

~~Abstract to south~~
~~to help for~~
~~strategy group to~~
~~see the paper~~

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(Home)

PRIME MINISTER

22 December 1986

THE NORTH/SOUTH ISSUE

~~circled Jonsson on~~
~~just reached after the news~~

Also. Brian -
could be sent. Preface
a special job - one or two
where?

The myth of a North/South divide in the UK is now becoming firmly entrenched in media comment and political debate. Indeed the perception is now so widely held that we must regard it as a political priority to defuse the issue.

Myth and Reality

The myth arises from the common simplistic mistake of looking only at aggregate data - in this case on regional income and employment levels. Even at this level the true distinction is between the South East and East Anglia and the rest of the country - North and West.

UNEMPLOYMENT RATES 13 NOVEMBER 1986

South East	8.3%	West Midlands	13.4%
East Anglia	8.7%	Wales	13.6%
South West	9.9%	North West	13.7%
East Midlands	10.9%	Scotland	13.8%
Yorkshire &		North (East)	16.1%
Humberside	13.1%		

Nevertheless, looking at numbers rather than percentages, the South East and East Anglia still contain roughly one quarter of the unemployed throughout the country. Furthermore, if one looks beyond these numbers to the ease with which the unemployed can find jobs, the notion of Northerners trapped in an economy where local unemployment is unavailable is rapidly dispelled. 57% of the unemployed find a new job within six months of joining the register in the Northern region, North West, Yorkshire and Humberside - only marginally less than the 63% recorded in the South East. And roughly 80% of the unemployed find a new job

4

57
→

within one year in every region. There is no evidence that it is significantly harder for a motivated and qualified person to find employment in the North than it is in the South.

AVERAGE PERCENTAGE OF THOSE BECOMING UNEMPLOYED
WHO FIND JOBS WITHIN

	<u>6 Months</u>	<u>1 Year</u>
Great Britain	66%	79%
South East	63	82
East Anglia	64	83
South West	63	83
West Midlands	55	75
East Midlands	59	80
Yorks & Humberside	57	78
North West	57	77
North	57	77
Wales	59	79
Scotland	59	79

Similarly regional wage variations mask significant differences in the costs of living - particularly in housing - which makes it difficult to conclude that people in similar jobs are "better off" in any meaningful way in the South East.

Yet, it is when one looks beneath the aggregates that the North/South simplification really starts to unravel. In reality the severe problem areas are highly localised pockets of industrialised and urban decay scattered all over the country. Even in the North, areas of high unemployment - such as Liverpool or Tyneside - jostle side by side with areas such as Macclesfield, Pickering or Harrogate where

unemployment is as low as in most of the South East. (See attached map).

These facts taken together suggest that areas of high unemployment - whether in the North or the South - are not simply the result of a shortage of jobs. The challenge is to train and motivate the long term unemployed to get them back to the point where they can take those jobs which do exist. Furthermore, in dealing with mobility as a barrier, it may be more important to find ways of encouraging unemployed Merseysiders to take a job in Cheshire than to find ways to accommodate them in the South East.

And going a stage further to look at unemployment variations within these smaller areas is even more revealing.

Unemployment rates at 'ward' level can only be roughly estimated, but DOE analysis suggests that variations in unemployment in quite short distances can be larger than any variations across the country. In Manchester, for example, the Hulme ward has an estimated unemployment level of 50% while nearby Didsbury has a below average rate of 10.4%. In Liverpool, Granby ward at 43% unemployment contrasts with Walton where unemployment is only 9.9%.

The same is equally true in the South East. The labelling of Greater London as a single 'travel to work' area hides a patchwork of contrasts. In Hackney, for example, Queensbridge ward has 37% unemployment while Moorfield is closer to the national average at 15%. The contrast in Brent is even more striking - with 4.4% unemployment in Kenton in the North of the borough as against 23% in Carlton ward in the South.*

* These rates are calculated by taking current unemployment against the economically active population in the 1981 Census - the figures should not be quoted publicly without checking back with DOE on the reliability of the data.

The Micro-Problem

Clearly what this exposes is that high unemployment is not primarily a North/South issue, but rather a problem of dealing with many localised pockets where high unemployment has become a way of life.

