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Local Employment Measures in the UK: Overview and Assessment

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1. Introduction

Employment and economic development measures in the UK are wide-ranging in scope and difficult to review in a short paper. The financial and organisational arrangements are complex, reflecting a mixture of historical approaches and ongoing changes. They have diverse goals and objectives to increase growth, employment and prosperity by improving productivity, efficiency, innovation, enterprise and skills, as well as to tackle poverty, inequality and social injustice. This broad field of policy has traditionally been more centralised and ‘top-down’ than in other advanced nations, such as the USA and Germany, with the government determining both the broad direction of policy and its detailed implementation. There are various reasons for this, including the long-standing centralised character of the UK government and the political profile of unemployment and general living standards. In addition, the government has often lacked trust in the capabilities of local public bodies and been concerned about the distorting effects of aid on business location decisions and competitive markets. It has also retained direct control over the delivery of employment measures to ensure universal access and consistent standards of provision, and to push through changes in policy considered to be of great national importance.

A good example of this is labour market policy, beginning with the introduction of large-scale national programmes of work experience to absorb burgeoning unemployment during the mid-1970s (the Community Programme and Youth Opportunities Programme). This was followed by successive modifications of the approach during the 1980s and 1990s to include an element of training and to reduce the weekly allowance

paid to participants (e.g. Training for Work and Youth Training Scheme). The latest version of labour market policy (the New Deal) is focused on personal advice and guidance combined with changes in the tax and benefit system to shift people off unemployment and welfare benefits and into work. All these have been standard schemes available on the same terms and conditions to all eligible groups throughout the country. The government believes that the centralised labour market reforms of recent years (welfare to work, deregulation and flexibility) are an important part of the explanation for the UK’s 12 years of steady economic growth and relatively low recorded unemployment by international standards.

In recent years there has been increasing interest in regional and local employment policies. This partly reflects the growing awareness of significant economic and labour market disparities between different parts of the UK (Tables 1 and 2). Sometimes this has simply taken the form of greater local flexibility in the delivery of national programmes. For instance, the government is proposing to introduce greater local discretion into the operation of the New Deal in order to tailor services more closely to individual and employer needs. This is influenced by the need to improve the scheme’s effectiveness at helping people facing multiple disadvantages to enter the labour market.

In other economic policy fields new institutional structures and procedures have been established at regional, city and neighbourhood levels (such as Learning and Skills Councils at regional level, Local Strategic Partnerships at local government level, and New Deal for Communities at neighbourhood level). They tend to have a distinct partnership character and involve a range of stakeholders, rather than being deliv-

Table1. Three Indicators of Regional Prosperity in the UK (UK = 100)

UK Nations and Regions	Output levels (GVA per person of working age, 2001)	Productivity levels (GDP per person employed, 2001)	Employment rate (as a proportion of working age population, 2001)
London	127	134	95
South East	120	111	108
Eastern	111	103	106
Scotland	93	95	98
East Midlands	92	90	102
South West	92	86	107
West Midlands	91	92	100
North West	91	94	96
Yorkshire & Humberside	87	88	99
Wales	81	87	93
Northern Ireland	79	88	91
North East	77	84	92
UK	100	100	100

Table2. Claimants of Key Welfare Benefits by Group and Region (as a percentage of the working age population), August 2004

UK Nations and Regions	All	Unemployed	Sick/disabled	Lone parents	Others
North East	18.4	2.7	12.4	2.6	0.8
Wales	18.2	2.2	13.1	2.4	0.6
North West	17.0	2.3	11.6	2.5	0.6
Scotland	17.0	2.9	11.3	2.2	0.7
West Midlands	14.3	2.6	8.7	2.4	0.6
Yorkshire & Humberside	14.2	2.3	9.1	2.1	0.6
London	14.1	3.2	7.1	3.2	0.6
East Midlands	12.0	1.8	7.9	1.8	0.5
South West	10.4	1.3	7.1	1.6	0.4
East	9.7	1.5	6.1	1.7	0.4
South East	8.6	1.3	5.4	1.6	0.3
Great Britain	13.6	2.2	8.6	2.2	0.5

Source: Department of Work and Pensions (2004) Table 6.2.

ered through stand-alone public agencies. Greater control over resources has been devolved to these institutions, although this has been uneven across different government departments and there is a debate about the extent to which genuine power has been devolved. Decentralisation is clearly a slow process and one that requires far-reaching cultural changes within government. These changes are sometimes resisted from within the central administration, since they involve the loss

of some power and control. Decentralisation also requires investment in the skills of local decision-makers to ensure that they understand what they are trying to do and are adequately equipped with the strategic and technical skills required to do so. There are various professional courses available in the UK to train local and regional economic development staff at all levels of ability and potential competence.

One of the distinctive features of the UK govern-

ment's approach has been the extensive use of centrally determined targets to try and ensure policy effectiveness. Local and regional organisations have been given more flexibility on condition that they achieve specific target outputs. Thus they have not just been given increased trust and autonomy — they have had to earn it. This approach has provoked some criticism of excessive government interference - summed up in the phrase 'micro-management.' There has also been criticism that the government has sometimes chosen the wrong kinds of targets, causing a distortion of local and regional employment programmes from what they were really intended to achieve. A simple example is the tendency for targets to focus on crude numbers rather than the quality of outcomes, e.g. the quantity of jobs created or people trained and into work, rather than job quality or the level of skill attained.

