generally marginal" in relation to "differences in operating efficiency", this should not be taken to imply that public policy can operate without restraint. The variables likely to influence operating efficiency (including the quality of management in the new plant, the number of key workers taken to the new location and the nature of the training programme) are themselves likely to be influenced by the firm's attitude towards relocation. If the firm can be persuaded of the benefits associated with a move it is more likely to approach the crucial decision with the correct motivation.

The whole life and fabric of the rural areas has evolved in response to the needs of primary industries. When land and natural resources dominate the production process they restrain the urge to urbanisation. When these factors of production decline in importance and human and physical capital become the important inputs, the natural response is a drift from smaller to larger communities. Growth cannot take place everywhere and anywhere; the community with a range of facilities has an obvious advantage in encouraging transfer to new and different activities. The implications for the upland areas are hardly favourable; their special characteristics and problems will be considered in more detail later, following brief reviews of the nature and response to regional policy in the next two sections.

REGIONAL INTERVENTION

Regional policy measures are usefully considered in two categories — controls and incentives. Controls on the location of industrial development are a legacy from the Second World War and have continued throughout the post-war years. At present, controls take the form of a requirement for an Industrial Development Certificate (IDC). However, the strength with which the regulations have been enforced has varied considerably. Broadly, a period of strong controls encouraging development in the peripheral regions coincided with the immediate post-war boom of the late 1940's, followed by a slackening of controls in the 1950's when the development areas were performing relatively well. The deteriorating position

of the regions in the depression of the late 1950's, led to much tighter measures in the early 1960's, later relaxed in response to rising unemployment rates in the national economy in the late 1960's and the emergence of the inner city problem in the 1970's.

Incentives in the form of loans, government factories for rent at attractive terms, and grants for unusual initial expenses associated with plant movement were available in the 1950's but the scale of assistance only became important in the 1960's. Measured in constant 1970 prices, expenditure on regional assistance rose steadily throughout the 1960's averaging approximately £28 million a year between 1960 and 1963; £68 million between 1964 and 1967 and approximately £260 million between 1968 and 1973. (According to a French survey of regional aid programmes, in the early 1970's, the UK accounted for over half of the total expenditure on regional aid to industry in the nine countries of the EC. Whilst it is extremely difficult to compare expenditure rates, it is safe to say that UK regional assistance to industry is generous compared with that of other EC countries.) Until 1963 assistance was concentrated on plants new to the assisted areas. In 1963 regionally differentiated investment incentives were introduced and made available to established as well as mobile industry. Given the importance of capital investment in new plant, investment incentives were not entirely inconsistent with the traditional emphasis on new or at least expanding industry, but the Regional Employment Premium (REP), introduced in 1967, marked a significant change in emphasis. This wage subsidy (allocated according to existing employment levels, and originally set at £1.50 per week for each man employed in manufacturing), was particularly attractive to the established firm which was at or near its 'target' employment level.

From this brief summary of regional intervention we can define three broad periods of policy: first, a period of strong regional policy, acting mainly through controls in the immediate post-war years; then a period of weak policy in the 1950's; and finally a second period of strong policy through the 1960's and early 1970's. More specifically, we can divide the later years into four periods of differing policy intensity: 1958-1959, transitional; 1960-1962, active; 1963-1966, intensive; 1967-1971, intensive plus REP plus SDA (Special Development Area assistance introduced in 1967).

THE IMPORTANCE OF POLICY

The prime target of regional policy has been the potentially mobile plant which is sensitive both to the restrictions on development in the 'prosperous' regions and the attractions of financial incentives in the development areas. The records show that the assisted regions gained from movement in both weak and strong policy years, but the net gain varied enormously over time. The estimated annual net