Most are either Inner City areas and/or areas where there has been a sudden decline in a major local industry - e.g. shipbuilding, steel or coal. Many have high ethnic populations as well as generally low levels of skill/educational qualifications - which makes it more difficult to obtain those jobs that do exist outside their own area. And many also contain a high level of public housing - with unemployment levels in individual estates sometimes rising to 60-70% or more.

Those areas where the key factor has been a rapid and recent decline in local employment are in some ways the easiest to tackle - at least the workforce will be used to employment, with - at minimum - some rudimentary skills. The departing employer may also provide considerable help to ease the adjustment - as with the NCB or BSC. The real challenge is to tackle those areas where unemployment has become endemic - with second generation unemployed who understand and expect no other life. Long term unemployment (over 1 year) is 45% of all unemployed in travel to work areas with unemployment rates above 20% - as against 31% in areas where unemployment is below 10%. Here we are faced with a cultural as well as an economic problem to tackle.

Even so, there are some hopeful signs. The MSC programme of Job Clubs aims to pull the long term unemployed into an environment where they are encouraged by peer group pressure as well as Job Centre staff to take an active approach to seeking employment. Recent figures for Job Clubs in Manchester and Liverpool show a higher rate of success in

Liverpool (with average unemployment 20%) than in Manchester (with average unemployment 13.1%).

than finding jobs
SUCCESS AS % OF THROUGHPUT (SINCE BEGINNING JULY 1986)

	% FINDING JOBS (EXCLUDING CP/ TRAINING)	% FINDING JOBS OR TAKING CP/ TRAINING PLACE
MANCHESTER		
AYTOWN STREET		
- CLUB 1	45%	52%
- CLUB 2	46%	54%
LIVERPOOL		
- WILLIAMSON SQUARE	59%	80%
- LORD STREET	50%	72%

And the high success rate of all these clubs shows that schemes to tackle the motivation problem can be successful for at least some of the long term unemployed. Existing government programmes for urban areas should provide further help in changing the culture by removing and replacing the worst 'tower block' council estates and providing funds to improve the inner city environment.

The Task of Government

Yet there is a limit to what central government can and should do on its own. To be effective any initiatives must build on the enthusiasm and commitment of key figures in the local community.

Local self-help, based on the initiative and commitment of local business and civil leaders, is already a potent force in the regeneration of Birmingham, Newcastle and Manchester - attracting private investment back into rebuilding the

city centres and supporting local enterprise. Additional government policies are most likely to succeed if, working with the local community, they focus on specific micro-problems in a particular area and help promote a cultural as well as an economic adjustment.

A blanket increase in expenditure at regional level is clearly not the solution. However, there may be a number of other ways in which the Government can work with the market.

1. Variations in wage levels around the country could be an important mechanism for encouraging more industry to locate outside of the South East. Yet, at present, local variations are fairly limited. For example, roughly 80% of collective agreements for non-manual workers are determined at national level - covering over half of all non manual workers. The Government could take the lead by establishing greater local variation in wage levels in the public sector - but it will be difficult to achieve the kind of variations within Regions that would be justified by local labour market conditions. In addition, unless benefits are also adjusted, lower wages in Liverpool (for example) could worsen work incentives.
2. Encouraging mobility is also important, even if only over relatively short distances, to match individuals against suitable vacancies. A revival of the rented sector through deregulation is, of course, essential. But there may also be opportunities to provide facilities specifically tailored to the needs of the unemployed. Hostels could provide temporary accommodation for those moving to an area to take up new jobs. It may also be possible to encourage an increase in the supply of traditional 'digs' by using a Chamber of Commerce or other local agency to screen potential tenants and act as guarantors for nervous landlords.

Both hostel places and digs could be advertised through Job Centres to those moving to an area to take up vacancies.

3. Better targetting of government programmes Given the effectiveness of the MSC job clubs in motivating the long term unemployed back into work, there may be many opportunities to tackle the cultural issues at a very localised level - e.g. on a specific council estate - through a combination of approaches. One could imagine, for example, siting a temporary Job Centre in the middle of an estate to undertake Restart interviews and feed people into jobs, training or Community Programmes. The CP programmes might then be locally based activities to do with upgrading the appearance and facilities of the estate - helping to generate community pride. Starter factory units might also be provided in some converted property on the estate.

Developing and managing such an initiative requires good local management of the various Government agencies involved. The CATs experiments have already been useful in bringing together the local offices of the DOE, DTI and MSC to help ensure that their various programmes and priorities are consistent. The effectiveness of these Departments in playing a catalytic role in local initiatives could be enhanced by:

1. giving them greater discretion over a (small) proportion of their budget.
2. replacing some of the weaker directors by more entrepreneurial figures.