As a broad generalisation, there has been greater decentralisation of economic development policies (i.e. demand-side programmes aimed at boosting entrepreneurship, business development, physical infrastructure and employment) and less of labour-supply measures (i.e. workforce development and welfare to work). This reflects mixed views with the government about the value of decentralised approaches — there is support in some parts of government but opposition elsewhere. Pressure for decentralisation has come partly from towns, cities and regions themselves, but also from the European Commission. Almost every country in Europe benefits from the European Structural Funds, whose purpose is to promote local and regional development from the bottom-up. Partnership working is a key requirement of the Commission to ensure that the Funds are spent in accordance with the desires of the main stakeholders, and not simply controlled by central government.

Another important policy shift has been the replacement of traditional equity-based regional policy by local economic development (Adams et al, 2003; HM Treasury, 2001; 2003a; 2003b). Regional policy sought to reduce spatial disparities by guiding investment away from congested areas with constrained labour and land resources towards lagging regions with underused resources. This carrot and stick approach has been scaled back because of concerns about its cost-effectiveness and fears about firms being diverted out of the country through growth restrictions in buoyant areas. Instead,

the focus of spatial policy has switched to encouraging development 'from within' by exploiting indigenous strengths. There is less emphasis on mobile investment and transferring jobs between regions, and more on creating environments where high-quality businesses can start-up and succeed.

The shift in approach occurred initially within the framework of top-down policies. The main business development and training programmes were delivered locally but controlled centrally in order to prioritise national objectives. Over time the stated aim has been to decentralise economic responsibilities and to strengthen organisational capacity at regional and local levels in order to permit greater responsiveness to variable conditions on the ground and increased effectiveness, rather than a centralised 'one size fits all' approach (HM Treasury, 2001, 2003a, 2003b). These bodies now cover the whole country rather than selected 'assisted areas', in order to maximise growth potential wherever it exists. Regions are increasingly expected to stand on their own two feet, just as people are expected to be self-reliant and support themselves through paid work if they can get a job. According to a senior Treasury official:

Our new regional policy is based on two principles — it aims to strengthen the essential building blocks of growth — innovation, skills, the development of enterprise — by exploiting the indigenous strengths of each region and city. And it is bottom-up not top-down, with national government enabling powerful regional and local initiatives to work by providing the necessary flexibility and resources (Balls, 2000).

2. The Rationale and Governance of Local Employment Measures

There are several arguments for the promotion of local employment measures. The rationale varies — at least in terms of emphasis — between particular places depending on the size and nature of the area and the wider geographical and institutional context. It also depends on the type of policy intervention and whether it is focused on individuals, firms, other institutions (such as universities) or physical infrastructure. The case for local employment measures ranges from principled arguments with a clear conceptual basis, to more practical considerations related to policy delivery. We begin

with the former.

Locality matters

The most fundamental argument stems from the idea that geography affects economic processes, that is locality or 'place' really matters. Physical, social and economic conditions influence each other in important ways and the connections are enhanced by proximity. Some of the links are mutually reinforcing in a negative sense. For example, local industrial decline can cause unemployment, poverty, environmental degradation, uncertainty and loss of confidence among investors and selective out-migration as people who can choose where to live, work and invest move elsewhere. A series of such negative 'externalities' can create a vicious circle within particular places as negative decisions reinforce each other, reduce everyone's incentive to upgrade the infrastructure, damage property values and promote a spiral of disinvestment and decline.

Public intervention at the local level may be required to stem these cumulative processes and break the cycle of economic decline. During the 1970s and 1980s this was used to justify economic development programmes in Britain's inner cities, including major physical renewal and remediation of derelict land to restore confidence within the private sector through positive 'demonstration effects.' Assistance was also given to small businesses in order to generate more jobs. Inner cities were perceived to be 'problem areas' that were uncompetitive in relation to surrounding towns and therefore required remedial measures for regeneration.

Of course, localised relationships may also be positive and mutually beneficial. For example, concentrations of firms facilitate constructive interactions between them or external economies of scale and scope. Co-location of many businesses increases the opportunities available and reduces the risks to which they are exposed. Size and proximity reduce the cost of labour and business services, and help to improve the efficiency with which inputs are used via better management, workforce skills or production techniques. Agglomeration also increases the opportunities to workers and organisations that provide business services, shared inputs and infrastructure, so the gains extend beyond individual firms and increase the overall productivity and growth rate of city economies (Turok, 2004).

During the last five years the UK government has changed its view of cities from being problematic to offering real economic opportunities. It has taken the arguments about agglomeration economies to heart and come to regard cities as engines of the national economy, particularly for higher value, knowledge-intensive production and services based on more innovative technologies and sophisticated skills. The core idea is that intense concentrations of businesses and related institutions (such as universities) facilitate 'knowledge spillovers' and collective learning, which attract investment and talent, boost local skills and earnings, improve cultural and recreational amenities, and generate cumulative growth. This is supported by theories that innovation, institutional learning and the exchange of creative ideas occur most effectively in industrial clusters organised at the city-region level (Cooke and Morgan, 1998; Porter, 1998). According to a recent government report: "the factors of productivity in advanced knowledge based economies are concentrated in cities" (ODPM, 2003, p.1).

