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PRIME MINISTER

MS  
18 September 1987

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INNER CITIES POLICY:  
LESSONS FROM THE AMERICAN EXPERIENCE

I met today Stuart Butler, an Englishman, who is Director of Domestic Policy at the Heritage Foundation in Washington. He had some useful things to say about the lessons to be learnt from American experience in the 1980's in dealing with inner city problems. His comments are set out in the attached extract from a letter he sent to Sir Michael Quinlan which you may like to read. Many of his points support the approach we are now developing in inner city policy.

The key points he makes are:

1. There is a limited amount the Government can do. Indeed Government help can be counter-productive in making people believe that the route to success is lobbying for more Government funds.
2. Build on the strengths of an area rather than trying to remedy its deficiencies. For example in Chicago it was found that a surprising number of the residents in a neighbourhood had nursing skills and a nursing agency was started. The traditional approach of finding out what is 'wrong' with an area encourages dependency by telling people they need 'help' and damages the confidence it is so important to generate to revive these areas.
3. It is important to identify leaders in the community whose skills are entrepreneurial or practical in other ways. The traditional approach is to work through local

political leaders whose objective is to further ideological ends rather than the success of their area.

4. Small business creation is of crucial importance.

*If the work involves local businesses.*

5. Housing is the key to economic and social development in poor neighbourhoods. In particular, housing improvement has generated many small businesses. Tenants have taken over the management of private rented housing and have initially concentrated on providing housing-related services. But once they realise that they can run businesses on their own the range of activities expands. More surprisingly, there has also been an effect on social behaviour. In one such case in Washington crime and illegitimacy fell very sharply. Once tenants realise they have control over their economic future and a stake in their community they start to re-impose social control to encourage the traditional values they fundamentally share.

#### Conclusion

This note is for information at this stage. But we will be drawing on its lessons in future policy advice. And in presenting inner city policy our answer to the inevitable criticism that there is no more money must be that this traditional approach does not work, whereas the alternative has shown remarkable success in America.

Peter Stredder

PETER STREDDER

CONFIDENTIAL

MR BLACKWELL

cc Professor Griffiths

21 September 1987

Hartley Booth

David Norgrove ✓

AUDIT COMMISSION STUDY ON URBAN RENEWAL

I do not think it would be at all embarrassing for the Audit Commission to conclude from a study of urban policy measures that much of the money had been relatively ineffective. On the contrary, the danger I see is that it would be very difficult to identify the impact of existing policies compared to alternatives that might have been pursued. The study needs not only to look at individual projects but also how far they have displaced other businesses or contributed to decline by sapping an area's confidence in its ability to solve its problems without Government help.

The experience of other countries, particularly the US, should be particularly useful in giving the best perspective. The lesson there is that the right approach is to build on the existing strengths of an area using little, if any, Government money but relying rather on providing consultancy and pump priming support. The most helpful conclusion from such a study would be one which drew attention to the success of this kind of approach.

*Peter Stredder*

PETER STREDDER

CONFIDENTIAL

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I believe the American experience suggests the following broad lessons:

1) It is vitally important to base an inner city strategy primarily on seeking to build on existing capacity and potential, rather than on trying to seek and remedy deficiencies.

In the 1960's, money and specialists were poured into America's cities, and residents were asked over and over again to explain their shortcomings and to point to the problems of their communities. The result was that strengths and opportunities were overlooked, and inner city residents learned the political lesson that pessimism and deficiency bring the reward of government programs. This reinforcement of negativism has proved in the long run to be far more destructive of minority urban neighborhoods than any economic problems. By contrast, more recent approaches have involved analyzing the strengths of communities. This has led to some remarkable transformations with relatively limited outside assistance.

2) New leadership in inner-city communities is essential for a successful transformation.

There are many limits on the ability of government to discover genuine and effective leaders who are committed primarily to social and economic improvement--rather than strictly political or ideological objectives. More often than not, those who make the greatest noise--and who lead the demand for government cash--are not the ones who would have the most positive impact. But these more entrepreneurial and non-political leaders must be the focus of the Government's attention.

The American experience is that the greatest potential comes from those who quietly get on with the business of dealing with neighborhood problems rather than petitioning government for new programs and assistance to be channelled through their hands. Thus a system to find effective leaders is of paramount importance if government money and programs are not to be wasted. Developing techniques to identify such leaders is a necessary condition for success and should be a primary focus of government efforts.