We do not recommend going down the route of creating regional development agencies in England along the lines of the WDA or SDA. It is clear from the earlier

analysis that such bodies would have too high a level of perspective to be useful and - in England, at least - would tend to act as a barrier between Central Government programmes and local initiatives. We should be looking for ways to support local initiatives rather than to supplement them. There is also a danger that such agencies, apart from increasing administrative costs, would provide an unwelcome focus for regional lobbying efforts aimed at getting more Government hand-outs. Those who advocate them also tend to see their main role as providing a stronger organisation for marketing the region to attract inward investment - rather than the more important task of stimulating local entrepreneurial development.

4. Encouragement of Local Venture Capital. The difficulty of obtaining start-up capital for new businesses outside of the South East is frequently raised. Although money should theoretically seek out the best opportunities, research has shown that 50% of venture fund investments are made within 1 hour of the manager's office and 80% within 2 hours. Since most BES and investment funds are based in London, this market imperfection could be a significant barrier in many provincial cities.

One solution would be to provide fiscal incentives for equity investment funds to develop at local level. These would be similar to BES schemes, but could be tailored to local market needs by limiting individual investment to much smaller levels (e.g. typically under £100,000). Cost effective identification and screening of potential investment opportunities on this scale could only be achieved with the participation of local agencies such as the Chamber of Commerce. The Department of Employment have proposed that such local "Enterprise Companies" might form part of the next budget.

*None
regulations - none
will answer*

5. Deregulation of infrastructure services can also play a role in removing inhibitions on growth.

(i) Airports - like Manchester - which form the hub of a growing number of international routes are a considerable stimulus to economic activity. Yet, when it comes to the licensing of new international services there is still a tendency to limit access to protect the commercial interests of UK airlines. If we want to encourage development outside the South East, we should allow Newcastle, Manchester and other local airports to attract as many airlines as they can.

That has happened elsewhere in other countries - otherwise we are merely giving away passengers to other airlines

(ii) Telecommunications could also be deregulated further and faster in areas such as the North East which will otherwise be neglected by Mercury and BT. Allowing early opportunities for resale would enable a few large companies to get together to build their own modern spur linking into BT or Mercury's network, reselling spare capacity to other businesses in the area. General approval for resale is expected in 1989, but the government has given no commitment as yet. A specific commitment to go ahead with resale in at least a few limited areas would allow companies to plan and build facilities now.

6. Promotion of Manchester as an economic counterweight to London and the South East. In the same way as London acts as a cultural and economic dynamo for the south, Manchester is already beginning to build its position as the leading Northern City - with the busiest airport, extensive motorway connections, and its own local financial markets and professional services.

Little encouragement may be needed to what is a natural process, but the government might find some symbolic ways to enhance the status of Manchester by, for example, moving some areas of government to the city - for example, DTI. Why not also locate the UK end of EEC Commission activities there, and use the city as an alternative to London for international government meetings?

*with Manchester
L.A. ?*

*Because the
Commission
couldn't do it. Used
to go to Manchester.*

Presentation and Politics.

The solutions for regenerating industrial and inner city decay may be complex, but the perception amongst the electorate of a major North/South divide is a reality that the Conservative party will have to deal with. Against the barrage of media reports focussing on deserted shipyards and idle factories, the public is unlikely to believe us if we simply dismiss their concerns.

Equally it would be a mistake to pander to the calls for "regional policy" by publicly raising the priority given to regional issues in government - e.g. putting a senior minister in charge of regional policy initiatives. This would play into the hands of the Opposition by appearing to accept their model.

The best way to both create a more balanced perspective and put across Conservative policies is to highlight some success stories. As one way of achieving this, it could be helpful to plan an intensive programme of visits by yourself and other senior ministers to publicise enterprise schemes, job clubs and urban renewal projects - with a common theme in comments and speeches, emphasising the availability of opportunities all over the country. Similarly, you might take soundings through the Party to identify cities where the local host could be relied upon to give a positive and

*Have
just been*

enthusiastic message about local initiative - rather than the dismal pleading you suffered in Manchester.