It is not essential to accept these arguments in order to justify a stronger urban dimension to economic policy. The key point is that a decentralised approach affords a better understanding of the physical and economic relationships between households, firms and other institutions. It facilitates more effective problem solving and better realisation of economic opportunities. At the simplest level it means coherent spatial planning and management of the links between housing, employment and transport to promote accessibility and efficiency. Recognition of this is reflected in greater interest being shown in Britain in regional spatial strategies and more coherent planning of city-regions (ODPM, 2004).

At a more localised level, neighbourhood factors can help or hinder residents' life chances, and the UK government considers it unfair for people to be worse-off because of where they live (Social Exclusion Unit, 2001). One of the reasons why living in a disadvantaged area might be damaging is that physical location limits access to shifting economic and social opportunities. People find it more difficult to compete for jobs the further away they are, especially if car ownership is low and public transport is poor. This has been important for UK inner cities because of an urban-rural shift in employment (Turok and Edge, 1999; Webster, 2000). Residents of deprived areas may also have restricted job search

horizons and personal networks, which limit their links into the wider labour market. Poor areas may be stigmatised by employers and investors, thereby reducing residents' chances of finding work or raising capital to start a business. Deprived areas may also have inferior schools and other public services. Peer pressure on young people may reduce their aspirations, educational achievements and upward mobility.

These negative interactions or 'area effects' can reduce the prospects of people living in low-income neighbourhoods. They have been used to justify a succession of area-based regeneration programmes in the UK (such as the New Deal for Communities), most of which have an employment dimension. Targeting deprived areas for special measures sends a signal of government commitment to revitalisation. Co-ordinated action may counter the negative sentiments of firms and households and help to turn around an area's fortunes by improving its image, helping to stabilise the community and attract investment. Concentrated resources may target support efficiently and produce a bigger impact than thinly spread resources.

Local responsiveness, flexibility and innovation

Local employment measures may improve policy design by bringing decision-making closer to the situation on the ground and affording greater sensitivity to opportunities. National programmes often fail to work effectively in areas with complex and entrenched problems, therefore something different or additional may be required. A local focus and resources that are not too bound by rules can produce more imaginative and relevant solutions, especially important in a more diverse and flexible labour market. Discretion allows services to be tailored more closely to individual needs and circumstances, targeting people who are beyond the reach of mainstream programmes because of their educational, social or cultural backgrounds. They may increase the take-up of employment advice and training by being more independent and visible, accessible and credible to the local community.

Several area-based employment measures have been introduced by the UK Government, either to target additional support onto the most disadvantaged areas, or to experiment with alternative policies. Examples include the Employment Zones, Education Zones, Pathways to Work and New Deal for Communities (Lupton and

Turok, 2004). Being small scale and locally-based, such 'laboratories' can simplify the task of piloting new approaches and take more risks. Local control permits improved learning from experience and adaptation of policy in the light of practical implementation.

An arms' length or intermediary organisation is often established within the locality for visibility and responsiveness. With a careful mixture of contracts, incentives and controls, such bodies can be highly innovative in their approach to problem solving and energetic in pursuing opportunities for development (Turok, 1999; Raco et al, 2003). They may become valuable catalysts for local change by providing the technical expertise and negotiating skills to influence wider public and private investment decisions. They can advocate local interests in wider arenas and act as 'champions' for the locality.

Experience of local partnerships in the UK and Ireland shows that bringing disparate interests together around a practical problem-solving agenda can release energy and creativity (Turok, 2001). A needs-driven approach and action orientation have yielded a range of valuable services for unemployed people in deprived communities. Through local consultation and research they have identified gaps in existing provision that they have usefully filled. By designing services close to the point of delivery, they are more in tune with user requirements. More intensive, person-centred support is usually provided than in standard government schemes. This is important to help reintegrate the long-term unemployed who face multiple barriers to employment back into the labour market.

Organisations of this kind can also serve as effective development agents. Close contact with local firms and knowledge of the local economy generates insights into what needs to be done to improve the economic infrastructure and business services. Their focused remit and local awareness helps to identify vacant land, old buildings, firms with growth potential and latent entrepreneurial skills that could be developed with appropriate support. They can progress projects quickly given their flat decision-making structures and financial freedoms compared with larger public authorities. As small organisations with an outward orientation they may promote a culture of action and experimentation.

Stakeholder involvement

An important argument for local employment measures is to involve representatives of key communities in decisions about local development. They include communities of interest such as local business or cultural groups, as well as residential communities. The European Commission has encouraged local and regional partnerships between public agencies, employers, trade unions, universities and other segments of society for at least a decade, sometimes against the wishes of national governments. An area approach is more suitable for such participation than other policies. More widely informed decisions should improve the relevance of local services and facilities. Sometimes consultation is designed to legitimise development strategies or to give the perception of local influence so as to reduce opposition.