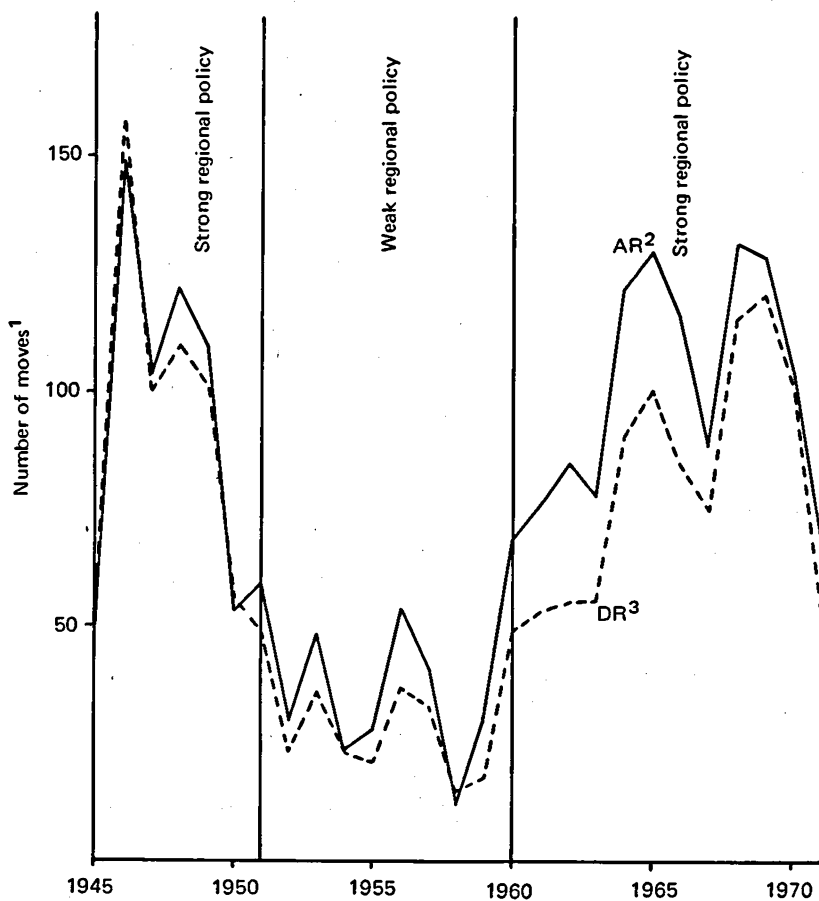
gain was 92 moves per year in the strong policy years (1945-1951), only 33 in the weak policy years (1952-1959) and 97 in the next period of strong regional policy (1961-1971). In every year of strong regional policy the net gain has been greater than the highest level reached in the weak policy years. Most of the variation has taken place in a group which can loosely be defined as the development regions (Scotland, Wales, Northern Ireland and the Northern Region), but the semi-development regions (North-West and South-West) have made a contribution to improved performances in the 1960's (see Figure 1).

Regional intervention is not the only influence on movement. Movement and industrial expansion are integral parts of the investment cycle, increasing in importance as business confidence grows, declining when market prospects are poor. Movement is usually connected with alteration in the nature or scale of the production process and particularly with the search for additional factory space. The more firms interested in adding to factory capacity, the greater the probability that some of that expansion can be diverted to the assisted regions. Figure 2 shows movement to the assisted regions as a proportion of all factory completions within Great Britain. The measure thus compensates for manufacturing expansion, with the adjustment taking a form particularly relevant to the location decision. In all but one year of strong regional policy, the ratio of movement to factory expansion was higher than the best ratio achieved in the years of weak regional policy. Measured in relation to industrial expansion, movement in the strong regional policy years (1960-1971) was approximately 73 moves per year more than the average level realised in the weak policy years (1952-1959).

The impact on the assisted regions is best measured in employment terms rather than in the number of mobile plants but the availability of data limits analysis. We have to rely on employment measured at one fixed date, in firms that moved into a region over quite extensive periods; thus plants that moved into a region close to the date of record will still be in the early stages of rapid expansion.

Table 2 gives an indication of the importance of movement, region by region. Movement to all the development area regions has been on a greater scale than movement to the partly assisted regions, but all six favoured regions gained from movement. The net employment gain from movement during 1945-1971, was approximately one-third of manufacturing employment in Wales and Northern Ireland, one-quarter in Northern England and just over one-seventh in Scotland. For movement within the UK, distance from the main sources of movement (the South-East and West Midlands) is obviously an important factor and there is a preference for locations close to existing units. This helps to explain considerable movement to Wales, and Scotland's relatively low success rate. If movement is