The way forward

Given the political importance of this topic, we suggest that you convene an ad hoc discussion in a small group of ministers to review the government's analysis of the problems, identify any potential new policy initiatives and agree the best way of handling presentation. The government must speak with one voice to counterbalance the weight of public comment conjuring up the false and poisonous imagery of a North/South divide.

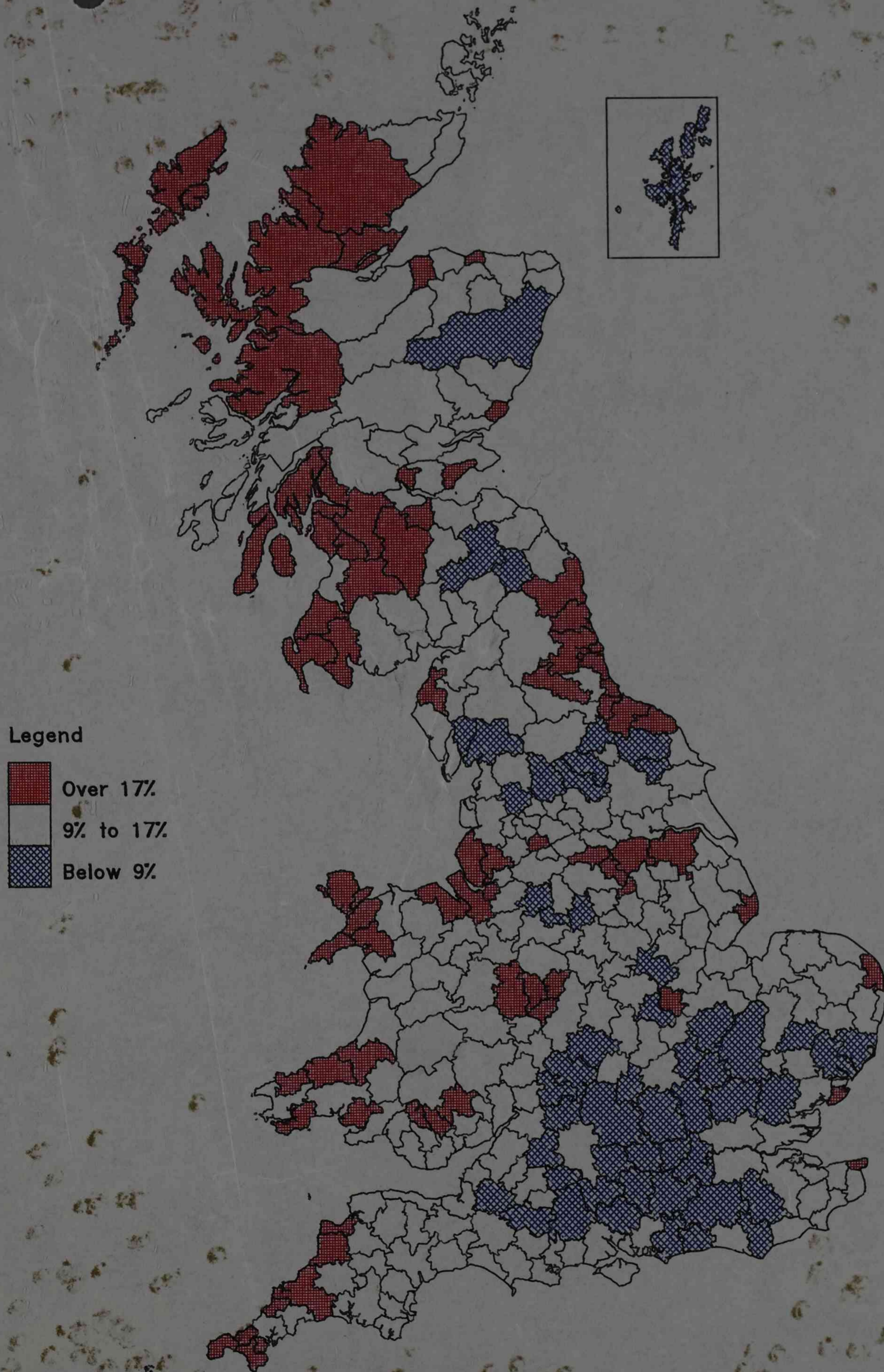
Agree?

SMS
Employment
DTE
DOL
Home Office
Treasury
Richard Hill MB

Norman Blackwell

NORMAN BLACKWELL

Unemployment Rate – October 1986



Legend