Over time more emphasis has been given to constructive engagement. This stems from a realisation that there are untapped resources and expertise available within different communities. The capacity of government is finite and valuable ideas and energy may be harnessed by mobilising other actors. Participants may be able to play a constructive role in development as active citizens rather than passive beneficiaries. There may be a large infrastructure of community organisations and interest groups that could reinforce development objectives, such as church organisations and youth clubs with extensive social networks that could help to transfer financial and organisational skills more widely. Equipped with greater expertise and confidence, people will be better placed to take advantage of external opportunities.

Direct control over services and facilities can also be extended to communities. There is considerable interest in the UK in enabling and empowering people to do more for themselves through community businesses, community-based housing associations, credit unions, managed workspaces, local co-operatives and development trusts. The benefits include enhanced human capabilities and motivation, more enterprising behaviour, additional local jobs, improved local facilities and services delivered in a user-friendly, participative manner. The concept of the 'social economy' encapsulates the idea of a dynamic third sector providing socially useful goods and operating in areas and spheres neglected by the centralised state and the mainstream economy (Amin

et al, 2002).

Stakeholder involvement raises dilemmas about the scale at which local employment measures should be organised. Community participation is likely to be maximised where people clearly identify with the area concerned, which tends to imply quite small localities. In contrast, ensuring effective organisational capacity and efficiencies in service provision suggest larger areas for economies of scale. Involvement of business and trade union interests, and cross-subsidisation of development between poor and wealthier places also favour larger districts.

Co-ordination and integration

There is a growing argument that local employment policies need to go beyond special, short-term measures in order to connect with mainstream economic policies (Audit Commission, 2002; MacLennan, 2000; Rhodes et al, 2003). Special initiatives have a habit of pursuing an independent existence with no bearing upon core government policies. One may end up with many uncoordinated, parochial local organisations, despite the multi-dimensional nature of deprived area problems requiring a strategic, integrated approach. The locality has considerable potential for 'joined-up' policy, since it is at this scale that many public policies designed at higher levels touch people and places. It can also give sectoral policies (such as science, technology, higher education, arts and culture) a valuable strategic and spatial context. An area perspective can help decision-makers to see the connections between housing, education, transport, poverty and employment, and to respond in a coherent manner. This is part of the rationale for Local Strategic Partnerships that are being developed in the major English cities and towns, and for the New Deal for Communities in 38 of the most deprived neighbourhoods.

Achieving effective targeting of core policies and integration with local interests is proving to be very challenging. National public organisations tend not to think spatially or to target disadvantage. Far-reaching institutional and professional changes seem to be required in some parts of the public bureaucracy, including reconciliation between different administrative structures with different objectives, statutory obligations, cultures and forms of accountability. This raises sensitivities about the distribution of power, resources and responsibili-

ties, and the configuration of territorial and functional boundaries.

This goal is sometimes described as ‘bending’ mainstream programmes towards poor areas by reallocating resources to reflect their greater needs. This should mean improved schools, better employment and training facilities, enhanced business support and infrastructure investment. However, diverting resources towards priority areas is difficult because of statutory obligations to provide a uniform service and standard formulae that determine spending levels on key services between local authorities. Within local authority areas there is often intense pressure from more prosperous neighbourhoods to maintain high levels of expenditure.

A second aspect of mainstreaming involves ‘sensitising’ core programmes to local circumstances by reshaping or enhancing them to meet local needs and to improve access and take-up. Rules and procedures that limit local discretion need to be relaxed, such as those governing national training schemes. The centralised UK welfare benefits system has various disincentives built into it that can make it more difficult for unemployed people to enter low paid, temporary employment, including high marginal tax rates and uncertainty about eligibility for repeat claims. Altering national systems is extremely difficult, particularly from the bottom-up. Consistent commitment is required across government departments to support the principle and practice of local development.

A third dimension of mainstreaming involves cutting across the separate departmental structures through which services are delivered. Co-ordination of different policy instruments requires flexibility and willingness to link programmes together. For example, measures to improve labour supply need to be related to policies geared to increasing labour demand in order to avoid a mismatch between skills and available jobs, otherwise people with improved skills may move elsewhere. Similarly, support for local business development may prompt growth firms to relocate unless there is a good supply of suitable business property in the area. Improving the housing stock within a depressed area may have limited benefits if local jobs remain scarce, household incomes stay low and people with skills move to better located areas.

Before moving on to discuss the different types of local employment measure, several contrasting argu-

ments should be mentioned that have sometimes led to the RE-centralisation of policy. First, there has been a concern that organisational capacity and the quality of local leadership is uneven. In some places local leaders and organisations can be relied on to deliver high quality policies and services, but elsewhere there may be weaknesses. Some degree of variable local capacity is inevitable with decentralised approaches. However, it may be unfair for people and firms based in areas with weak capacity if the services they receive are greatly inferior to those in other areas.

Second, decentralisation inevitably means diversity and variety rather than standardisation. The outcome may be a complex patchwork of service provision, with very different kinds of support based on different terms and conditions available in different areas. Businesses may be confused by these differences, especially if they operate in more than one area and find that the policies differ between areas. This may affect major national and international companies more than other enterprises. Small business support services in Scotland were recently removed from local control and brought under greater central management in order to ensure greater consistency between what was provided in each area and a common approach to marketing so as to raise the profile of the programme. The New Deal for the unemployed has been a national programme in order to ensure high visibility and impact, and to push through in a very deliberate and concerted way the policy priorities of central government, such as welfare to work.