Figure 1
PLANT MOVEMENTS¹ INTO DEVELOPMENT AND ASSISTED REGIONS,
1945-1971

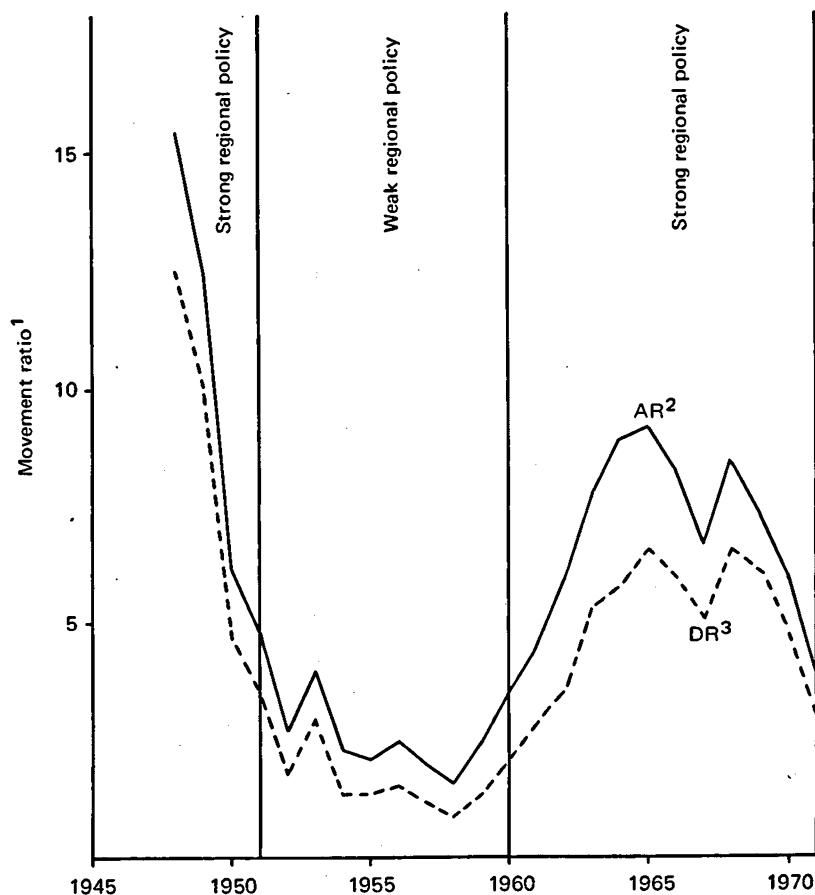


Notes:

- 1 Recorded movement into development and assisted regions from other regions and overseas less movements to the rest of the United Kingdom.
- 2 The North-West and South-West Regions.
- 3 The Northern Region, Scotland, Wales and Northern Ireland.

Figure 2

PLANT MOVEMENTS¹ INTO DEVELOPMENT AND ASSISTED REGIONS IN
RELATION TO INDUSTRIAL EXPANSION, 1948-1971



Notes:

- 1 Recorded movement into development and assisted regions from other regions and overseas as a proportion of all industrial building completions in Great Britain (per cent).
- 2 The North-West and South-West Regions.
- 3 The Northern Region, Scotland, Wales and Northern Ireland.

Table 2

NET EMPLOYMENT GAIN FROM PLANT MOVEMENT¹, 1945-1971 (per cent)

Region	1945-1971	1945-1951	1952-1959	1960-1971
Wales	36	23	1	12
Northern Ireland	31	8	4	20
Northern	25	14	3	9
Scotland	15	6	2	7
South-West	7	2	1	4
North-West	9	2	2	5

1 Expressed as a percentage of manufacturing employment in: 1960 for 1945-1971 moves; 1966 for 1945-1959 moves; 1970 for 1960-1965 moves and 1971 for 1966-1971 moves.

divided into overseas and inter-regional, the contrast between Scotland and the other development regions becomes even more interesting and revealing. Movement from overseas accounted for almost half the employment created by inter-regional and overseas movement in Scotland compared with less than 10% in Wales and the Northern Region. Northern Ireland's substantial success in the 1960's (when the region enjoyed the advantage of general additional assistance) suggests that differential aid has a marked influence on the location decision.

The method of measurement under-estimates both the importance of movement and the strength of the contrast between weak and strong regional policy years, since many of the moves taking place in the middle and early-1960's were occurring in the early stages of rapid expansion at the date of record. Moreover, the introduction of new industry into a region creates demand for the products of established firms, either directly as inputs to the new firm or indirectly through the injection of new income into the region. However, even without adjustment the contrast between the weak and strong policy years is considerable and confirms the earlier analysis based on number of moves. The evidence shows that movement is highly selective with the mobile plants concentrated in the growth sectors of manufacturing.

Within the strong regional policy years 1960 to 1971, there were important changes in legislation which brought substantial benefits to some regions, but little or no benefit to others. Thus, the introduction of growth areas in 1963 (a growth zone in North-East England and growth points in Central Scotland) brought specific benefits to Scotland and the Northern Region (assured assisted area status and higher levels of public investment) while the introduction of SDA status in 1967 provided generous additional assistance in the mining communities

concentrated in the Northern Region and Wales. Allowing one year delay, one would expect that any return from growth area status would benefit Scotland and the Northern Region between 1964 and 1967 and that the introduction of SDA status would benefit Wales and the Northern Region between 1968 and 1971. The results confirm the earlier claim that preferential treatment has a substantial influence on the direction of movement. Scotland's share of total assisted region movement (measured in numbers) was approximately 29% in the years 1964-1967 (growth point influence) while the average over 1960-1963 and 1968-1971 taken together was only 18%. The share of moves going to Wales was only 17% for 1960-1967, but rose to 31% when SDA status was introduced. For 1960-1963 the Northern Region share of assisted region movement was 12%, compared with 17% for 1964-1967 (growth zone influence) and 23% for 1968-1971 (SDA status).