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Two strategies seem to have been successful in America. The first is to approach respected figures within the community who do not have a political axe to grind. Church leaders, small businessmen and non-political social service groups tend to know the positive things that are going on in a community and who is behind these developments. This often results in the identification of leaders who are not on the political barricades but who have enormous support and respect within the community. These are the people government should be dealing with. Second, merely creating a climate which is favorable to social and economic enterprise within neighborhoods often results in effective leaders becoming apparent. For example, programs in America that have made it easier for public housing residents to develop their own businesses and manage their own projects have resulted in effective neighborhood leaders coming forward. Similarly, streamlining regulations concerning neighborhood-based services has encouraged many new and effective local leaders to emerge. ✓✓

3) Small business creation in the inner cities is the key to stabilizing neighborhoods and inculcating an attitude of building on existing resources.

Several steps can be taken to spur such local business activity. One is to lower the burden of taxes and regulation in communities with a view toward reducing the start-up costs of small businesses in these areas. Many American cities have taken the basic British enterprise zone concept and applied it to residential neighborhoods (rather than to vacant or exclusively commercial areas). These American enterprise zones have been extremely successful in establishing a favorable environment for small-scale business activity within existing facilities.

Another approach has been to build on the marked success of public housing tenant management. Self-managed public housing projects in America have spawned hundreds of new businesses and jobs related to building maintenance and management. A change in the management system of housing in depressed areas, in other words, has become the seed for enterprise development. Many American cities are also exploring the idea of encouraging neighborhood-based groups to bid for contracts to supply ✓✓

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municipal services, such as rubbish collection, building maintenance and similar basic services. Not only has this saved money, but it has stimulated enterprises within poor communities and given residents the feeling that they can improve services and the quality of life of their community. Needless to say, these privatization approaches to business development in inner cities have run in to the problem of union restrictive practices. The only solution to this opposition is to face it head on. If government merely avoids turning to these forms of self help economic development for fear of arousing union opposition, a powerful antidote to inner city decay is overlooked.

4) Trying to foster economic development in depressed areas by giving low-cost money or special preferences to minority business enterprises, as an entitlement, has a very sorry history.

The American experience is that preferential treatment for minority firms is counterproductive. First, it reinforces the notion among minorities that they are somehow inferior -- incapable of succeeding in business without some special assistance or shielding them from competition. Second, it makes these businesses completely dependent on government rather than preparing them for the open marketplace. And third, it breeds corruption. In the United States, we have had countless examples of apparently minority-owned businesses which have turned out to be mere shells for white-owned businesses seeking special government aid. The whole ethos of special "set-aside" programs, as they are called, undermines the idea that inner city communities can stand on their own feet without being propped up.

5) Do not be obsessed with expensive job training.

As we discussed when you were here in Washington, and as the experience of Restart clearly demonstrates, the best approach to job training is to keep it simple and to emphasize the basics. In the United States, the only clear success of expensive job training programs has been to create jobs for the trainers! Just as in the case of welfare programs, it is vitally important that

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initiatives to foster skills within the inner cities do not simply create a vast service industry that is committed to increases in spending rather than tangible successes on the ground.

6) Government can only do so much -- and perhaps very little at that.

The really significant success stories in American cities tend to involve neighborhood organizations, churches, and other institutions within the communities. By contrast, the impact and cost effectiveness of government programs in the inner cities has been extremely disappointing. If the government is to stimulate effective action within these communities, it must make it clear that residents should not look primarily to government for their salvation. In particular, government needs to challenge community institutions to take the leading responsibility for addressing social and economic problems of the area. It may be necessary to argue strongly with these institutions that they should, indeed, take the lead -- many of their own leaders have succumbed to the idea that only government can make the difference. So it is important to reach out in a challenging way to local institutions.

7) Housing seems to be the key to economic and social development in poor neighborhoods.

The American experience is very clear on this. Invariably, organizations and individuals that now are powerful engines of improvement in a community began as groups dedicated to improving housing conditions. In New York, for example, numerous groups began in the 1970s by rehabilitating a few houses in the block. They have since grown into powerful and effective organizations that not only have improved housing, but also have spawned businesses, training programs and other essential features of an improving community. Addressing housing problems by enabling local people to take the initiative into their own hands is a highly effective way of stimulating creative juices within a neighborhood.