Third, decentralisation can result in some duplication of effort between places and competition that is unproductive from a national perspective. Local and regional governments may try to imitate each other and there may be wasted effort involved in replicating particular programmes and initiatives. Some aspects of competition may be unproductive if local and regional governments get involved in ‘bidding wars’ to attract particular investors to their areas. Such competition is less significant in Europe than in the USA because European local governments have less control over business taxes, so they cannot offer major tax incentives as they do in the USA.

Fourth, there has been a concern that local policy priorities may be distorted by selected interests and special pleading, leading to sub-optimal programmes and decisions. Central government believes that local gov-

ernment is more vulnerable to pressure from vested interests. These include communities who resist further development of any kind (the so-called not-in-my-backyard (NIMBY) syndrome) and the property development lobby.

Finally, there is a very legitimate concern that decentralisation can result in different places growing at very different rates because their economic potential and indigenous resources differ markedly. Cities and regions with innovative, well-managed companies in modern industries and world-class universities and related institutions will perform better than those with weaker enterprises. The gap between winners and losers will be greatest where the tax system is also decentralised, because prosperous cities and regions will be able to afford to invest more in economic development than poorer places. A widening gap between rich and poor regions may generate social and political tensions that require central government to offer special support to the lagging regions in order to compensate for their disadvantages and help them close the gap.

3. Different Kinds of Local Employment Measure

Local employment measures can be usefully categorised according to whether they improve labour supply or increase labour demand. Of course this is not the only way of describing such policies. It is also possible to distinguish between whether they are driven by demand from service users or the requirements of suppliers; focused on improving places or people (physical infrastructure or human capital); targeted at individual enterprises or supporting institutions; delivered through single agencies or partnerships; and aimed at correcting market failure or replacing market mechanisms. We include some of these distinctions in the following typology that is based fundamentally on the labour supply or demand focus.

Labour Supply

There are three main aims of policies concerned with labour supply: (i) To help people without work to get jobs and thereby reduce the human costs and the wider welfare costs of unemployment; (ii) To create a more flexible labour market with workers being more adaptable to economic change and inevitable restructuring in

a more volatile global economy; and (iii) To increase skills and human capital and thereby improve business performance and reduce skill shortages across the economy.

1. Personal advice and guidance

In recent years there has been a big expansion in Britain of employment measures that focus on informing job seekers about the labour market, telling them about their financial position in and out of work, identifying jobs that may be suitable and signposting them towards any special support they may require. Work-focused interviews are a key part of the New Deal aimed at people officially defined as unemployed and at those defined as economically inactive. The philosophy is summed up as ‘work first,’ implying that the prime objective is to find people a job and only then to tackle any barriers they may face in retaining the job. This has proved to be a lower-cost approach to reducing unemployment than training or work experience, at least in the short term. The interviews offer a personal assessment of aptitudes, aspirations and constraints, help to raise people’s awareness of the labour market, possibly broaden their horizons, and match their requirements to appropriate vacancies. There is an obligation on welfare recipients to participate or risk losing benefits, aimed at encouraging them to do more to look for work.

2. Basic skills

This measure is all about increasing the non-technical core or foundation skills of workless groups in order to improve their ‘employability’ in a changing labour market. It includes support to improve literacy and numeracy, confidence and self-esteem, communication and personal appearance, problem-solving and team-working. Basic skills are usually developed through short ‘personal development’ courses lasting a few weeks or months. The rationale arises partly from general shifts in the labour market in which personal service occupations are growing (such as in the caring or hospitality sectors) while manual industrial jobs are declining. Personal and consumer services appear to require different skill-sets, including better communication and other inter-personal skills. Some of these requirements may involve personal attributes rather than skills per se, and they may not be amenable to alteration. Examples of characteristics that influence people’s employability

through employers' decisions about recruitment may include: age (the youngest or oldest groups); ethnicity (members of black or other minority groups); marital status (lone parents); health (people with physical or mental disabilities or chronically ill); education (people with low or no formal qualifications); and housing tenure (those in social housing).

3. Work experience

The focus of this measure is on giving participants a period of temporary work experience in order to demonstrate a track record of reliable work habits and discipline to potential employers. Reducing the perceived risk may be important for employers to recruit people who have never worked or who have been unemployed for a long time. The New Deal offers participants who cannot get a job various options to undertake work experience in the voluntary sector or on environmental programmes. They last for up to six months. Take-up has been less than expected, partly because a higher proportion of people have found jobs than anticipated, and because the financial benefits of the work experience options are negligible. The Government's preference for Work First has also demoted the status of work experience as an approach to unemployment, just as it has with training.

There is more support for work experience in many localities, particularly for people who are some distance from the labour market and need a sustained period of 6-12 months to establish the self-esteem and work routines to hold down a 'proper' job. There has been a growth of so-called 'intermediate labour market' programmes in recent years that are designed precisely to achieve this. The kind of work that participants are involved in is of wider environmental or social value, including landscaping, recycling, community care, tourism guides and social support. Many are run by social economy organisations with non-profit objectives. Central government has several reservations about ILM programmes, including the cost, potential displacement of private sector activities and artificial work environment compared with jobs in commercial enterprises.