Policy measures aimed at relocation are concentrated on the manufacturing sector and rely on developing enterprises of the mobile type. Their success depends on the health of the national economy and since employment diversion is concentrated on the expanding margin it is likely to provide a gradual, cumulative response rather than an immediate solution. Notwithstanding these difficulties, there can be no doubt that regional intervention has been important in the last 30 years. Indeed there can be few examples in economics of such a close correspondence between major changes in policy and favourable response. This does not however imply that further success can be guaranteed by slightly modifying or adding to the existing set of regional policy instruments. Unfortunately, regional problems are least amenable to treatment when the national economy is in difficulties and the slide to higher unemployment levels and lower rates of growth makes it difficult to maintain momentum. The 1972 Industry Act introduced new forms of industrial aid, but the additional measures have the overall effect of reducing the contrast between the assisted and non-assisted regions. However, more important than legislative change, is alteration in the national economic climate and particularly the move to national unemployment levels which are high by post-war standards. The assisted regions still account for most of the top positions in the regional unemployment league, but it is unrealistic to expect strict control over industrial development when male unemployment is close to 7% in the West Midlands. Clearly as unemployment has risen, the opportunity to give effective help to any assisted region has been reduced, but the assisted regions have been steadily extended. In one form or another they now account for approximately two-thirds of the land area of the UK and one-half the population.

The high level of movement achieved in the 1960's is unlikely to be maintained in present circumstances. Indeed the problems were apparent even in the late

1960's; they are illustrated by a brief examination of the record of IDC approvals and refusals. The development regions of Great Britain account for 31% of employment expected from industrial building in the years 1945-1951, 15% in 1952-1959 and 31% in 1960-1971 (see Figure 3). In the strong regional policy years the development regions' share of employment anticipated from industrial building was almost double their share of manufacturing employment. In the weak policy years of the 1950's their share of industrial building and manufacturing employment were almost equal (see Figure 3). Their share of employment expected rose from 13% in 1957, before regional policy was re-activated, to 41% in 1966, then fell to 25% in 1971. The improvement in the late 1950's and first half of the 1960's reflects the joint action of more severe IDC control and more generous assistance which moved together in a remarkably effective combination. In the late 1960's assistance continued to rise, but IDC control became less important. The fall in the development regions' share of industrial building points to the importance of the push provided by IDC control. The strength of control is itself related to the general economic environment and more particularly to the level of unemployment in the South-East and West Midlands. Taking the years of intensive regional policy (from 1963) as the sample, the correlation coefficient between RN (Refusal rate measured in terms of employment for the South-East and West Midlands) and U (Male unemployment for the same region) is minus 0.90, demonstrating that rising unemployment makes it increasingly difficult to impose strict control over the location of industrial expansion. As illustrated in Figure 4, the close relationship between unemployment and refusal rates applies if the refusal rate is measured in terms of numbers and floor area as well as expected employment. It also shows that IDC control concentrates on the larger projects, particularly those which are labour intensive.

