

Regional Economic Policy: What's Best for Business?

Alan Duncan - Policy Exchange, 30th June 2008

INTRODUCTION

It's a great pleasure to be speaking at Policy Exchange.

It's much commented on - but worth repeating - that this is a place that has been at the frontline of modern political thought for well over five years. As someone who's always considered myself one of the original modernisers of the Conservative Party, I'm delighted that it is (once again) the centre-right that is bearing the torch of progressive politics.

And it's only appropriate that I'm talking with you today on a subject that I think approaches the heart of the Policy Exchange project - the conflict between the local and the centre; between communities and Whitehall; between society and the state.

This is, as David Cameron has made clear, the battleground on which the next election will be fought.

And today I want to discuss how our vision of this shifting interrelationship between government and people affects business, not just in London, but all over the country.

OUR AIM FOR BUSINESS

Our fundamental aim is to make Britain the easiest place to set up and nurture a business.

We need to find ways to help more entrepreneurs succeed outside the UK's traditional areas of strength. Building up the private sector is the ultimate goal of the small state conservative. Parts of the country which rely on the public sector (as the North East does - to the tune of 60 per cent) will never allow people to express their independence and freedom in the way they aspire to. It's also bad economics.

Nor is it acceptable for us to rely on the economic growth of just one square mile to power the other 100,000. Yet despite the creation of an entirely new tier of regional government, with a specific remit of encouraging economic development and narrowing wide regional disparities, all the evidence suggests that we're still seeing huge differences between the entrepreneurial culture of North and South, East and West, the City and the rest of the UK.

We're in a changing regional landscape that requires real change in our regional institutions. Not reform for reform's sake - nor tinkering at the edges - but direct action to localise change in the communities that need it, and remove the culture of bureaucratic interference so as to allow our businesses to thrive.

From what I hear, week in, week out, business are impatient with the existing regional structures. They don't want the turmoil of unnecessary reform - they want stability - but they want government to get off their back when they're up and running. The overweening bureaucratic instincts inherent in the current system just don't suit their needs.

Global competition is rapidly increasing for UK companies. In a world where the rise of 'Leviathan' economies in Asia are creating an upheaval in the flow of capital, where the old trading routes are being remapped and reshaped, the success and failure of our firms will arise from how they equip themselves to fight new challenges.

Every economy has its regional differences. From the prosperity of the wool industry in the 18th century West Country, to the hulking triumphs of the North East dockyards in the 19th, and the smooth production lines of the Midlands in the 20th, certain English regions have often been immediately identifiable with certain trades.

It is ludicrous, therefore, and illogical to create - from the centre - a structural tier of government that treats all regions in the same way. The whole point of regional policy is that it should respect and understand regional differences. So, logically, regional policy can only function if there is variety in its institutions.

As we survey the current scene, I think we have to ask ourselves an even more basic question: does the regional model still have any value? Given the current messy state in which we're in, it's time for a rethink.

THE UK REGIONS IN 2008

In 1999, Tony Blair visited the North West and claimed that there was no such thing as a regional 'North-South' divide; instead, he encouraged us to believe that the nation was split between the 'haves and the have-nots', or, as it was otherwise known at that time in the code of Downing Street, the Number 10s and the Number 11s.

Almost a decade on from that declaration, not even Mr Blair's elegant turn of phrase can disguise the large, and largely ingrained, regional gulf that continues to slice the country through the middle. The lack of progress is shameful.

In a damning report last year from one New Labour's favourite think tanks, the IPPR, it was revealed that the North falls behind the South in almost every economic indicator you can think of: GVA, productivity, employment levels, individual income and capacity. Looking with an economist's telescope from Tyneside, the sprawling prosperity of the South East can seem like another, very different, country.

I am the Shadow Minister for Tyneside, and I don't want you to think that I'm doing the North down: in fact, last year the North East was one of the fastest developing growth spots in the country.

The real threat for the UK is not only that some regions are lagging behind - which is the natural state in an economy exposed to new global pressures - but that the economic tension in the South East is becoming dangerously overheated. If a man has one very strong leg, and one weak one, it's quite likely that he'll start walking round in circles. And so it is with the British economy.

Structural imbalance is creating major problems in transport infrastructure, with workers reduced to standing in ever more demeaning positions during their morning commute; in housing, with young graduates remaining trapped in high rent accommodation and public sector employees squeezed further and further away from their place of employment; while the general quality of life in the region is becoming increasingly damaged.

It's clear that the current model is neither desirable nor sustainable. But it's equally clear that we don't have the right framework in place to tackle these problems.