4. Vocational training

This approach is geared to improving the technical skills of participants to improve their chances of secur-

ing and retaining jobs. It covers an extremely wide range of possible programmes, from short courses in word processing and IT skills lasting a few weeks to advanced courses in specialised subjects lasting several years. Training is a long-standing policy response to structural unemployment and the need upgrade workforce skills in the light of a changing economy. It is also an important and more general component of economic development in the contemporary shift to a knowledge-based economy reliant more on human capital and less on routine physical capital. This is one of the reasons for the current expansion of university students in the UK. The government's target is for 50% of school leavers to go to university.

Contemporary approaches to training emphasize several novel features: (i) Training should be demand-led rather than supply-driven. That is, it should be geared to clear employment opportunities, including skill gaps and skill shortages, rather than 'training for stock' which gave training a bad reputation in the 1980s because many trainees failed to get jobs. In order to ensure that the providers of skills respond better to employer needs, the government has tried to involve employers more closely in decision-making, preferably working together with other partners to try and ensure that training courses and qualifications are appropriate. (ii) Training should be an ongoing commitment rather than once and for all, in recognition of the more dynamic economy and need for lifelong learning and workforce adaptability. (iii) There are systemic market failures in training (free-rider problems associated with firms being inclined to poach skilled staff rather than invest in training), which justify government action.

5. Other support for jobseekers

Several other specific forms of assistance are part of the package of employment measures in the UK. (i) In-work subsidies are an important part of the government's 'making work pay' agenda that is designed to reduce the benefits trap, i.e. the disincentives to work facing people on certain welfare benefits. This is part of tax and benefit reform at national level. There are a few similar measures at local level, including temporary subsidies to cover the cost of travelling to work or special items of clothing or tools for people who get a job. (ii) Childcare has become an important focus of government policy, particularly in relation to the objective of

getting more lone parents into work. A variety of local and national schemes exist to subsidise childcare provision either through parents or through providers. (iii) Specialised counselling and practical assistance is also available in some areas for people in particularly difficult circumstances, including homelessness, mental illness, alcoholism, drug addiction and ex-offenders.

Labour Demand

There are three main aims of policies concerned with increasing labour demand: (i) To increase the number of jobs available in the local economy in a way that can be sustained; (ii) To create a more resilient economy, including firms that can anticipate and adapt to external change; and (iii) To encourage enterprise, investment and high value, high productivity activities with high skilled, high paid employment.

1. New business formation

For at least two decades there has been widespread support available in the UK for people to start their own businesses. The economic rationale has been that new firms are an important source of economic dynamism, productivity growth and job creation (Acs and Storey, 2004). Entrepreneurs are supposed to enhance economic development by recognising opportunities to use resources more productively and redeploying them from low to higher value functions. By introducing new or better products and techniques they displace firms with out-dated products or inefficient processes. They also put pressure on firms that survive to control their costs and to improve their technology and organisation. Unsuccessful entrepreneurs may also send signals to others to avoid replicating their failures and to learn from the experience. This is why local and national UK policy-makers now place considerable emphasis on creating a turbulent economic environment with considerable business turnover or ‘churn’ (Small Business Service, 2004).

Different forms of support include business advice and training, mentoring and counselling, minor financial assistance and subsidised business premises or incubators. Positive attitudes to entrepreneurship have also been promoted in the form of entrepreneurial educational programmes in schools and universities, and wider awareness raising events such as exhibitions, road-shows and conferences. For people who are unem-

ployed or living in deprived areas additional help has often been available in order to give those who can’t find work the option of ‘creating their own job.’ As well as this social rationale for supporting self-employment, policy-makers have sought to raise the esteem by which entrepreneurs are held and create a stronger culture of enterprise, particularly in regions dominated historically by large corporations and the public sector.

In some localities there is evidence that this ‘high volume’ approach has encouraged the creation of many low quality new firms with low paid jobs and a high failure rate. This is most apparent among reluctant entrepreneurs with limited skills who start businesses in low-level local services such as hairdressing, cafes, window cleaning and car repairs. This has encouraged a shift in emphasis towards higher quality start-ups with greater growth potential. This often involves more intensive support for a smaller number of enterprises, including creating a management team with the range of skills required to run a successful business, providing more substantial financial investment, rigorous business planning and marketing, and technical assistance to ensure distinctive high value products and high quality processes. The idea is that with proper preparation, ‘quality’ businesses with ambitions to grow and export beyond local markets are more likely to survive and expand. Of course there are many difficulties involved in trying to identify the characteristics of high performing new firms in advance (Smallbone et al, 2002).