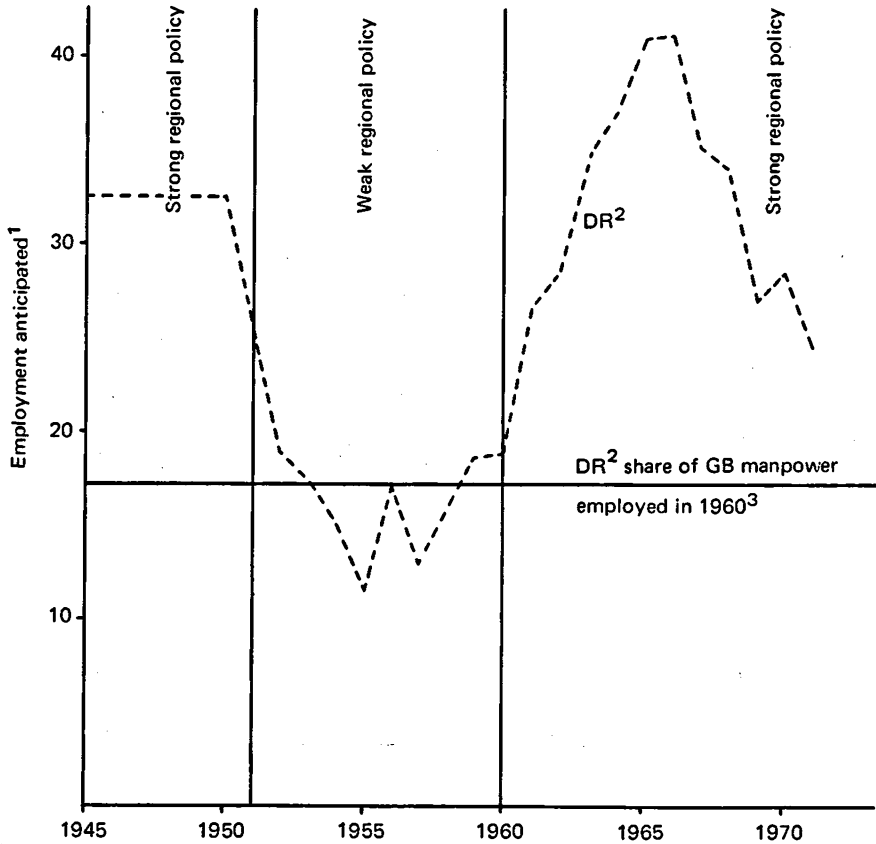
REGIONAL POLICY AND THE UPLAND AREAS

Only those granted powerful immunity to empirical evidence are likely to deny that regional policy has had a considerable influence on the spatial distribution of industrial expansion. The contrast between weak and strong policy periods is remarkable. The policy response is much greater in the development regions than in the semi-development regions. When a particular assisted region is given preferential treatment the effect on the region is substantial. Assistance is important, but so is IDC control — indeed they must be regarded as essentially complementary. Relaxation of IDC control in recent years is associated with change in the labour market and more particularly the rise in unemployment. The mobile plant remains the major area of regional policy success.

Past success may not be directly relevant to present problems. It is clear that regional policy cannot exploit indefinitely the sources of expansion which

Figure 3

EMPLOYMENT ANTICIPATED¹ FROM SHARE OF INDUSTRIAL BUILDING APPROVALS IN DEVELOPMENT REGIONS, 1945-1971

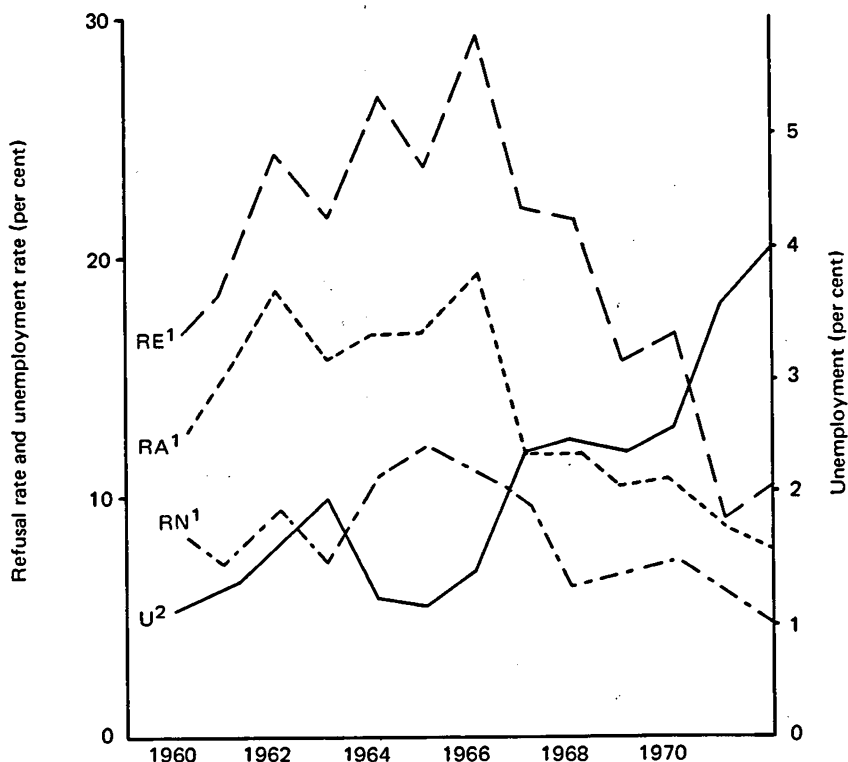


Notes:

- 1 Employment expected has been reduced by 30% in the Development Regions to compensate for the tendency to exaggerate when applying for regional aid.
- 2 The Northern Region, Scotland, Wales and Northern Ireland.
- 3 Year by year figures not available between 1945 and 1950.

Figure 4

RELATIONSHIP BETWEEN IDC REFUSAL RATE AND UNEMPLOYMENT
FOR THE SOUTH-EAST, WEST MIDLANDS AND EAST MIDLANDS, 1963-1972



Notes:

- 1 RE, RA and RN are refusals in the South-East and West Midlands as a percentage of all applications and measured in terms of employment (RE), floor area (RA) and number of projects (RN).
- 2 U is male unemployment (average of South-East, West Midlands and East Midlands).

Relationship 1963/1972	Correlation co-efficient	R ²	T statistic
U and RN	-0.90	0.81	-5.81
U and RA	-0.93	0.86	-16.31
U and RE	-0.91	0.83	-14.02

existed in earlier years. The generally poor performances of the national economy has made it difficult to divert growth to the assisted regions. The problem is exaggerated by decline in manufacturing employment. Even in favourable circumstances, it is easier to influence the direction rather than the level of movement and there is an obvious danger that competition between regions will raise the costs involved in adding to employment. Thus, it has been estimated (Hansen, 1974) that as a result of the fierce competition in the USA some 14 000 industrial development organisations have come into being to compete for between 500 and 750 new plant locations per year.