REGIONAL DEVELOPMENT AGENCIES

Part of the problem has been the Labour Party's 'nanny knows best' mentality. A natural distrust of people lies deep in their political genes. And so, when faced with the problem of long-term decline in areas such as south Northumberland or inner city Manchester, their reaction has been to impose an entirely new structure of government at regional level, handing down a solution from the centre rather than allowing communities to choose their own path. This was the birth of the Regional Development Agency, and also of a hopelessly doomed attempt to override the country's enduring loyalty to counties by attempting to impose Regional Assemblies on a reluctant public.

Established by the Regional Development Act in 1998, the eight RDAs were inaugurated a year later, with the London Development Agency following hot on their heels in 2000. Their defining priority - as stated in the original White Paper that heralded their arrival - was to speed 'economic development' across the regions through a wide range of partnerships, including with regional Government Offices, regional planning authorities, Business Links and Chambers of Commerce, local authorities, trade unions, business groups and the Learning and Skills Council.

From the start there has been confusion. Given that they were originally the brainchild of John Prescott this may not be entirely

surprising. They came from the same man who said that 'the Green Belt is a great policy and we are going to build on it'.

The RDAs have been given two contradictory agendas. Firstly, they must promote the economic development of their own region; secondly, they must 'narrow economic disparities between regions'. The latter objective indicates that RDAs should work together towards a national purpose; but the former insinuates that they must compete against each other for investment.

As an example, all but one of the RDAs say they want to prioritise biotechnology in their region. I'm sorry to break the news - but it's highly unlikely that the UK can sustain eight major bio or even nano-technology hubs.

But nowhere is this adverse competitiveness better visible than in one of the great absurdities of Labour's quangocracy: the overseas bureaux.

Given that economic development depends a great deal on securing inward investment, it is only natural that RDAs should look abroad to secure foreign direct investment for local business and infrastructure. But because of their competitive instincts that have been ingrained at birth, we shouldn't be totally surprised that the quest for foreign funds have led RDAs to engage in what increasingly appears to be a kind of diplomatic arms race, with each agency cramming into global economic centres like Shanghai to establish regional representation.

The South East England Development Agency has an office in Korea. Advantage West Midlands employs staff in Belgium. One North East spreads itself all over North America, from Atlanta to Chicago and from Boston to Los Angeles.

Instead of attracting inward investment, this process of rival bidding only exports regional competition. It must be baffling to the Chinese or the Koreans. It must be equally baffling to the taxpayer, who has had to fork out over £20 million on these vanity offices since 2002. This eye-watering sum of money is spent on an outcome that is almost by definition counter-productive. Its secondary, and more deleterious, impact is to

undermine the work of UK Trade and Investment and dilute the British brand abroad.

Overall the Government has splashed out £13 billion on the RDAs since 1999, a budget that has increased massively to reflect the widespread expansion of these regional empires. The running costs have ballooned and the salary bill has trebled.

Many assert that the culture of waste runs throughout the RDAs. Whether this is what might be generously classified as 'inefficiencies' - such as the South West Development Agency spending 13% of its budget on administration - or what has emerged as the loose use of taxpayers' cash at the London Development Agency (currently being uncovered by Boris), it adds up to the same conclusion: businesses are not getting enough bang for their buck.

You just need to look at the current mechanisms for business support, for instance. Our Small Business Task Force, led by Doug Richard, has been doing a lot of detailed work into the role of business support within the development agencies. They have found that the architecture of Business Link - the main vehicle for regional business support - doesn't channel the cash down to SMEs on the ground, as it should, but acts as an administrative labyrinth, trapping much needed finance within the walls of its own bureaucracy.

Over a third of every pound spent by central government on small business support gets lost in the system.

But even when the money gets through, it's still not being directed to the right places. Given that RDAs have a mandated statutory obligation to help form and nurture small businesses, it's unsettling to learn that One North East, for example, allocates just under 15% of its budget to SME support. Yet of all the regions, it's the North East that most needs to reduce its dependence on the public sector.

Instead of providing fast-flowing assistance to new start-ups and local entrepreneurs, the Government's regionalisation of business support just slows the process down and whittles the money away. It would be hard to invent a more uncertain or complex

mechanism for enterprise: the two things all businesses wish to avoid.

RDAs: THE FUTURE

'Wasteful, politicised and increasingly distant from business.' Despite some success stories, this is the reputation of the Government's regional experiment.

If this were a central or local government, they would be punished at the ballot box. But the only people these quangos answer to are Government ministers. For a Party that so casually deploys the rhetoric of 'devolving power', Labour aren't showing much evidence of implementing their own spin.