2. Existing business development

The emphasis in this measure is on supporting the growth and development of established firms rather than start-ups. The rationale is that small and medium enterprises (SMEs) with the ambition and potential to grow and contribute to the regional economic base by trading in wider national and international markets often experience important internal growth constraints, including managerial weaknesses, shortage of expertise in areas such as business planning, marketing and personnel, and financial deficiencies. These growth firms may be easier to identify than at the start-up stage. Forms of assistance include investment capital, technical advice to improve products and processes, and external help with business planning and marketing. Efforts to improve the management skills and capabilities of such firms are often delivered through business advice and guidance

services, management training, mentoring and networking initiatives, and subsidised consultancy schemes (Turok and Raco, 2000).

One of the sources of difficulty facing public sector providers of business services is weakly articulated demand from SMEs for external support. Most firms are unaware that such services exist, sceptical of their quality and value, confused about what is available from whom, inherently suspicious of external advisers, reluctant to expose themselves to outside scrutiny, or too busy with day-to-day pressures and problems to think more strategically. There are also difficulties facing the supply of business services, including excessive standardisation and poor adaptation to the needs of individual firms, proliferation of separate programmes with different procedures and poor coordination, lack of differentiation between them and poor referral networks. Pressure on support agencies to 'sell' discrete services and to meet target outputs for programme delivery threatens their impartiality as advisers and makes it difficult to sustain a patient, client-centred approach.

Yet, a holistic, whole-company approach is likely to be most effective at helping firms to grow because it depends on a rounded understanding of the business. This puts the physical, financial, technical and human resource issues faced into proper perspective and recognises their interactions. A holistic approach to promoting sustainable business growth requires service providers to get close to company owner-managers to offer good advice and ideas, encouragement, persuasion and occasional external resources. There are dangers in this approach, including dependency, high cost and inappropriate selection of firms for support.

3. Business infrastructure

Some of the difficulties raised by the provision of support to individual businesses discussed above have resulted in growing interest in supporting groups of firms and/or the business infrastructure (such as research or training organisations). For one thing, support for groups of firms and the institutional infrastructure is less vulnerable to particular business failures. There may also be greater shared benefits and collective learning from a broad-based policy. There are several possible approaches.

Industrial clusters have become very fashionable in recent years. Porter (1998) and other writers have

argued that clusters of firms in related and supporting industries promote the transfer of ideas and innovation, attract suppliers and lure creative talent and external investors. The cluster approach can be useful for three policy purposes. First, it is a useful analytical tool for understanding the structure of a local economy, including the dynamic interactions and the tangible and intangible linkages within it. Second, it may be useful for organisational purposes to get key stakeholders in an industry together to address common problems and opportunities. Third, it can help to determine the most appropriate forms and methods of service delivery to facilitate local growth.

Encouraging the development and application of **specialised technology** is another increasingly popular economic development approach. It is encouraged by the pursuit of a high value, high income economy in the face of low-cost competition and the dangers of a 'race to the bottom' through cost-cutting, lower taxes, lower earnings and inferior public services. The object is to develop and commercialise new technologies by supporting the transfer of innovative ideas and techniques from universities and other research institutions to ambitious growth companies. The UK government and regional development agencies are currently investing considerable resources in business spin-outs from universities and other technology transfer mechanisms. Some of the technology is generic rather than sector specific, i.e. it has diverse applications that cut across conventional industrial groups and market segments.

4. Place development

Economic development also has a strong 'place' dimension, and there are various ways in which the infrastructure of localities can foster economic growth.

First, **physical business infrastructure** remains vital to successful economic development. This includes strategic industrial sites to attract investment and to facilitate business growth. This is particularly important in old industrial cities with considerable vacant and derelict land and out-dated basic infrastructure and road networks. Increasing emphasis is also being given to various forms of external connectivity for businesses to link up to wider markets, collaborators and suppliers, including transport links (road, rail and air services) and electronic communications (broadband) (Simmie et al, 2002). Frequent low cost air services are particularly

important for tourism development.

Second, the notion of **soft urban assets** has attracted growing interest in economic development, partly reflecting greater stress placed on people as the agents of change and less on firms. It follows from a wider argument that intellectual resources (such as human intelligence, knowledge and creativity) have become more important inputs to economic growth at the expense of physical capital and natural resources. Florida (2004) and other writers have argued that policy-makers should shift their focus from creating favourable ‘business climates’ for firms to attractive ‘people climates’, partly because businesses are increasingly supposed to follow the residential preferences of creative people rather than the reverse. Policy-makers have responded by trying to develop vibrant cultural amenities, exciting outdoor pursuits, original and authentic experiences, and an open and inclusive social milieu for talented people from diverse backgrounds to express their individual identities and to develop their creative potential.

4. Debates and Dilemmas

Many difficult questions and issues surrounding local employment measures in the UK have already emerged in the paper. Are local employment measures best pursued through partnership structures or by single purpose organisations? Should training programmes be supply-driven or demand-driven? What is the appropriate response to unemployment in a more flexible labour market — work-first or workforce development? To what extent is it possible to reconnect people who are currently economically inactive to the labour market? What is the most effective balance between sanctions and incentives to re-engage workless groups? Is the public sector, the voluntary sector or the private sector likely to be most effective at delivering employment advice and guidance? What is the scope for the social economy to tackle localised poverty and exclusion? What is the scope for private entrepreneurship in depressed areas? Is it possible to target new and existing firms with the greatest growth potential? What locational attributes are more influential for knowledge-based services - hard or soft assets? Can every locality or region develop critical mass in its own set of industrial clusters? Can every locality or region develop a strong research and technology base?