If the depressed industrial areas are in difficulties, the problems are even greater in the upland areas. The degree of locational disadvantage may have diminished as between broad regions, but the distinction between sparsely populated and urban areas has probably increased. The importance of an extensive labour market, of good communications and all the other dimensions of infrastructure that bring advantage to a range of industry suggests that the community of reasonable size has distinct advantages in attracting industry and encouraging expansion. Surveys into the location decision have generally agreed that plants prefer to expand at, or close to, existing locations and that the temptation is considerably stronger for the small firm than the larger organisation. Indeed, the 'dual-population' hypothesis claims that post-war movement can be effectively divided into long-distance, large-scale movement to the peripheral regions and short-distance, small-scale movement around the major cities. The long-distance, large-scale movement is mainly of branch factories, while small-scale movement often involves complete transfer. The transfer is connected to the local market and the home area by a combination of business and personal relationships, while the constraints on small-scale branch moves include the need for day-to-day contact with other branches.

Small firms and small-scale expansion tend to be restricted to the home area while the larger firms and major expansion have a greater range of choice. The information on ownership patterns within Scotland confirms this broad distinction. The general rule is that the smaller the plant, the more likely it is to be owned within Scotland, the larger the plant the greater the chance that it is part of a national or multi-national company with headquarters outside the region. In 1973, 86% of all manufacturing establishments employing 1-50 employees were Scottish owned, as compared with 73% employing 51-100, 54% employing 101-500 and 29% employing more than 500. The implications for the agricultural areas and particularly for the more remote upland areas are fairly clear; these areas may benefit indirectly from inter-regional movement, but the small-scale moves best suited to the upland regions are not likely to be over any appreciable distance. This suggests that indigenous development provides the major hope for the more remote upland areas.

Despite the introduction of REP in 1967 there is little sign that regional policy has provided the key to indigenous growth. It is not surprising that a non-selective wage subsidy proved less than the ideal answer. Economics is far from a precise science, but it is surely possible to discover better ways of encouraging growth than by spreading assistance thinly over the whole range of manufacturing industry. Not all firms have the organisation, ambition or product range which will support expansion and not all firms are prepared to take the risk associated with adding to capacity. A windfall gain like REP undoubtedly extends the range of opportunities, but, if a firm has limited horizons, additional rewards could even reduce effort. The essential lesson from REP is that it is important to distinguish between the revenue effect of aid and its impact on the cost of adding to production. The income effect of assistance is weak and not necessarily predictable in direction, but assistance that raises the return for additional effort provides a more obvious incentive to expand. The barriers to growth can be reduced, given the right kind of incentive, but the basic decisions arise from differences in ability and motivation. If assistance is to be tailored to varying individual requirements and potential this implies an organisation able to make decisions at the level of the individual plant.

Two experiments in regional policy are directly relevant to the difficulties which face the upland areas. The Highlands and Islands Development Board (HIDB) established in 1965 has a wide range of powers which can be used to promote the economic and social development of the region while the Local Enterprise Development Unit (LEDU) established in 1971 involves an innovation in the approach to small firm support within Northern Ireland. The HIDB allocates assistance to a range of activities from the leisure complex in Aviemore to fishing, tourism and small-scale manufacturing throughout the Highlands and Islands. In particular, it uses public resources to assist with advice, information and finance designed to encourage grouping of activities, which are unlikely to emerge if the initiative is left entirely to private industry, but which have reasonable prospects of long-term profitability. The introduction of the HIDB is in effect a recognition that the region has problems which are unlikely to yield to the standard instruments of regional policy. A more flexible approach is required and the Board is allowed to disperse funds to a wide range of activities.

Regional policy in Northern Ireland differs in many respects from the GB model and recent innovations involve new forms of organisation designed to act as a bridge between the civil service and industry. These professional agencies are staffed by men with industrial and commercial, rather than administrative, experience and are designed to fulfil a more active, initiatory role than is normally allocated to government agencies. LEDU is the most important example for present purposes. Most of the new industries established in Northern Ireland

are concentrated in the Belfast region. LEDU was specifically designed to stimulate local initiative in the remote rural areas where regional policy has not been particularly effective. It is a limited company which has used grants, loans, small factories and advice to encourage development in manufacturing firms employing fewer than 50 people. To qualify for assistance the applicants must show that the planned activities are sound in concept and will produce a net increase in Northern Ireland employment. Priority is given to projects which will employ men in areas not attractive to large-scale industry. The parallel with the upland areas is strong since the unit was introduced to stimulate entrepreneurship and economic development in localities which have little in the way of industrial tradition. As in the upland areas of the mainland, a high unemployment rate often refers to a small pool of unemployed labour. Many of the villages are inconveniently located, while the skills and age structure of the population are a product of past history and provide little encouragement for investment in manpower training and every encouragement for the migration of the talented and ambitious.