Strengthening the regional tier of government as they are doing now will only compound their mistakes and cement their failures.

The Government's Sub-National (or substandard) Review of Economic Development published in 2007 highlighted the main areas in which they want to push forward with their regional project, further divorcing the RDAs from local business control and beefing up, in particular, their planning and business support powers. Given the record of the past nine years, this looks set to be a serious misjudgement.

Indeed, this is the kernel of the whole argument that now needs to be applied to RDAs. They are caught up in the overall collapse of the Government's regional policy. Regional Assemblies have been fiercely rejected by the electorate and will disappear in 2010. Meantime the Government is surreptitiously creating a replacement regional apparatus by encouraging local authorities to meld into new area cohorts. Our suspicion is that the Government is eyeing up RDAs to become the support wing for these structures. In other words, we fear that the Government intends to remove RDAs a step further from their business focus, and then turn them into a body responsible primarily for regional planning - with command over large housing and highways projects.

This may well be a task that needs to be done, but where does it leave business-led regional development?

CONSERVATIVE OPTIONS

At the moment, RDAs are built on shifting sands and our approach needs to reflect this.

The changes that we will make to the existing regional structure will have huge implications for business - but also for areas of policy that stretch beyond the DBERR brief. So I am currently working with our Treasury and Local Government teams on a paper that will look at our strategy in the round, to consider what this will mean for regional planning, for urban regeneration, and for local skills.

Today I want briefly to sketch out the thoughts that are emerging from our discussions.

We do not think that Labour's regional organisation is an effective mechanism to deliver the objectives which have been set for it. I think it's clear that under a Conservative government, the RDA will be a different beast.

We need to force them to be what they should have always been: business-led bodies with a natural interest in stimulating and nurturing the growth of the local enterprise culture. They need to reflect the circumstances on the ground, not dictate the terms of their support. To do this, we need leadership - not from central government, but from businesses who operate in their communities. They will be a far more effective judge of local needs and a far more forceful champion of their area.

To do this, we need a wholesale separation of the government functions from the business functions and a rapid reinforcement of the business focus. As a first step we will reverse the Government's decision to move the Regional Spatial Strategies into the RDAs, a questionable exercise designed as a crude way to grab power out of the hands of local communities and steal them away into the ever-expanding sphere of government.

But we also need to think of ways in which we can strengthen our businesses by offering them better support. In our mind, it's becoming clearer that this shouldn't be done, as it is presently, through the RDA. The plethora of approaches across all nine regions is absurd when the problems facing any small business in Chester will be almost identical to a family firm in Billericay: tax, regulation, employment law or skills.

One solution, which was outlined in Doug Richard's report on business support, might be to draw together all these variable strands of piecemeal advice into a stand-alone national website designed to provide simple and essential information for aspirant entrepreneurs from local chambers of commerce and enterprise agencies.

I'm pleased to say that our own small business expert Mark Prisk is currently consulting business on this proposal and I look forward to hearing the results of his survey later this year.

We will also end the practice of agencies establishing overseas offices. Our ability to project a strong image of Britain abroad has been compromised by the double vision of regional competition. We are currently working on proposals to strengthen UKTI, making it a business-led organisation for business.

CONCLUSION

Stripping the development agencies of these key functions will help put business in the driving seat and allow them to thrive. But we still need to do more to target areas of the UK that are failing to keep pace with the rest of the country. Let me make one thing clear: this can't be done through regional structures which don't take account of local interests.

A recent report by the Local Government Association has made this point emphatically. As they say, 'the boundaries of the Government's nine standard regions do not give a good fit with the economic data'. That is to say, the commercial patterns of the country do not fit into Labour's grand regional scheme.

Local marketplaces - the roads, the housing, the trade distribution corridors - demonstrate that the economic units in this country are more local phenomena. In more run-down areas that require direct attention, our solution must be explicitly local.

It is not our policy simply to abolish RDAs without giving any thought to their replacement. That is not what we are saying. Indeed there are strong arguments for keeping the likes of One North East, and others, where there is strong local support and a keen business focus. But the way we are thinking at the moment suggests that there should be scope for a variety of different models, each adapting to the specific needs of natural economic areas within and across regions.

We do not want to see RDAs morphed into some sort of bureaucratic non-business-minded planning apparatus from which the lifeblood of enterprise has been steadily sucked. Their confused identity of today, in which they don't know which government department to turn to needs to be resolved, and out of it needs to emerge a vibrant, imaginative, business-focussed force which can genuinely drive the wealth-creating energies of any locality for the better.

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