The purpose of this final section is to focus on a limited number of major questions for slightly fuller consideration.

4.1. The relationship between local/regional and national policies

It is important to strike an appropriate balance between local and national employment policies. The UK has been too centralised historically and it is appropriate to encourage decentralisation and local flexibility. ‘Bottom-up’ measures have some advantages for national economic efficiency and growth in terms of improved policy relevance, responsiveness, co-ordination and integration. However, there are legitimate concerns that this could be overdone and that a purely local approach with no role for central government could have detrimental effects in imbalanced development. If similar policies are pursued in every locality the spatial consequences are likely to be uneven and indeed regressive in the sense that prosperous areas endowed with higher quality resources at the outset are likely to benefit more than localities that have inherited a weaker position (Anyadike-Danes et al, 2001; House of Commons, 2003). This is an important limitation of policies based purely on promoting growth from within. The issue becomes even more important if fiscal responsibilities are also devolved, as in the USA. If local and regional policies are financed from local taxes, the richer cities and regions will obviously be better placed than the poorer places to reinforce their development through reinvestment in productive activities and infrastructure or by offering larger tax incentives and other subsidies to attract inward investment.

Therefore, it may be important for national government to maintain a strategic view of spatial development and to retain residual powers to intervene in the distribution of growth in the interests of spatial equity and balanced development. This role may be to compensate lagging regions with additional development funds, which will probably be earmarked for particular purposes, such as the reclamation of derelict land or support for new business development or training programmes. The role may also be to promote business relocation, inward investment and the transfer of government offices, research establishments and cultural institutions to these areas. There may also be a role for

central government to retain the capacity to act in situations where local institutions lack capacity or are clearly failing to deliver essential business services, training or other employment programmes in order to safeguard universal access and minimum standards of provision.

4.2. The balance between improving labour supply and increasing demand

Key departments of the UK government give greater emphasis to policies geared to labour supply rather than labour demand. The assumption tends to be that high unemployment and economic inactivity in less prosperous areas is associated with deficient skills and motivation to seek work, rather than a shortage of jobs. For instance: “The Government does not accept that the main cause of low employment and high benefit is a lack of available jobs. Often these areas (poor neighbourhoods) are close to employment centres where jobs are appearing all the time and policy is focusing on connecting people with jobs” (Social Exclusion Unit, 2001, p.69).

This explains the priority given to programmes that encourage people to look harder for work and that seek to improve people’s employability. Yet, evidence suggests that programmes such as the New Deal, Jobcentres and related employment services are least effective in the areas where the problems are most severe (Turok and Webster, 1998; Martin et al, 2003). This indicates a problem of deficient labour demand, especially as there is evidence that people recycling through the New Deal programme is more common in localities with weak employment growth. In lagging areas, much greater emphasis needs to be given to measures to boost labour demand by creating additional jobs, even though this is a challenging and often slow process.

4.3. Different spatial scales for different employment measures

The UK approach to local and regional development is not very sophisticated at differentiating between policies appropriate at different spatial scales. Multi-level governance in economic and employment policy is a very recent and undeveloped idea. Consequently, there is some confusion about divisions of labour and unnecessary duplication of effort between neighbourhood,

city and regional programmes.

A more carefully considered approach would be based on a deeper understanding of the spatial scale of different functional areas — local labour markets, housing markets, community networks, business networks, and size thresholds and economies of scale in providing different kinds of services (training, business advice, finance, technology support etc). Broadly speaking it seems appropriate to provide most labour supply and community economic development measures at a relatively localised level (to maximise accessibility to the target population) and most labour demand and broader economic development measures at a larger scale, including business infrastructure and support services, because of bigger functional areas and economies of scale in service delivery and infrastructure provision.

4.4. People versus place versus business

There is a longstanding debate in economic development and urban regeneration about the whether the priority for policy should be to improve local business performance (thereby generating higher incomes and hopefully more jobs), to make the place more competitive (thereby attracting more business activity and resident population), or to increase the skills and capacities of local people (thereby enabling them to compete better for jobs and to advocate their own interests).

The key is probably a balanced and integrated approach with the emphasis varying according to the local situation. If local businesses are enhanced without improving the local infrastructure or upgrading local skills, they may well relocate elsewhere or employ people from outside the area. If the place is made more attractive without improving local skills, the benefits may not be transmitted to local people and business growth may not occur. This is because local economies are relatively open and the connections between people, place and business development are not inevitable.

To identify the right balance between different policies in any particular local context requires a strategic approach, based on a good understanding of local needs and opportunities, and an effective oversight of the programmes being delivered locally. The mechanisms to ensure a good overview and clear alignment between different policies and programmes controlled at different levels are currently not as effective as they could be.

Highly complex funding arrangements and diverse sources results in substantial administrative costs and stands in the way of developing a longer-term strategic perspective within cities and regions (Audit Commission, 2004). The complicated mixture of national programmes, initiatives and targets plus multiple local partnerships confuses responsibilities and hampers delivery. There is a need for greater simplification and streamlining of the system, but this is a huge challenge.

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