LEDU operates through four area panels which are responsible for preliminary assessment of local projects. Every effort is made to publicise the Unit's work and to contact local industrialists with worthwhile ideas. The belief is that the small firm requires more assistance in the presentation of ideas and the preparation of plans than the larger organisation. Within the Unit there are specialist teams who concentrate on the needs of particular industries. Offers of assistance are followed by visits from an accountant who adjusts the terms to the likely cash flow problems of individual firms and there is continuing advice on such matters as book-keeping, sales outlets and alternative sources of finance. The technical services provided by LEDU can be regarded as an attempt to overcome the disadvantages faced by small firms which have little opportunity to benefit either from internal economies of scale or the range of services normally available in urban areas. The service department provides information on product and process development and a channel of communication to organisations working in relevant areas of research, while the register of subcontracting firms is designed to develop intra-regional linkages. In economists' language the facilities provided by the Unit leave the small firms vertically disintegrated while providing a range of services that are normally associated with considerable scale.

There are signs of response to the LEDU approach, but it would be wrong to exaggerate the strength of the reaction. The chairman of LEDU has repeatedly emphasised that new ideas are thin on the ground and the pace of change is by no means spectacular. There is little evidence of ample reserves of local initiative and enterprise waiting to be released from hidden springs. However both LEDU and the HIDB show that the institutional framework can be adjusted to deal

with specific problems. In particular their introduction acknowledges that the essentially responsive system which may work satisfactorily in the major industrial areas is inadequate in the sparsely populated parts of the country.

The LEDU approach may have more general implications. Regional policy as operated by the Department of Industry reacts to IDC applications and to claims for financial assistance. The returns to regional policy depend on the initiative of industry. The LEDU organisation administers a development programme which actively seeks and encourages new initiatives and provides a range of services designed to reduce the problems associated with expansion. Within LEDU there is continuing emphasis on forms of discretionary procedure and decision making which are not normally associated with the civil service approach. The evidence shows that small firms have greater difficulties than the larger organisations when applying for regional aid. Local organisations, by providing a sympathetic ear and timely advice, can help to solve the complex problems associated with planning a new project, applying for aid and satisfying the requirements of a range of government organisations which set standards for building and safety regulations. According to the Northern Ireland authorities the very fact that LEDU was specifically designed to help the small manufacturing unit has encouraged industrialists to seek advice. The Unit's chief executive claims that businesses often collapse because of cash flow problems at a crucial stage in their development even though there are good prospects for future profitability. Accounting advice is regarded as an essential ingredient. There is a strong suspicion that the LEDU representatives underplay the importance of financial aid and exaggerate the importance of consultation and information, but LEDU is certainly an interesting example of an agency specifically designed to deal with the problems of less favoured areas by applying a selective approach based on contact, information and individually tailored assistance.

Given the nature of the upland areas there are obvious problems involved in encouraging manufacturing, commercial and leisure development on the scale required to generate the important external economies. The specialist organisation (LEDU or HIDB) is one possible response, but policies that have more obvious spatial implications are also important. Growth cannot take place everywhere and anywhere. The community with a range of facilities, has an obvious advantage in attracting or encouraging the development of new activities. Policies designed to encourage development in sparsely populated regions have taken this into account by channelling expansion into the larger and more suitably located settlements. For example, the HIDB has a two tier system with major growth centres backed by smaller centres in outlying areas, while the Northern Economic Planning Council strategy for the rural areas is similar in conception with main and secondary 'anchor points' designed to offer a range of employment opportunity

and thus discourage rural depopulation. In Mid-Wales there has been a deliberate attempt to channel growth into the larger and more conveniently situated towns.

There are problems with the various forms of growth centre strategy. Growth centres may well increase intra-regional imbalance as there is no guarantee that economic improvement initiated in the favoured localities will spread to the outlying parts. But it is only realistic to acknowledge that as industrial structure changes so must the settlement pattern. This does not mean that the community is entirely at the mercy of economic forces which are completely beyond human control, but it does mean that any response which ignores the needs of a different way of life is likely to be both expensive and ineffective. There is good reason to believe that a policy which involves concentrating public expenditure on growth points of reasonable size and potential will reduce the cost of providing suitable industrial and social services and will be attractive to industrialists. In terms of cost, advertisement, image and efficiency, concentrated development is regarded as preferable to distributing expenditure according to existing population levels. The growth point philosophy is in part based on short-term advantages to the Exchequer and the producer, but also relies on the claim that growth can be self-generating with successful expansion not only providing the funds for future growth, but also the example which encourages imitation and emulation.

The ideal type of industry for upland areas would involve small-scale plant which can operate independently of large concerns. It should be fast growing, have a high value added, low transport cost and a market which is national or international rather than local so that it is not over dependent on the limited demand existing within the local community. The ideal is difficult to find, but there are reasonable compromises. Obvious examples include firms involved in craft and design-based industries, particularly those which look for market penetration in high income groups. For Caithness Glass, Harris Tweed and Lindisfarne Silver, location provides a clear selling advantage. Slightly different in concept, but once again an example of location being used to develop a positive quality image, is Baxters of Speyside. More obvious examples of employment based on local resources are the Fort William pulp mill which relies on extensive local forestry plantations, the Whisky industry which depends on inimitable local waters (plus mystique) and, more recently, the considerable opportunities provided by North Sea Oil. In addition to the industries based on resource endowments and craft products there is a range of industries capable of providing employment in small-scale establishments. These include food products, clothing and footwear, electrical engineering, parts of the textile industry and furniture. Size of establishment is at best a crude indication of potential in upland areas, but applying this criterion does at least rule out a number of important products.

The search for comparative advantage yields relatively few candidates that would benefit in direct cost and revenue terms from location in upland Britain. Yet these regions have an asset which can, and does, provide employment and income. I refer to their natural beauty. Tourism is one of the major growth industries of modern times. It is income elastic and labour intensive and responds to overseas income as well as increases in prosperity within the UK. The usual objection is that tourism provides merely seasonal employment, but even this disadvantage can be overcome if a wide range of facilities is provided and a conscious attempt is made to cater for a range of demands. Aviemore is perhaps the most obvious example within the UK, but many continental holiday centres provide an object lesson in exploiting local resources. However, other opportunities exist; for instance a great stretch of North-West Scotland is without a golf course of note. Yet Dornoch on the North-East Coast provides a good example of the benefits to the local community of a high class golf links and even includes a number of American residents on the membership list. Golf complexes in Portugal and Spain provide eloquent testimony on the returns that can be realised from an investment which consciously attempts to internalise the external economies generated by golf courses, providing not only the necessary 18 or 36 holes, but also hotels, housing and a range of leisure pursuits. Portugal and Spain have the advantage of superior weather, but the demand for established Scottish courses indicates that Scotland has the less obvious, but still important, drawing power that is associated with tradition.

According to a recent report on Rural Depopulation (HM Treasury, 1976), the Exchequer cost of employment in rural areas varies from approximately £1 000 per employee in hotel development, £1 300 in manufacturing (the industries that normally go to rural areas tend to be labour intensive so the cost per job figures are low as compared with urban locations), £3800 in hill farming, £11 000 in private forestry schemes and £29 000 in state forestry. On the basis of these figures hotel development and manufacturing appear to have the major claim for additional resources, but a word of warning is essential. In order to identify the cost of *adding to* employment it is necessary to compare the employment record after assistance is introduced (or notably increased) with the employment record prior to assistance. The figure of £1300 per manufacturing employee is not calculated on this basis, but is an assessment of the maximum assistance an average firm would receive given 'typical' capital and labour requirements. This is far from an adequate measure of the cost of *creating* employment. Some of the firms would presumably have expanded if assistance had been available on less generous terms and there is certainly no guarantee that more generous levels of aid would encourage a significant response.

EVALUATION

This paper is no more than a rough outline of the relationship between regional policy and the upland areas. Many of the topics deserve more careful enquiry, but even a rough sketch can draw attention to substantial problems. While regional policy has been important to the assisted areas, one of the most important components, the mobile plant, has little direct relevance to large stretches of upland Britain. In any case the generally poor performance of the national economy makes it increasingly difficult to divert expansion to the development regions. Given the alteration in economic circumstances it is natural that attention has been diverted to alternative forms of regional intervention and particularly to measures designed to encourage indigenous growth. However there is little indication that the most important attempt, the introduction of a non-selective wage subsidy (REP), has provided an effective solution.

Employment cannot be provided wherever and whenever unemployment emerges. Concentration on localities with potential is more likely to be effective than peppering development expenditure across the whole range of communities. Reasonable success would allow intra-regional migration to replace inter-regional movement. The chances of natural adjustment are slight in agricultural areas which have no tradition of industrial employment. The limited range of alternative employment opportunities combines with other substantial disadvantages to create significant problems in replacing lost jobs. The initiative and co-ordination required to introduce new activities suggests that there is an important role for public agencies. They are more likely to be successful when they have the opportunity to adapt their approach to the problems and potential of particular localities. Such an approach is relatively easy to introduce when the problem areas are easily defined. The civil service remains strongly opposed to discretionary procedures. The social merchant banking role, as it has been called, creates real problems. The administration argues that public funds should not be advanced to high-risk projects. There will of course be errors and losses in any system which involves deliberate choice, but this is far from the end of the argument. All forms of aid involve a cost to the Exchequer. The really important questions relate to the response to different forms of intervention. The argument in this paper is that aid which avoids the difficult decisions and is distributed across the whole range of employment is unlikely to provide the key to growth. The message in the parable still applies, "to one he gave five talents, to another two and to another one; to every man according to his several ability".

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